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FEATURED Q&A

What Challenges Face Argentina's Energy Secretary?

Sergio Lanziani was tapped last month as Argentina's new energy secretary. // File Photo: @LanzianiSergio via Twitter.

Q **Sergio Lanziani, a nuclear engineer and former local energy official in the province of Misiones, in December became Argentina's new energy secretary. Shortly after taking office, President Alberto Fernández's government announced it 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. Is Lanziani a good fit for the job? What challenges will he face in his new position, and what should his priorities be going forward? What do Fernández's first moves in office suggest about the direction his government will take in terms of energy policy?**

A **Chris Cote, analyst at ESAI Energy:** "Lanziani has his work cut out for him, but so have Argentina's previous energy secretaries. Balancing the demands of energy producers and investors with the squeezed household income of the average Argentine will be a challenge for the Fernández administration, but Lanziani's training as a nuclear engineer and experience negotiating over dam royalties suggest that he may take a back seat on oil and gas policymaking, and perhaps on energy policy in general. The recent appointment of Guillermo Nelson, former finance secretary and negotiator with the IMF, as head of state oil and gas company YPF suggests that energy policy will be more directly managed through YPF and the Casa Rosada. In the midst of these personnel changes, policymaking is already underway: legislation proposed in December to freeze gas and power tariffs for six months will help cash-strapped households and hurt hydrocarbon exporters without addressing more structural issues in the

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TOP NEWS

OIL & GAS

Mexico Hedges Oil Exports at $49 Per Barrel

Mexico's government has hedged its oil exports for this year at an average of $49 per barrel in order to gain protection against potential falls in crude prices. The government did not disclose the amount it paid for the coverage.

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POWER SECTOR

Power Outages Continue Across Puerto Rico Following Quake

The U.S. territory is continuing to experience widespread power outages following a 6.4 magnitude earthquake.

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OIL & GAS

Apache, Total Make 'Significant' Find Off Suriname

U.S.-based Apache and France's Total have discovered oil deposits off the coast of Suriname. There is a potential for "prolific" oil wells, said Apache CEO John Christmann.

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Christmann // File Photo: Apache Corp.

OIL AND GAS NEWS

Apache, Total Make ‘Significant’ Oil Find Off Suriname’s Coast

Houston-based Apache and France’s Total have discovered “significant” deposits of oil off the coast of Suriname, the companies announced Tuesday, spurring investor excitement that it could be the region’s second large find in recent years following ExxonMobil’s discovery of oil deposits offshore Guyana, The Wall Street Journal reported. Apache said in a statement with few details that it had found oil in two of the areas it had been testing. “Data indicates the potential for prolific oil wells,” Apache CEO John Christmann said in the statement. Analysts said the discovery could result in an increase of more than $1 billion in the valuation of the project, according to the report. Apache’s shares shot up 25 percent on Tuesday on the news, putting it on track for its largest one-day stock gain since 1973 after the company’s share price declined in December when it released a progress report that included no details on whether or not it had found oil in Suriname. Total shares fell slightly on Tuesday. The two companies each own a 50 percent stake in the block where the well was drilled, after Total bought it last month, the Financial Times reported. “We are optimistic about the large remaining potential of the area still to be discovered and will test several other prospects on the same block,” said Kevin McLachlan, senior vice president for exploration at Total, the Financial Times reported.

Mexico Hedges This Year’s Oil Exports at $49 Per Barrel

Mexico’s government hedged oil exports for 2020 at an average of $49 per barrel, locking in protection against low crude prices, the finance ministry said last Friday, Bloomberg News reported. The program is designed to protect Mexico against oil price crashes. The ministry’s statement did not say how much Mexico paid to acquire the coverage, an amount that traditionally has been disclosed in recent years, including for the 2019 program. It is the first time since at least 2001 that the government did not disclose the program’s cost, Reuters reported. On average, Mexico has spent around $1 billion buying financial put options from Wall Street banks, in a set of trades that usually covers between 200 million and 300 million barrels of crude and has the potential to upend markets. The put options are contracts that allow Mexico to sell oil at a predetermined future price, with banks hedging themselves in the market by selling crude and refined products futures and swaps, Bloomberg News reported. The trade, known as the Hacienda hedge, is seen as the largest oil deal on Wall Street, according to the report. This year’s hedge price is considerably lower than last year’s, when a barrel was hedged at $55, but it is in line with the oil price set out in the 2020 budget. Mexico earned billions of dollars from the deal in 2015 and 2016 when crude oil prices plummeted, having locked in above-market prices. The annual oil hedging program was announced at trying times for Mexico, when both the sovereign and state oil company Pemex are particularly vulnerable, Reuters reported. The country’s creditworthiness has been under scrutiny in recent months, as two rating agencies last year downgraded their sovereign outlook to negative, while another downgraded its rating. One ratings agency already has Pemex bonds at “junk” status.

PDVSA Reportedly Cedes Control of Oil Field Operations

Venezuelan state oil company PDVSA is leaving day-to-day operations of oil fields to some joint venture partners as its own capacity to do so has been hit by sanctions and a lack of cash and personnel, Reuters reported last Friday, citing a former oil minister, an opposition lawmaker and industry sources. “PDVSA is no longer producing. It’s signing contracts for

NEWS BRIEFS

Power Outages Continue Across Puerto Rico Following Earthquake

More than two-thirds of Puerto Rico remained without power for a third day on Wednesday following a 6.4 magnitude earthquake that struck the U.S. territory in the early morning of the previous day, The New York Times reported. It was the strongest earthquake to hit the island in more than a century and brought island-wide power outages on Tuesday after causing serious damage to the Costa Sur power plant, which generates roughly 40 percent of Puerto Rico’s electricity.

Brazil’s Bolsonaro Vows to Oppose Taxes on Solar Energy

Brazilian President Jair Bolsonaro said Monday that he would bar a tax on solar energy, as Latin America’s largest economy is looking to support the development of clean sources of power, Reuters reported. His statement follows comments by Brazil’s power regulator, Aneel, that it was eyeing cutting incentives for solar power. Brazil’s solar generation in December increased 47 percent year-on-year to an average of 665 megawatts, up from 451 average megawatts in December 2018, Renewables Now reported.

Value of Colombia’s Exports Fall Amid Lower Revenues From Oil, Coal

The value of Colombia’s exports declined 13.6 percent in November due to lower revenue from oil and coal sales, the country’s main dividend sources, the national statistics department, DANE, said last Friday, Reuters reported. Total export value in November reached $2.89 billion, as compared to $3.34 billion in November 2018. The value of Colombian oil exports in November plunged 22.3 percent to $1.16 billion.

others to produce in a de facto privatization," Rafael Ramírez, a former oil minister and PDVSA president who left office in 2014 following spats with President Nicolás Maduro, told Reuters in an interview. He said the company had effectively handed control to joint venture partners, although a formal agreement has not yet been reached. Ramírez, who serves as

Ramírez // File Photo: Venezuelan Government.

an advisor to some international energy firms that have recently worked in Venezuela, added that PDVSA is currently little more than an administrator of contracts with oil companies. Among the firms reportedly helping PDVSA are Russia's Rosneft and China's CNPC, Ramírez said. Opposition lawmaker Luis Stefanelli, who is also a member of Congress' energy commission, told Reuters the government and PDVSA have been using formulas originally proposed by the opposition to allow private partners to take over more responsibilities in joint ventures, but in an illegal way. Maduro's government and the opposition last year reportedly discussed letting partners in PDVSA-led joint ventures operate the oil fields, a move that would reverse a legal requirement that PDVSA control the operations. "Under the Hydrocarbon Law, every agreement for PDVSA to cede exploration and production rights is illegal and unconstitutional," José Ignacio Hernández, an overseas legal representative appointed by opposition leader and National Assembly President Juan Guaidó, said on Twitter. "Maduro's regime is insisting in the oil industry's de-facto privatization, which is aggravating its collapse," Hernández added. Crude output of PDVSA and its partners has fallen to nearly one-third of its peak 20 years ago, with the steepest declines in production registered when military officials with no oil industry experience took over the company's management in late 2017 and when the administration of U.S. President Donald Trump slapped sanctions on PDVSA early last year, Reuters reported.

Maduro's Party Wants Changes to Oil Asset Ownership

Venezuela's ruling Socialist Party wants legislators its members recently declared to be in charge of the National Assembly to approve changes to ownership of some crucial state oil assets, five opposition lawmakers said Wednesday, Reuters reported. Pro-government lawmakers on Sunday proclaimed Luis Parra as the Assembly's leader, though opposition members of the legislature also re-elected Juan Guaidó as the body's president. President Nicolás Maduro's government is hoping the Socialist-backed legislators will make legal investments by international oil companies from countries such as Russia, which have seen the opposition-led National Assembly as a liability for new deals, according to the report. The legal change would allow investors holding Venezuela's defaulted bonds to swap them for ownership stakes in oil fields and recoup the debt they are owed by producing oil, legislator Ángel Alvarado, who also sits on the Assembly's finance commission, told Reuters. However, participants would be at risk of violating U.S. sanctions, which ban financial deals with Venezuela's government. Opposition leaders, who hold a majority in the National

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country's economy. At the same time, more state investment in the oil and gas sector through YPF will benefit the development of the country's shale basins. Overall, it looks like Argentina is heading back toward energy policies from the Kirchner era. Only time will tell whether they will be tempered by the growth in foreign investment during Macri's tenure and having Fernández, not Kirchner, at the helm."

A **Gerardo Rabinovich, vice president at Instituto de la Energía "General Mosconi" in Buenos Aires:** "A new political stage has opened in Argentina with the return of Peronism to power. It inherits an energy sector in better condition than in December 2015: the production of oil and natural gas is growing after more than 20 years of steady decline; there is a surplus of electricity generation capacity with new wind and solar power plants that meet 7 percent of electricity consumption; and there are better public electricity and natural gas services. But there are also strong challenges in solving the tariff issue, subsidies and the sector's growth. Little is known about the policies of the new government in energy matters. However, the enactment of a new law has frozen rates (at least for 180 days) and increased tariffs of oil and natural gas exports, which seems to be a radical change from former policies. These measures recall those implemented in the crisis of 2002,

> **"The production of oil and natural gas is growing after more than 20 years of steady decline."**
> **— Gerardo Rabinovich**

which dismantled the economic equation of the sector and remained for more than a decade. Nor is much known about the new authorities and teams of the secretary of energy. Nevertheless, everything indicates that they will have an arduous administrative task subordinated to the policies that are formulated from the Ministry of Production. The uncertainty continues to be great, but there is a feeling of a return to the situation prior to 2016, with the challenge of maintaining the achievements made in these last four years. The new team must demonstrate that it can overcome these challenges."

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Assembly, have expressed opposition to economic reforms that would favor Maduro's hold on power, the wire service reported.

POLITICAL NEWS

Interim Bolivian Gov't to Investigate Nearly 600 Officials

Bolivia's interim government announced Wednesday that it would open a corruption investigation of nearly 600 officials who were part of the government of former President Evo Morales, Agence France-Presse reported. "It has been decided to initiate investigations against 592 former officials," the chief investigator at the Bolivian justice ministry, Mathias Kutsch, told reporters in La Paz. The probe would "identify who are the people who committed corruption crimes, who diverted public resources and chiefly, who diverted them to other countries," he added. Among the officials to be investigated are Morales, former Vice President Álvaro García, as well as cabinet ministers and cabinet heads, vice ministers and public administration officials, said Kutsch. Morales and other officials of his government, including García, resigned and have sought asylum in other countries amid anti-government protests in November that followed Morales' disputed re-election. Morales fled to Mexico and then to Argentina after center-left President Alberto Fernández was sworn in there last month. About 10 former Morales government officials are holed up in the Mexican ambassador's residence in La Paz. Several state-owned companies have also been targeted in corruption investigations, including state oil company YPFB and the National Telecommunications

> **"It has been decided to initiate investigations against 592 former officials."**
> — Mathias Kutsch

RESEARCH ALERT

Political, Social Unrest Could Result in Stagnant Oil & Gas Production: Viscidi

By Anastasia Chacón González

Political and social unrest across Latin America will likely result in stagnant oil and gas production this year in many countries, including Bolivia, Ecuador and Colombia, while Brazil and Guyana are on track to become the region's largest oil producers, according to a new publication by Lisa Viscidi, the director of the Energy, Climate Change & Extractive Industries program at the Inter-American Dialogue, published by the Istituto Affari Internazionali in December.

Political and social turmoil, as well as alternating economic models, have led to uncertainty in energy policy across the region, Viscidi writes in the **report**. Recent social turbulence in major oil and gas producers throughout the region, including Bolivia, Ecuador and Colombia, have resulted in a lack of clarity surrounding the countries' energy sectors, according to the publication. For example, it is unclear who will be the next Bolivian president following former President Evo Morales' resignation, and how the new leadership will affect the energy sector. Although it is unlikely that the Ecuadorean and Colombian presidents will resign in the face of protests, both leaders' popularity and credibility have been hit, reducing their ability to advance reforms in the energy sector, Viscidi writes.

"While the pilot programs for fracking in Colombia have held up in court, it's unclear to me that [President Iván] Duque will be able to push through legislation allowing fracking on a larger scale," Viscidi told the Energy Advisor. "I don't think public opinion has shifted on this issue, and many people are still opposed—constituents he and his party will want to win over in upcoming elections," she added.

Also, as President Alberto Fernández begins his term in Argentina, it is unclear whether he will revive economic policies that the Peronist party enacted the last time it was in office, including a return to capital controls, export restrictions and subsidies that discourage foreign investment and keep Argentina out of international capital markets, Viscidi writes. "Development of the Vaca Muerta may very well slow under the new government," she told the Energy Advisor, adding, "I also see a challenging environment for investment in renewable energy generation because of insufficient government investment in transmission infrastructure, sky-high interest rates and a perception of high country risk."

Meanwhile, Brazil and Guyana are likely to become among the world's top sources of oil supply growth over the coming years. Although Brazil needs to implement further reforms to introduce market competition, recent policies under the current government have put Brazil on track for major increases in oil and gas output, particularly given the massive offshore pre-salt oil reserves discovered nearly a decade ago, according to Viscidi. Guyana, in turn, is set to become the region's newest petrostate, she added. Despite its large reserves, Venezuela was not excluded in the study given that the country's political and economic turmoil and U.S. sanctions "make any increase in investment highly unlikely in the short term," Viscidi wrote.

NEWS BRIEFS

Guatemala Hasn't Agreed to Accept Mexican Asylum-Seekers: Morales

Guatemala's outgoing president, Jimmy Morales, said Wednesday that his administration has not made any agreement with the United States to receive Mexicans who have sought asylum in the United States, the Associated Press reported. Morales said his government agreed only to accept Salvadoran and Honduran asylum-seekers under a deal it reached last year with the United States. U.S. Acting Deputy Homeland Security Secretary Ken Cuccinelli confirmed Monday that the United States would start deporting some Mexican asylum-seekers to Guatemala.

Brazil's Bolsonaro Cancels Trip to Davos

Brazilian President Jair Bolsonaro has canceled a scheduled trip to the World Economic Forum in Davos, Switzerland, this year, presidential spokesman Otávio Rêgo Barros told reporters on Wednesday, Reuters reported. Security concerns were a factor in the decision, Barros said, though he denied any relation to recent events in the Middle East. He said "political and economic aspects" were also part of the decision.

Chile Posts Trade Surplus of $1.46 Billion as Value of Copper Exports Falls

Chile registered a trade surplus of $1.46 billion in December, according to the country's central bank, with exports totaling $6.64 billion and imports amounting to $5.18 billion, Reuters reported Tuesday. The South American country saw sales of copper, its top export, fall 2.7 percent year-on-year to $3.45 billion in December, as the metal's value plummeted due to a decline in prices. Chile's copper exports fell 8.2 percent in 2019 to $33.40 billion, according to the report.

Company. The ministries of mining and health have also been targeted in graft investigations. Also on Wednesday, Bolivian Interior Minister Arturo Murillo said authorities in the Andean nation had activated an "international arrest warrant" against Morales to prevent him from traveling to Chile, where he has been invited to attend a forum on human rights. The interim Bolivian government of President Jeanine Áñez is planning a new presidential election for May 3. Morales has been barred from running in the election, but his Movement for Socialism coalition is to meet Sunday in Buenos Aires to choose its candidates, Reuters reported. In an interview with the wire service, Morales said he plans to return to his home country by next Christmas. "I'll be back," he said.

Colombia's Duque Asks U.N. to Extend Verification Mission

Colombian President Iván Duque on Wednesday asked the United Nations to extend its peace verification mission in the country until the end of his term in 2022, El Tiempo reported. The mission's tasks include monitoring compliance with the 2016 peace agreement between the government and the former Revolutionary Armed Forces of Colombia, or FARC, guerrilla movement that ended five decades of conflict. The U.N. Security Council last year decided to extend the mission until the end of 2020. "The desire of our government is that the observation mission accompanies us for the duration of our mandate, until August 2022," Duque said following a meeting with the mission's chief, Carlos Ruiz Massieu, at government headquarters, Agence France-Presse reported. Ruiz Massieu said that "very important advances" have been made in the implementation of the peace deal but added that "great challenges" both in the short and long terms remain. Last year was the deadliest year for former FARC combatants since the peace agreement was signed, the United Nations has said, with 77 former rebels killed over the past 12 months. Secretary General António Guterres has called for "more effective measures to protect the lives of former combatants," AFP reported.

Duque // File Photo: Colombian Government.

ECONOMIC NEWS

Mexico's Inflation Rate Rises at Slowest Pace in Four Years

Mexico's inflation rate rose at its slowest rate in four years in 2019, leaving space for the central bank to cut interest rates as economic activity stagnated, the National Statistics Institute said Thursday, The Wall Street Journal reported. The country's consumer-price index increased 2.83 percent last year, lower than the 4.83 percent rise registered the previous year. Mexico's central bank, The Bank of Mexico lowered its overnight interest rate target four times last year, to 7.25 percent, as economic activity faltered and inflation moved back in line with its 3-percent target. More interest rate cuts are expected this year, according to the report. The country's GDP is expected to have ended 2019 with zero growth. "A large part of the fall we have seen in the price index is explained by energy and food products, which have also shown slower rates than the previous year," Alejandro Saldaña, an analyst at Ve por Más, a Mexican financial group, told El Economista. Core CPI, which does not include energy and agricultural goods, ended last year at 3.59 percent, as compared to 3.68 percent in 2018, The Wall Street Journal reported. President Andrés Manuel López Obrador last month announced a 20-percent increase in the minimum wage, which some analysts say could increase inflation. [Editor's note: See related **Q&A** in Thursday's issue of the Advisor.]

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A **Luciano Codeseira, director for Argentina at Gas Energy Latinoamérica:** "Argentina's executive branch has established different means to consolidate an energy policy, or lack thereof. Strictly speaking, Argentina has had strong and weak Energy Secretariats, it had an Energy and Mines Ministry, it had a market-oriented YPF and a state-oriented YPF, and the government more or less intervened in the market—all in less than 10 years. Today, the new Energy Secretariat presents reduced objectives, shared with other government areas, and even in the case of Vaca Muerta, I see it relegated to YPF, the designer and executor of much of Argentina's oil policy. The new energy policy will be drafted by a narrow consensus between the Ministry of Productive Development (which includes the new Energy Secretariat) and the Ministry of Finance, with YPF participating in several meetings. Given this permanent necessity of consensus, YPF's enactment and backtrack of an increase in gasoline prices last week is not a good omen. Specifically, through the de-indexation of energy prices, the Energy Secretariat will have mitigating inflation as one of its primary goals, in particular to adapt some previous government norms aimed at promoting and diversifying electricity generation. Sergio Lanziani's solid expertise in these issues can contribute to this goal.

> **"Through the de-indexation of energy prices, the Energy Secretariat will have mitigating inflation as one of its primary goals."**
>
> **— Luciano Codeseira**

However, the energy policy's success will depend on its adequate insertion into the political economy and the integral management of the economy and, fundamentally, in the negotiation of the external debt, inflation, exchange rate and economic activity."

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

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