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FEATURED Q&A

Is Brazil's Energy Market Shifting To Renewables?



Brazil's wind power output increased by 21 percent year-on-year during the first 15 days of June, according to the country's power trading chamber. The Osório wind power farm in Rio Grande do Sul is pictured above. // File Photo: Brazilian Government.

Q Brazil's primary energy consumption in 2018 was 1.3 percent higher than the previous year but grew below the 10-year average, according to a BP report released in June. Consumption of hydro and other renewables expanded, while consumption of oil, gas and coal declined. To what extent is Brazil's energy market transitioning toward renewable energy? Are distributed generation markets expected to grow? Will hydropower projects continue to be a point of contention? Are the government's policies encouraging or discouraging the diversification of the country's electricity matrix, and how?

A Madeleine Tan and Stephen Hill, partners in the Energy and Infrastructure Group at Eversheds Sutherland: "There is no question that Brazil's electricity matrix is diversifying, especially in the expansion of various renewable sources. While hydroelectricity remains the primary component of Brazil's electricity matrix, renewable energy is experiencing exponential growth. According to IRENA, from 2017 to 2018 alone, Brazil's solar output more than doubled, from 109,000 megawatts (MW) to 229,000 MW. Brazilian government initiatives are pushing this growth along. In March 2019, the Ministry of Energy and Mines (MEM) announced a new energy auction schedule with nine procurements, as compared to five from 2014 to 2018, that will run through 2021. Notably, six of the nine will include 'new energy,' such as solar and wind. There is also significant increase in capacity devoted to renewables, relative to hydro, natural gas or coal. It is also significant that the government for the first time is allowing solar to

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TOP NEWS

OIL & GAS

Petrobras Sees Oil Exports Growing to 800,000 bpd

The Brazilian state oil company said in a statement that it plans to increase its crude exports by more than a third to 800,000 barrels per day in the coming years.

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OIL & GAS

Indebted Mexican Oil Firm Approves Merger of Units

The board of Mexican state oil company Pemex, which holds nearly \$106 billion in debt, has approved the merger of four subsidiaries into two units.

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POWER SECTOR

Former Venezuela Electricity Chief Indicted for Graft

Former Venezuelan Electricity Minister Luis Alfredo Motta Domínguez, who was fired after a series of massive blackouts earlier this year, faces seven counts of money laundering and one count of money laundering conspiracy in connection with an alleged bribery scheme.

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Motta // File Photo: Venezuelan Government.

OIL AND GAS NEWS

Mexican State Oil Company Approves Merger of Four Units

The merger of four subsidiaries of Mexican state oil firm Pemex into two units came into effect on Monday, *El Economista* reported. According to a company statement released last Friday, Pemex's board had unanimously approved the move, which merges subsidiaries Pemex Exploration and Production with PPS and Pemex Industrial Transformation with Etileno. PPS and Etileno have ceased to exist



López Obrador // File Photo: Mexican Government.

as their own units. "In past administrations, Pemex was fragmented in several subsidiaries, increasing bureaucracy and the company's spending," the statement said, adding that the government is "taking an important step toward integrating the value chain into one company." The merger is part of a series of austerity measures that seek to strengthen the company, which holds some \$106 billion in debt, making it the world's most indebted oil firm. Last month, credit ratings agency Fitch cut its rating on Pemex's \$80 billion of bonds from investment grade to speculative grade, or "junk," with a negative outlook, Reuters reported. Pemex also announced last week that it had reached a deal to renew its credit lines and refinance liabilities with more than 20 banks, the wire service reported. Mexican President Andrés Manuel López Obrador, whose government has repeatedly pledged to strengthen Pemex, praised the move as a sign of confidence in the company. "Everybody is questioning and betting that the economy will go badly,

but when these actions happen it helps a lot because it demonstrates confidence," López Obrador said during a news conference. "These actions demonstrate that there is confidence. The banks don't act without information, they don't take a decision like this because they like the government. They know that Pemex is in very good health," he added. The president said the terms of the loan reduced interest rates, without specifying by how much, and that financing was available for five years, up from three years under a previous deal, Reuters reported. [Editor's note: See related [Q&A](#) on Pemex's finances in the April 12 issue of the Energy Advisor.]

POWER SECTOR NEWS

Former Venezuelan Electricity Minister Indicted for Graft

Former Venezuelan Electricity Minister Luis Alfredo Motta Domínguez, who was fired earlier this year after a series of massive blackouts, has been indicted on money laundering charges, U.S. federal prosecutors said last week, the Associated Press reported. Domínguez, 60, faces seven counts of money laundering and one count of money laundering conspiracy, according to Miami U.S. Attorney Ariana Fajardo. Motta and another former official, Eustiquio José Lugo Gómez, stand accused of awarding \$60 million in contracts to three Florida-based companies in exchange for bribes, most of which were allegedly laundered through South Florida financial institutions, according to prosecutors. The three companies allegedly involved are Oriental Trading Corp., Search Trading and Headline. The contracts were for forklifts, transformers, generators and light bulbs. Two businessmen, one based in Venezuela and the other in Miami, last week pleaded guilty to corruption charges in connection with the bribery scheme, according to a statement by the U.S. Department of Justice. Authorities said neither Lugo nor Motta are in U.S. custody. Lugo is a former deputy minister

NEWS BRIEFS

Buenos Aires Electric Power Control Agency Starts Probe into Blackout

The electric power control agency of Argentina's Buenos Aires Province on Monday began an investigation into electricity distributor Edelap for possible administrative flaws that may have led to power cuts that left the city of La Plata in the dark for four days in late June, *La Nación* reported. The city's power outages followed a massive blackout that left Argentina, Uruguay and parts of Paraguay without electricity for about a day earlier last month.

Brazil's Petrobras Sees Oil Exports Growing by More Than One-Third: Lara

Brazilian state oil company Petrobras plans to boost the amount of crude it exports by more than one-third in the coming years, Anelise Lara, the firm's head of refining and gas, said in a statement last Friday, Reuters reported. Lara said Petrobras seeks to increase oil exports from 600,000 barrels per day (bpd) on average in the first half of this year to more than 800,000 bpd, adding that "the development of new markets for pre-salt oil is essential for Petrobras."

CFE Dispute Over Pipeline Contracts Hurts Investor Confidence: Moody's

Mexican power utility CFE's request for arbitration over several pipeline contracts undermines market and investor confidence, credit ratings agency Moody's said last Friday, Reuters reported. The CFE said last week it would seek to negotiate "fairer" contracts in seven projects undertaken by companies including Grupo Carso, TransCanada and IEnova, a unit of San Diego-based Sempra Energy. Moody's said CFE's initiation of the dispute could discourage future partnerships with the private sector, according to the report.

of finance at the electricity ministry and served as procurement director at Venezuela's state-run power company Corpoelec, which Motta also headed. The U.S. Treasury Department last week announced it had imposed new sanctions of against the two former officials, Reuters reported. "Rather than use their official positions to serve the Venezuelan people, Motta and Lugo illegally enriched themselves and contributed to the electricity crisis," the Treasury Department said in a statement. [Editor's note: See related [Q&A](#) on the power outages that left Venezuela in the dark in the March 8 issue of the Energy Advisor.]

Oversight Board Files Suit in Puerto Rico Corruption Case

The U.S. federal financial control board overseeing Puerto Rico's finances on Sunday filed a lawsuit to recover payments made by the island's power company to fuel suppliers, the Associated Press reported. The alleged scheme spanned more than a decade and involved fuel companies Trafigura and Vitol as well as independent laboratories. According to the suit, the firms supplied low-grade oil to

The alleged scheme spanned more than a decade.

Puerto Rico Electric Power Authority, or PREPA, charging billions of dollars in overpayments from 2002 to 2015. Last week, the oversight board announced a \$35 billion deal with the U.S. territory's creditors that could allow it to emerge from bankruptcy in early 2020. The deal will more than halve Puerto Rico's debt servicing over the next 30 years. The island's government has not agreed to sign onto the plan. [Editor's note: See related [Q&A](#) on Puerto Rico's debt deal in the June 28 issue of the daily Latin America Advisor.]

RENEWABLES NEWS

Brazil Auction Signs 211 MW of PV Projects at Record-Low Price

Brazil's A-4 renewables auction last Friday broke a world record by having the lowest average price for solar energy ever, PV Magazine reported Monday. The South American country signed 211 megawatts (MW) of photovoltaic capacity at \$0.0176 per kilowatt-hour (kWh) in the auction, according to the country's national electricity agency, or Aneel. The tender contracted 401.6 MW of renewable energy generation capacity, with solar projects winning

211 MW, the biggest share, which amounted to five projects with a 30 MW generation capacity each and a 61 MW facility, the agency said. The smaller projects led to one bid of 64.99 reais per megawatt-hour (\$16.88 per megawatt-hour), prompting the average price to fall to \$17.52 per megawatt-hour, a new record low for solar prices. The average price in the auction, which was held last Friday, makes solar the "cheapest power from any technology ever ... in the history of the planet, assuming it is confirmed subsidy-free," Michael Liebrich, the founder of BloombergNEF, said after the results were published, PV Tech reported. It is also the first time solar achieves lower prices than wind at a tender in Brazil, according to Maurício Tolmasquim, who formerly headed the country's energy regulator.

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participate in the A-6 procurements, which provide for a 20-year PPA term for wind and solar, and connection to the distribution grid by Jan. 1, 2025. More than 100 gigawatts of projects have registered for these auctions. By providing revenue certainty for a longer

540 MW, on which we provided legal advice. However, the government should avoid postponing auctions and provide clear guidelines as certainty of policy is a critical factor in engaging global market participants."



The government is directly helping the solar industry obtain long-term investments and financing."

— Madeleine Tan and Stephen Hill

period of time, the government is directly helping the solar industry obtain long-term investments and financing. MEM's decision reflects the government's awareness and support of continued non-hydro renewables growth despite the fact that it is a small portion of Brazil's overall energy output. These policies have been successful in growing the industry and securing both domestic and foreign investment from large companies and financial institutions. It is also allowing investments in the secondary M&A, which allows initial investments to be capitalized, for example, the recent ENEL sale to CGN of

A Luiz Augusto Barroso, CEO of PSR, an energy consulting and analytics firm: "The energy transition in Brazil means preserving—and possibly increasing—the renewable outlook of its energy matrix, maximizing the country's portfolio effects. A mix of planning actions with market-based instruments and innovation-friendly frameworks will be required to enable these benefits to materialize in an integrated way. Among these actions, I would highlight: recognizing the economic value of hydro resources, the enablers of the country's energy transition and possibly of some of its neighbors via exports; fostering a cost-efficient integration of renewables, energy efficiency and decentralized generation; fostering research and development investment for bioenergy; and employing as much pragmatism as possible. Stakeholders' engagement will be essential in order to transform ideas into policy actions. The system supply mix is changing. Although the 'energy warehouses'

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ECONOMIC NEWS

Europe Presses Brazil on Climate Change

European Union countries will not ratify the free trade deal reached with South America's Mercosur trade bloc if Brazil does not take steps to meet greenhouse gas emissions targets it agreed to in the 2015 Paris climate accord, French Ecology Minister François de Rugy said Tuesday, Bloomberg News reported. After 20 years of on-and-off talks, E.U. officials and representatives of Argentina, Brazil, Paraguay and Uruguay last week reached an agreement to reduce tariffs and expand goods shipments worth nearly \$102 billion a year. Before coming into effect provisionally, the deal still needs approval from E.U. governments and the European Parliament, a process that is expected to last about another year. "The deal will be ratified only if Brazil meets its commitments," the French minister said, Bloomberg News reported. "We're not signing trade deals with countries which exit the Paris accord." His comments echo remarks by French President Emmanuel Macron last week, who said the "simple reason" behind this position was that asking farmers to stop using pesticides and asking companies to produce less carbon has a "competitiveness cost" for France. "So, we're not going to say from one day to the next that we'll let in goods from countries that don't respect any of that," Macron said, Reuters reported. Brazilian President Jair Bolsonaro had threatened to pull Brazil out of the Paris agreement during his campaign last year but has since stepped back from such a decision, Bloomberg News reported.

Argentine Economy to Fall 1.4 Percent This Year: Survey

The latest monthly survey of economists conducted by Argentina's central bank indicates gross domestic product will fall 1.4 percent in 2019, Reuters reported Tuesday. Inflation is

ADVISOR Q&A

What's at Stake in Guyana's Early General Election?

Q The Caribbean Court of Justice, or CCJ, on June 18 ruled that the Guyanese National Assembly's no-confidence vote against the government of President David Granger was valid. Guyana must now hold an early general election, which Granger said would be scheduled for late November, although the opposition is pushing for an earlier vote. How has the court's decision changed Guyana's political dynamics? Which political figures are most likely to emerge as presidential candidates, and does the ruling coalition have a chance at re-election? What's at stake in the vote, and how could it affect Guyana's oil production, which is expected to start early next year?

A Daniel Erikson, managing director at Bluestar Strategies: "Guyana faces another long, hot summer as the country slides inexorably toward an election that may reshuffle the leadership just as expected oil revenues edge closer to reality. The CCJ decision changed Guyana's political dynamics by advancing the date for elections and creating a new set of challenges for the APNU-AFC coalition government, which plans to put President David Granger forward as their presidential candidate. Khemraj Ramjattan is expected to be their candidate for Prime Minister, replacing current PM Moses Nagamootoo. Ramjattan won the leadership of the AFC at the party conference in June. Within the opposition PPP, much is decided by former President Bharrat Jagdeo, the current general secretary of the party. Jagdeo has said that he would be a

member of a future PPP government but not the president, as he cannot serve a third term. His preferred presidential candidate, Irfan Ali, was chosen at the PPP conference in January. Given that the date for the vote has not yet been established, it is still too

“ Both sides have been releasing polling data that suggests they have the advantage.”

— Daniel Erikson

early to judge what the outcome may be—and both sides have been releasing polling data that suggests they have the advantage. Of course, Guyana's huge oil finds—and the fate of the projected revenues—will be a key election topic. The opposition has accused the Granger government of providing unnecessarily large tax benefits to oil companies. Jagdeo has said that a PPP government could seek to renegotiate the ExxonMobil-Guyana Production Sharing Agreement and that future agreements would look extremely different. He also said future auctions of remaining offshore blocks would be more transparent. However, such tough campaign talk may not translate into reality, especially if the current agreements start delivering favorable results for the people of Guyana.”

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

running at 40 percent, down from the survey's previous prediction of 40.3 percent, but still among the highest in the world. The econo-

mists saw the exchange rate at 50.2 pesos to the U.S. dollar by the end of 2019. GDP growth for 2020 is expected to hit 2.2 percent, versus

NEWS BRIEFS

Cortizo Takes Office as Panama's President

Laurentino "Nito" Cortizo, 66, was sworn in as Panama's president Monday, pledging to use his five-year term to boost the economy and bring transparency in contracting for public works projects, the Associated Press reported. The former head of the National Assembly and Minister of Agriculture, Cortizo won last month's election with only 31 percent of the vote as the candidate of the Democratic Revolutionary Party. He also said he would push for public-private partnerships for infrastructure projects and work to repair Panama's image as a haven for financial crime.

U.S. House Oversight Committee Calls Hearing on Child Migrants

The Oversight Committee in the U.S. House of Representatives on Tuesday scheduled a hearing next week to get testimony from Trump administration officials about the separation and treatment of immigrant children at the southern border, The Hill reported. Committee Chairman Elijah Cummings (D-Md.) has invited Acting Department of Homeland Security Secretary Kevin McAleenan and Acting Customs and Border Protection Commissioner Mark Morgan to testify at a hearing on July 12. Neither has confirmed their appearance.

Uber to Offer Debit Card in Mexico With BBVA, Mastercard

In an effort to encourage drivers to wean away from cash, Uber Technologies is partnering with BBVA and Mastercard to launch a debit card for its drivers in Mexico, El Comercio reported Tuesday. The plan marks the first time that Uber will offer a card of this type outside the United States, said Uber's general manager in Mexico, Federico Ranero. Initially, the card will be distributed in six cities.

2.0 percent previously. The economists held their previous prediction of 2.5 percent growth for 2021. Despite a massive stand-by loan from the International Monetary Fund, Argentina's economy has failed to spark to life. However, pressure on the peso currency has let up in recent months, with the local currency appreciating 6 percent against the U.S. dollar since May. With still-high inflation, the central bank will likely remain cautious with any easing of monetary policy, economists suggest.

Mexico Remittances Reach New Record

Mexico's central bank said Monday the amount of money Mexicans living abroad sent home reached a new record high in May, El Economista reported. Remittances totaled \$3.20 billion in May, the highest figure since Banxico first released data on remittances flows nearly 25 years ago. It was the third time that remittances exceeded \$3 billion in a given month. The Mother's Day holiday likely helped boost remittances, according to the report. Money transfers grew 1.5 percent year-over-year in May, moderating from 3.6 percent growth the month before. For the first three months of 2019, remittances grew 6.6 percent as compared to the same quarter last year. However, given the appreciation of Mexico's peso currency as compared to the U.S. dollar, the value of money received actually fell in May by 4.7 percent in real local currency terms as compared to the same month last year.

Brazil Manufacturing Sector Sees Stronger Growth in June

Brazil's manufacturing sector avoided sliding back into contraction territory in June and reversed a three-month trend of slowing growth, Reuters reported Monday, citing a new IHS Markit survey. The data showed Brazil's manufacturing purchasing managers index, or PMI, rose to 51.0 in June from a 10-month low of 50.2 in May, after declining for three months

in a row to the point of stagnation and brink of contraction, according to the report. A reading above 50.0 marks expansion in the sector. The PMI is one of the first indicators of economic activity for June, the final month of the second quarter. Analysts described the data as a "mild improvement" after the slowdown in May.

POLITICAL NEWS

Lawmaker Accused of Assassination Plot to Plead Not Guilty

A judge in Venezuela has announced that imprisoned lawmaker Juan Requesens will face trial for allegedly trying to kill President Nicolás Maduro last year, BBC News reported. Requesens, 30, was arrested three days after a drone carrying explosives blew up at a military parade attended by Maduro in August. Maduro was not hurt in the incident. Requesens has also been accused of terrorism, treason, public incitement, illegal possession of a firearm and conspiracy to commit a crime. His lawyer on Tuesday said he will plead not guilty to the charges, and he remains in prison. The government released a video last year in which Requesens appears to confess to being involved with the plot. However, his family says he looked drugged and fear he has been tortured. Last week, the apparent torture and killing of a soldier accused of plotting against Maduro while under military intelligence custody sparked international outrage. Opposition leaders have called for mass protests to be held on July 5, Venezuela's independence day holiday, to denounce the death of Navy captain Rafael Acosta. On Monday, state prosecutors said they had charged two national guardsmen working at the military intelligence facility with Acosta's murder. In related news, Maduro said on Tuesday he was committed to talks with the opposition to resolve their political stalemate, hours after opposition leader Juan Guaidó rejected them, Reuters reported. News reports in recent days suggested talks would reconvene this week, perhaps in Barbados, Agence France-Presse reported.

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of hydropower plants are essential for the economic feasibility of renewable energy sources in Brazil, hydropower is no longer the chief technology for generation expansion. Renewables (for economic reasons) and gas-fired plants (for the services they provide to the system) should lead the way. The main challenge for Brazil—a country rich in resources and with an energy mix that is already 43 percent renewable today—is less on the physical side and more on the policy and regulatory sides.”

A **Marina Grossi, president of the Brazilian Business Council for Sustainable Development (CEBDS):** “Due to its continental size and natural resources, Brazil has great energy potential, both in terms of renewable energy and in terms of fossil fuels. These sources allowed the country to develop a clean and diversified energy matrix. Today, hydroelectric plants continue to be the cheapest way to produce renewable energy at an overall weighted average cost of 5 cents per kilowatt-hour (kWh)—which is the

lowest point in the fossil fuel cost range. But the costs of producing electricity from renewable energy sources are falling, and the trend is that they will decrease further until next year, according to the International Renewable Energy Agency (IRENA). The reduction of costs was driven by growth in production and technological improvements in the sector. Despite the strong growth of wind energy in Brazil, which now represents 6.8 percent of energy generation, the future takes us to the sun as a primary source of energy. Today, it corresponds to only 0.1 percent of the energy matrix, but it is abundant in all parts of Brazil, and the Brazilian government has forecast that this source may be responsible for 32 percent of the energy matrix by 2040. CEBDS has worked with companies to develop four proposals for the government, aiming to build the transition to a more renewable and efficient energy matrix in the country. The proposals include surpassing 45 percent of renewable energy in the energy matrix and reaching energy savings of 15 to 20 percent in the electric sector, both by 2030.”

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