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FEATURED Q&A

How is AMLO Changing Mexico's Renewables Sector?

Mexico's government in October modified a rule to be able to extend clean energy certificates to old, government-run hydropower and nuclear power plants. A hydropower plant is pictured above. // File Photo: Mexican Government.

Q: A Mexican court late last month overturned new government rules that would have extended clean energy certificates known as CELs—originally meant to encourage the development of new renewable energy projects—to old, government-run hydropower and nuclear power plants. National and international firms had filed injunctions against the government's new measure, arguing that the move changed the rules under which they had invested, lowered the value of their investments and hurt Mexico's clean energy goals. The court's ruling can still be appealed. What was the reasoning behind the government's decision to extend CELs to older projects, and what is at the root of companies' opposition to it? How well is President Andrés Manuel López Obrador's administration addressing renewable energy generation overall? How can his government spur further investment in the sector and advance Mexico's renewable energy targets?

A: Jeremy M. Martin, member of the Energy Advisor board and vice president of energy and sustainability at the Institute of the Americas: "It is useful to consider that the legal case regarding new measures pertaining to the clean energy certificates (CELs) market in Mexico is far from over. There appear to be several judicial stops on the road to a final ruling. Companies and the government are now in what regrettably will be a fight in the Mexican judicial system. That's the good news. The bad news is why the government sought to revise the terms and procedures for the CELs. First, it was an effort to ensure that state power firm CFE was able to meet its clean energy targets beyond 2020. Second, it was a clear way to continue to

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TOP NEWS

OIL & GAS

Nicaraguan Gov't Nationalizes Gas Station Firm With Links to Ortega

The Nicaraguan National Assembly approved nationalizing a major gas station company, just days after the United States imposed sanctions on it for its alleged links to President Daniel Ortega.

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OIL & GAS

Colombia Court Orders Company to Halt Operations

The country's top administrative court ordered coal miner Drummond to suspend operations at 15 fracking wells.

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OIL & GAS

Lanziani Becomes Argentina's New Energy Secretary

Sergio Lanziani, a nuclear engineer and a former provincial energy official, is Argentina's new energy secretary under President Alberto Fernández. Critics highlight Lanziani's inexperience with shale development.

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Lanziani // File Photo: Argentine Government.

OIL AND GAS NEWS

Nicaraguan Gov't Nationalizes Firms With Links to Ortega

Nicaragua's National Assembly approved the nationalization of a major gas station company on Saturday, two days after the U.S. government imposed sanctions on it for its alleged role in the money laundering schemes that President Daniel Ortega's family is accused of, Reuters reported. The company, Distribuidor Nicaragüense de Petróleo, or DNP, controls one-third of the country's gas sales. The U.S. Treasury Department says it is owned or controlled by members of the Ortega family and that it was bought with public money before being transferred to the family. "All inventories of fuels and petroleum products owned by the Distribuidor Nicaragüense de Petróleo are declared of sovereign security and national interest," according to the new law, Reuters reported. The legislation, which Ortega proposed, was fast-tracked, government-allied lawmakers approved it, and the bill took effect minutes later with its publication in the country's official gazette, the Associated Press reported. The government said the measure seeks to "guarantee the reliable, continuous, efficient, secure, adequate and uninterrupted supply of fuel and petroleum derivative products," the AP reported. Critics have blasted the move, with opposition lawmaker Azucena Castillo saying it was done "to continue laundering money," according to the report. "With this law, the Assembly is hurriedly trying to avoid that the Ortega family loses what has been invested in the inventories of fuels and petroleums," said José Pallais, the leader of the Civic Alliance opposition group, the AP reported. The Trump administration's most recent round of sanctions against the government of Nicaragua targeted Ortega's son, Rafael Antonio Ortega, DNP and two other companies that he owns or controls, Reuters reported.

SUBSCRIBER NOTICE

The Energy Advisor will not be published on Dec. 27, in observance of the holiday season in the United States. We will resume publishing on Jan. 3, 2020.

Colombian Court Orders Drummond to Halt Operations

Colombia's top administrative court last Friday ordered coal miner Drummond to halt operations at 15 fracking wells because they are at a production stage that an earlier ruling prohibits, El Tiempo reported. Colombia's Council of State, which is responsible for decisions regarding administrative matters, ordered the National Hydrocarbons Agency, or ANH, and the mining ministry to monitor the suspension of certain operations at the La Loma field, Reuters reported. The Court ruled that Drummond had violated its moratorium on unconventional methods of exploration, though an earlier court decision specifically targeted hydraulic fracturing, or fracking, Argus Media reported. The court has now determined that coal bed methane gas production, such as the one underway at Drummond's facilities, also falls under the unconventional methods that are currently banned in Colombia, according to the report. The timeline for Drummond to bring operations to a halt is three months, El Tiempo reported. The court has ruled that exploratory fracking pilot projects can move forward while it hears a larger case on the technique, but it added that the method is still prohibited. U.S. company Drummond, which has operated in Colombia as a coal miner for a long time, is at the helm of at least one of four pilot projects, which could bring as much as $5 billion in investments annually once they reach the production stage, according to industry leaders. Colombia's oil industry has said fracking is crucial to increasing the country's dwindling reserves and ensuring energy self-sufficiency, but the technique remains unpopular among leftist lawmakers, community leaders and environmentalists. "[The ruling] makes it clear

NEWS BRIEFS

Venezuela Now Depends on Imports to Meet Fuel Demand: PDVSA Officials

Venezuela now depends on imports to meet gasoline demand, Argus Media reported Sunday, citing multiple officials at state oil company PDVSA and oil union officials. According to the unnamed sources, PDVSA lost its remaining production capacity in November. The country has been experiencing gasoline shortages as a result of U.S. sanctions, which limit Venezuela's fuel imports to barter deals. Managers at PDVSA's refining complex, which includes the 635,000-barrels-per-day Amuay refinery, said gasoline production at Amuay has been suspended for nearly six weeks.

Uruguay Again Delays Auction for Photovoltaic Park, Moves it to January

Uruguayan state-run power company Administración Nacional de Usinas y Transmisiones Eléctricas, or UTE, has once again delayed the bid opening for the construction of a 65-megawatt-peak solar photovoltaic park, Renewables Now reported last Friday. The tender, originally scheduled for Dec. 18, will now take place Jan. 15, 2020, according to UTE. Bidding has been open until Oct. 25, but, since then, the tender's terms have been modified, and visits to the construction site have also been postponed.

Pemex Will No Longer Be Required to Follow Pricing Rules

Mexican state oil company Pemex will no longer have to follow pricing rules designed to limit its power in Mexico's wholesale gasoline and diesel market, energy regulator commission CRE decided, Argus Media reported Tuesday. Critics argue that the decision could allow Pemex to undercut growing competition in the industry, according to the report.

that even if there is an open door to pilots because of the decision taken several months ago, the regulation remains suspended and no type of activity related to the exploration or exploitation of nonconventional deposits can be developed," Carlos Andrés Santiago, of the Colombia Free of Fracking Alliance, told journalists, Reuters reported. Energy Minister María Fernanda Suárez has said fracking could help triple the country's reserves, which stand at about 860,000 barrels of oil per day, equivalent to nearly six years. [Editor's note: See related **Q&A** in the Oct. 4 issue of the Energy Advisor.]

Lanziani Takes Over as Argentina's New Energy Secretary

Sergio Lanziani has been tapped as Argentina's new energy secretary under President Alberto Fernández, Argus Media reported last week. Lanziani is a nuclear engineer and previously served as a local energy official in the province of Misiones, which is home to the Yacyreta binational hydroelectric dam, which Argentina shares with Paraguay, but there is no oil or gas production there. There are some concerns among oil industry executives that Lanziani is not experienced enough for crucial decisions regarding shale development in the country, according to the report. Fernández has not yet outlined his approach toward shale oil and gas development in the giant Vaca Muerta formation in Neuquén province, though he has said that shale development is key to Argentina's economic development. The South American nation's energy ministry was downgraded to a secretariat last year under former President Mauricio Macri in a bid to cut costs. Among the first energy measures of the Fernández admin-

Lanziani is a nuclear engineer and formerly worked as a local energy official in the province of Misiones.

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chip away at the energy market liberalization that was set in motion by the previous administration; the current government does not appear interested in incentivizing private sector investment in renewable energy. Third, it firmly underscores rhetoric as to their views and perceptions that renewables are 'expensive' and that Mexico's international climate commitments don't put Mexico first. Beyond the dust-up over the CELs, the government has also effectively halted the scheduled fourth long-term power auction and several transmission projects that were set for development as public-private partnerships. The real challenge in the coming months and year will be to ensure that the latest measure doesn't allow the CFE to double-count clean energy projects for the CEL market and national clean energy targets, but also to ensure that the CEL market is able to mature and develop. As it stands now, the value of the CELs market—the issue at the heart of the industry's legal action—is in jeopardy and could be greatly depressed should the final ruling allow legacy projects from CFE to qualify."

A **Fluvio Ruíz Alarcón, Mexican energy analyst:** "The 2013-2014 energy reform was much more 'aggressive' in the liberalization of the electricity sector than of the oil sector. Perhaps because in the Mexican collective imagination, the nationalization of the electricity industry does not reach the epic dimension of oil expropriation. However, unlike the room for maneuver that the Hydrocarbons Law leaves Pemex, the CFE's horizontal and vertical separation is unavoidable, according to the electricity industry law. Following the same logic, the institutional design, legal framework, public policies, regulatory measures and their derivate instruments were aimed at putting the fundamental part of the energy transition in the hands of the market. The current government seeks to give greater weight to the role of the state in the sector, and in fact, it has shown a certain anchor in the extractivist logic of oil resources. Thus, it is not surprising that frictions are caused within the sector dynamics inherited from the previous administration. In fact, what is striking is that, having the legislative majority to do so, the government has not made the necessary legal changes to make the sector's legal framework consistent with the orientation of its public policies. This omission leaves the door open to legal controversies, such as those related to changes in the guidelines of CELs, since certain administrative modifications may go against the spirit of the current legal scaffolding."

"The current government seeks to give greater weight to the role of the state in the sector..."

— Fluvio Ruíz Alarcón

A **Ramón Fiestas, president of the GWEC-Global Wind Energy Council Latin America:** "Mexico is currently the second-largest market in new renewable energy installed capacity in Latin America. More than 10 gigawatts (GW), of which more than 50 percent is wind power followed by solar PV, are strengthening its electricity matrix, increasing the security of supply while relaying on indigenous sources of energy and paving the way for a just transition to a new clean economy. Mexico has assumed an unconditional commitment to reduce greenhouse gas emissions by 22 percent below business as usual in 2030, and it settled policies that are aligned to international standards to encourage long-term sustainable investments in renewable power. As remarkable collateral outcomes of their implementation, more than 10,000 new jobs have been created to develop, build and operate this new capacity,

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istration, the government announced its plans to freeze electricity and natural gas rates for as long as six months while it works to reform the price structure of basic services, Argus Media reported. The move is part of a broad emergency bill that the government presented to Congress on Tuesday, with the aim of raising revenue for social spending to combat poverty. Congress, where the governing Peronist coalition has a majority in both chambers, is expected to swiftly approve the bill, according to the report. Among other key energy positions, Guillermo Nielsen, a former finance secretary, will head state-controlled oil company YPF. Nielsen in the past has been supportive of proposed legislation to insulate investment in Vaca Muerta from the wider economy, as well as for imposing fiscal incentives to encourage shale investment, Argus Media reported. [Editor's note: See related **Q&A** in the Aug. 23 issue of the Energy Advisor.]

POLITICAL NEWS

Bolivian Prosecutors Issue Arrest Warrant for Evo Morales

Prosecutors in the Bolivian capital of La Paz have issued an arrest warrant for former President Evo Morales, accusing him of "sedition, terrorism and financing of terrorism," the

Morales // File Photo: Bolivian Government.

Financial Times reported Wednesday. Interior Minister Arturo Murillo posted the arrest warrant on Twitter, and local police confirmed its authenticity. Murillo alleges Morales stirred up violence that resulted in at least 35 deaths during the weeks following the country's contested presidential election in October, The Guardian reported. Officials say the former president ordered his supporters to blockade cities in a bid to force out interim President Jeanine Áñez, who was eventually next in the line of succession after Morales resigned on Nov. 10 and fled to Mexico. Thousands of Morales' supporters took to the streets during the unrest, clashing with police, who used live ammunition and tear gas against them, the Financial Times reported. Morales, who is now in Argentina, has denied charges, instead repeatedly stating that he was the victim of a "coup." Morales led Bolivia for nearly 14 years and

ADVISOR Q&A

How Much Will New U.S. Tariffs Hurt Brazil & Argentina?

Q U.S. President Donald Trump early this month reimposed steel and aluminum tariffs on Brazil and Argentina, saying the two countries' currency devaluations are bad for U.S. farmers. The announcement apparently came as a surprise to officials both in the United States and in South America. What are the economic consequences of metals tariffs for Brazil and Argentina, as well as for the United States? Will the measure spark tensions between the U.S. government and the South American nations? Is currency turmoil in other markets a sound basis for Trump's imposing tariffs?

A Renata Amaral, director of the summer program on U.S. and international trade law and policy at American University and senior international advisor at BMJ Associados: "The economic consequences of the steel and aluminum tariffs that President Trump announced, if confirmed, may be problematic for the three countries involved—Brazil, Argentina and the United States. Indeed, especially in what refers to the steel sector, the competitive advantage of many U.S. companies depends heavily on the steadfastness of the supply chains built with Brazilian (and Argentine, in a lower scale) producers over the years. As numbers show, 52 percent of U.S. imports of semi-finished steel came from Brazil in 2018, which makes the country the largest supplier of semi-finished steel to the United States. Although taken by surprise, there was no concrete and official reaction from the governments of Brazil and Argentina. If the U.S. administration confirms the measure, it is very likely that the countries will try to negotiate, but there may be a breakdown of the relationship between Brazil and the United States, since the Brazilian economic ambitions may conflict with President Trump's political interests. The currency turmoil argument that Trump used in his tweet is very inaccurate. Brazil has had free-floating currency for many years. One of the reasons the real is weakening is because interest rates are going down, and the dollar has been rising against emerging-markets currencies. In reality, Brazil's central bank is trying to boost the real, not the opposite."

> **"Brazil's central bank is trying to boost the real, not the opposite."**
> **— Renata Amaral**

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

NEWS BRIEFS

Argentina's Jobless Rate Rises to 9.7 Percent in Third Quarter

Argentina's unemployment rate hit 9.7 percent in the third quarter, up from 9 percent in the same period last year but a slight improvement from the second quarter, when it stood at 10.6 percent, official statistics agency INDEC said Wednesday, Reuters reported. INDEC said on Tuesday that the economy contracted 1.7 percent in the third quarter, as compared to the same period a year earlier, after markets and the peso currency took a hit in response to the unexpected win of then-candidate Alberto Fernández in the August primary vote.

Chilean Policymakers Unanimously Agreed to Hold Key Rate Steady

Board members of Chile's central bank earlier this month unanimously agreed to hold their benchmark interest rate steady at 1.75 percent, according to minutes of the meeting released Thursday, Reuters reported. The decision came despite months of protests that have led to uncertainty about the country's economy from consumers and investors. Recently announced stimulus measures could help boost growth in the coming year, policymakers said.

Mexico Raises Minimum Wage by 20 Percent

President Andrés Manuel López Obrador on Monday raised Mexico's national minimum wage by 20 percent, the Associated Press reported. The Labor Department said the lowest legal wage will be 123.22 pesos a day starting Jan. 1, or about $6.50 per day at current exchange rates, which is still below $1 per hour and barley at poverty level. However, the increase is well above Mexico's 3 percent annual inflation rate, and wages will be higher in areas along the northern border with the United States due to higher living costs.

sought a fourth term in the October election, which the Organization of American States has said was rigged in his favor. Morales said on Tuesday that, from Buenos Aires, he would campaign for the presidential candidate of his Movement Toward Socialism party in the expected upcoming elections, for which a date has not yet been set, The Guardian reported.

Death Toll in Gun Battle at Panama Prison Rises to 15

Panamanian authorities said Wednesday that the death toll from a gunfight on Tuesday in a prison near the capital rose to 15, La Estrella de Panamá reported. At the same time, President Laurentino Cortizo fired prisons director Walter Hernández, deputy prisons director Luis Gordón and José Melamed, the chief commissioner of external security at the La Joya jail, where the violence broke out on Tuesday, Cortizo said in a tweet. "This is an unacceptable situation, and we will make the decisions that are necessary!" he added. Cortizo, who took office in July, gave the country's Interior and Public Security departments two weeks to compile a report on the incident, the Associated Press reported. He also ordered the departments to come up with a plan to keep weapons out of the inmates' hands. "I want to have actions and actions that must be taken," Cortizo told reporters. Panama's Interior Department said nine prisoners remained hospitalized on Wednesday following the gunfight, in which members of the same gang were pitted against each other in a cellblock that housed more than 500 inmates. Cellphone videos posted on social media showed prisoners shooting and running through the prison complex. Numerous handguns and Kalashnikov rifles had apparently been smuggled in, and police later seized the weapons, the AP reported. Arms smuggling has long been a problem at the prison, and weapons have been used before in disputed among inmates, the wire service reported, adding that Tuesday's incident was the prison's worst-ever outbreak of violence.

> **"This is an unacceptable situation, and we will make the decisions that are necessary!"**
> — Laurentino Cortizo

ECONOMIC NEWS

Argentine Peso Falls 8 Percent on New Currency Rules

The value of Argentina's black market peso fell almost 8 percent against the dollar on Monday on news that the administration of center-left Peronist President Alberto Fernández would bring back the so-called "tourism tax" on spending in dollars in order to help prop up the peso and generate government revenue. The tax, which will apply to all expenses incurred using credit cards abroad, is spurring Argentines to stock up on dollars, according to the report. In December, the conservative government of then-President Mauricio Macri imposed limits on official purchases of dollars. The peso has lost more than 80 percent of its value over the past four years under Macri, as inflation rose at nearly the highest rates in the world, surpassing 50 percent annually. Santiago Cafiero, Fernández's cabinet chief, over the weekend said a bill would be sent to Congress that could hike taxes by as much as 30 percent on goods and services purchased in U.S. dollars. Argentines currently have more than $300 billion of their savings abroad, according to Bloomberg News, citing data from state statistics institute Indec. Over the weekend, Fernández's government also announced it was bringing back export taxes on certain grains, a staple of Argentina's agricultural economy. Facing a default on Argentina's growing debt load, Fernández has few options to jump-start the economy and is resorting to increasing taxes on the wealthy. However, Argentines already carry one of the largest tax burdens in Latin America, at 30 percent of gross domestic product.

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by large settled in remote rural locations that are starting to face prosperity. Advanced technology is developing in the country, and the electricity sector is progressively powered with a clean, modern and affordable supply, closing the gap for Mexicans' universal access to energy. Regarding its climate goals, a series of decisions—as the recent change of rules for green credits (CELs)—are recently driving Mexico outside the roadmap of decarbonization, as the change undermines the scheme's original objective. This looks particularly unfortunate in light of the United Nation's recently published Emissions Gap Report 2019, which warns that Mexico is putting climate commitments at risk, and the global community agrees on the urgency to reinforce climate action. The rationale behind the rule change clashes directly with the market reality of renewable energy, which has seen in Mexico some of the cheapest prices for electricity in the world for both wind and solar power since 2016. Mexico has a unique opportunity to take advantage of its extremely competitive conditions and to keep building up the wind industry, ensuring valuable socioeconomic paybacks as well as creating up to 30,000 new jobs on the way to the country's national targets."

A **Patricia Tatto, director for Mexico and Central America and partner at Ata Renewables:** "Definitive suspensions in protections against modifications to clean energy certificates (CELs) were already granted by our federal court. This is great news for the industry, the CFE and investors, and mostly for Mexicans. According to a statement by Asolmex and Amdee, suspensions were granted in different lawsuits against the modifications to the guidelines for the process of granting CELs. Definitive suspensions involve precautionary measures of general application to the entire electrical industry. The resolution appealed was a decision from the Ministry of Energy that made unreasonable modifications to the guidelines for the granting of CELs. The danger of this resolution was the destruction of the value of assets of renewable energy projects in operation and the attempt to modify the law by administrative means to the detriment of investor confidence in our country. There are several positive elements regarding the court decision: the resolutions recognized imminent and irreversible damage that would be a result of changes to the guidelines; it gives a good signal to investors and protects investments in renewables; it reaffirms the original concept about the mechanism of CELs as promoters of investment in new clean energy, in order to reach Mexico's mitigation goals; it shows that Mexico has independent powers and an impartial court; and it opens the possibility for the government to rethink their strategy on how to reach CEL targets. Our clients need to see real commitment and help from AMLO to believe that the government believes in renewables and wants to look after the environment for the Mexican people. We want to see a government strategy for how the renewable industry can work together with the CFE, to empower the CFE, as well as the market, and be able to reach the electricity demand that our country needs—and of course, clean energy."

> **"[The court decision] gives a good signal to investors and protects investments in renewables."**
>
> **— Patricia Tatto**

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

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