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FEATURED Q&A

Is AMLO Favoring Pemex in Mexico's Retail Gas Sector?

Mexican state oil company Pemex manages about 90 percent of the country's retail fuel station business. // File Photo: Mexican Government.

Q **Mexico's government recently overturned a measure that required state oil company Pemex to allow third parties to access its pipeline capacity and fuel storage terminals, and another that placed constraints on how the firm priced fuel sales to wholesalers. Both rules sought to curb anti-competitive behavior and thereby encourage private companies to participate in Mexico's retail gas station business, of which Pemex still manages about 90 percent. What drove the government to backtrack on these two measures, and are more changes coming? In what ways could the move benefit Pemex? What consequences could the reversal have on Mexico's fuel sector and business environment?**

A **Isidro Morales, professor and researcher at the School of Government at the Mixcoac campus of Tecnológico de Monterrey:** "From the beginning of Andrés Manuel López Obrador's administration, it became clear that his goal was to make Pemex the leading and dominant company in the crude oil, gas and downstream markets. While revamping the state enterprise is crucial for an economy that could soon enter into recession, it would be a mistake if the current administration attempts to retrun to the state monopoly regime that characterized Mexico's energy industry in the past. There are financial, geological, technological, legal and geopolitical reasons against it. In the downstream sector, increasing imports of gasoline, diesel and liquefied petroleum gas have increased the financial pressures on a company whose natural gas imports continue to rise, while net crude exports go down. Although the 2013-2014 reforms opened the way for

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TOP NEWS

OIL & GAS

Trinidad Scraps PDVSA Gas Deal Over Sanctions

Trinidad and Tobago has canceled an agreement with Venezuela for the joint development of a natural gas field in the countries' maritime border, due to U.S. sanctions against Venezuela's state oil firm.

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OIL & GAS

Oil Sector Braces for Fallout From Coronavirus

Refineries in China, which take 30 percent of their shipments from major Latin American oil exporters, are expected to cut production amid speculation that travel restrictions will hit demand for gasoline, diesel and jet fuel.

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OIL & GAS

Argentina Extends Fuel Price Freeze Until February

Argentine President Alberto Fernández extended a freeze on diesel and gasoline prices until the end of February in a bid to contain inflation. The freeze was set to end last Friday.

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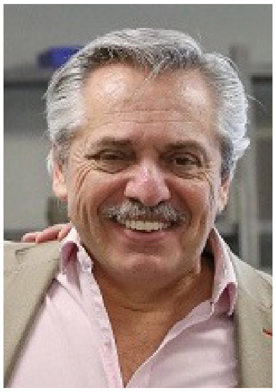

Fernández // File Photo: Argentine Government.

OIL AND GAS NEWS

Oil Sector Braces for Fallout From New Strain of Coronavirus

Latin America and Caribbean countries are bracing for the effects that the coronavirus could have on trade with China, including in the oil sector, as the World Health Organization on Jan. 30 declared a global emergency amid the outbreak's spread outside the Asian country. "The main reason for this declaration is not what is happening in China but what is happening in other countries," said WHO chief Tedros Adhanom Ghebreyesus, BBC News reported. The WHO said there had been 98 cases in 18 countries other than China, but no deaths. The new strain has no confirmed cure and has infected more than 10,000 people in China. Though there have been no confirmed cases in Latin America and the Caribbean, stocks and currencies in the region fell sharply following the emergency declaration. The Asian giant has become a primary trading partner for many countries of Latin America and the Caribbean, leaving some to worry about consequences for key industries. For example, sales of Latin American oil cargoes to China ground to a halt last week, Bloomberg News reported. Zero sales were registered since the previous week for March-loading cargoes from Brazil and Colombia, and unsold cargoes are piling up, according to the report. While interest from buyers has been sluggish, China as of Jan. 31 had not canceled or postponed any cargoes set to load in February. Refineries in China, which take 30 percent of their shipments from Brazil, Colombia and other major Latin American oil exporters, are expected to cut production amid speculation that travel restrictions put in place to halt the spread of the coronavirus will dampen demand for gasoline, diesel and jet fuel. The Global Health Security Index, published last October by Johns Hopkins University and The Economist Intelligence Unit, found that no country in Latin America should be considered "well prepared" for a global pandemic, but that five countries in Central and South America are of higher concern, namely Belize, Guatemala, Guyana, Honduras and Venezuela, according to analysis from the Latin America Risk Report.

Sales of Latin American oil cargoes to China ground to a halt last week.

Argentina's YPF Signs Preliminary Deal with Shell, Equinor

Argentine state oil company YPF has signed a preliminary agreement with Norway's Equinor and Netherlands-based Royal Dutch Shell to acquire an additional 11 percent participation in the Bandurria Sur region of Argentina's Vaca Muerta shale field, YPF said Jan. 31, Reuters reported. Under the deal, which is still subject to regulatory approval, Equinor and Shell would acquire Schlumberger's participation in the block for $355 million, Clarín reported. If approved, YPF would hold 40 percent of the field and would continue to manage operations there, the company said. "YPF leads the development of non-conventional (hydrocarbons) in the country, and the results we've obtained make us the partner of choice for global companies," said Guillermo Nielsen, YPF's president, Reuters reported. Vaca Muerta, which covers an area roughly equivalent to the size of Belgium in the southern region of Patagonia, is expected to contain one of the world's largest reserves of unconventional oil and gas.

Trinidad Scraps Gas Deal With PDVSA Due to U.S. Sanctions

Trinidad and Tobago has canceled an agreement with Venezuela for the joint development of a natural gas field in the countries' maritime border due to U.S. sanctions against Vene-

NEWS BRIEFS

Argentine Government Extends Fuel Price Freeze Until End of February

Argentina's government has extended a freeze on diesel and gasoline prices until the end of February, it said on Jan. 30, S&P Global Platts reported. The freeze was set to expire last Friday, but President Alberto Fernández issued a decree saying it would last until Feb. 29. The president said the freeze was necessary to reduce the country's inflation, which has more than doubled over the past two years, reaching 53.8 percent at the end of last year, according to data from national statistics agency INDEC.

Chile's Colbun Submits Environmental Impact Study For Wind Farm

Chilean power utility Colbun has submitted the environmental impact study for its Horizonte wind project, which is to be located in the Atacama desert, Renewables Now reported Monday. According to the filing, the project will have 980 megawatts of installed capacity, up from the 607 megawatts previously reported. The wind farm is expected to have 140 wind turbines of 7 megawatts per unit, installed across 8,000 hectares, Renewables Now reported.

Colombia's Environmental Authority Fines State-Owned Ecopetrol for Spill

Colombia's environmental authority has fined state oil company Ecopetrol for spilling oil from a well located in the Andean country's northern region last year, polluting the environment, Ecopetrol said, Reuters reported Jan. 30. The equivalent of 550 barrels of crude upwelled from the Pozo Lisama 158 well, which had been abandoned due to low production, in Santander department. The crude spill damaged the region's flora and fauna, according to the report.

zuelan state oil firm PDVSA, Trinidad's prime minister, Keith Rowley, said on Monday, the Trinidad Express reported. Each country will now separately develop the 10.04 trillion cubic foot Loran-Manatee shallow-water field, Rowley said. "Progress in the development of the unitized Loran-Manatee field has been impeded by the sanctions imposed by the U.S. government, which inhibits U.S. companies from doing business with Venezuelan oil company PDVSA," Rowley said at an energy conference in Port of Spain, Reuters reported. Under the 2013 deal, the neighboring countries had agreed that 73.75 percent of the joint field belonged to Venezuela, and the remainder belonged to Trinidad and Tobago. The Caribbean nation is a top exporter of liquefied natural gas, or LNG, but its offshore natural gas production has fallen in recent years. Under the deal, Trinidad would have used gas from Venezuela, which has largely untapped offshore gas reserves, in its LNG plants, the wire service reported. Rowley said gas production from the Manatee field could start by 2024 or 2025, totaling between 260 million and 400 million standard cubic feet per day. "This major policy shift, which frees up investment and development of Manatee gas, also provides easy access to market for all gas from these fields, if the circumstances permit and the owners so desire," Rowley added, the Trinidad Express reported. Chevron has a 60 percent interest in the Loran field, while the rest belongs to PDVSA. Shell's Trinidad unit holds a 100 percent interest in the Manatee field. PDVSA, Chevron and Shell did not immediately respond to Reuters' request for comment.

RENEWABLES NEWS

Brazil's Government Approves One Solar, Three Wind Projects

Brazil's Ministry of Mines and Energy has approved four renewable energy projects with a combined capacity of 151 megawatts, according to decrees issued by the country's national power sector regulator, Aneel, Renewables Now

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the participation of private companies in the production and trade of oil products, the construction of Dos Bocas with public resources, the recent provisions that prevent private access to Pemex's transmission grid and the opacity with which it will operate both its transfer prices and first-hand sales, will put a brake on the construction of a competitive downstream market. Private companies will have incentives neither for the construction of storage and distribution infrastructure, nor for importing and retailing refined products domestically. However, it would be important for both the Energy Regulatory Commission and the Energy Secretariat officials to understand what Mexico recently signed and ratified in the USMCA, in the chapter on public companies, where the use of anticompetitive practices in matters of electricity and refined products is prohibited. In the event that such practices affect the investments and operations of private companies already established in Mexico, they may, according to the new treaty, call for an arbitrated dispute directly against the Mexican state—such as the one that was about to unfold in the case of private carriers of natural gas."

A **Fluvio Ruiz Alarcón, Mexican oil sector analyst:** "In line with what was stated in the electoral campaign, the determined support for Pemex is one of the fundamental components of the current government's economic policy. This position reflects principles deeply rooted in the collective imagination of the current administration's social base. Hence, it is highly predictable that frictions will continue within sector dynamics forged under the previous administration, for which establishing competitive conditions was more important than strengthening Pemex. It is in this context in which decisions were recently made to dismantle important elements of the asymmetric regulation that applies to Pemex. The contradictions between various regulatory instruments and the government's guidance on oil matters cause uncertainty because the adjustments made are casuistic and unpredictable. Still, political decisions and regulatory modifications that could be expected from a leftist government have not occurred. Five years after the reform's implementation, it is difficult to reverse the opening to private capital in certain links of the hydrocarbon production chain. This raises the need to modify the energy reform, to give clarity and stability to a new sector dynamic, while allowing coherence with the orientation and objectives of public policies, with its institutional design, legal framework, regulatory measures and other related instruments. This would reduce the uncertainty that slows down private investments, whose importance is indisputable in certain areas."

> **"Political decisions and regulatory modifications that could be expected from a leftist government have not occurred."**
> — Fluvio Ruiz Alarcón

A **Joel Acosta, director of energy and natural resources at FTI Consulting in Mexico City:** "President López Obrador has made very clear that his top priority within the energy sector is to revamp the state-owned companies, both Pemex and CFE, by 'safeguarding' them from past policies that weakened them by opening Mexico's energy market and guaranteeing energy security. His vision, visibly anachronic, to achieve the 're-birth' of Pemex and CFE lies on an economic and political model similar to the one Mexico followed in the 1970s: inward-looking, nationalistic, but most importantly—and most worrisome—it assumes Mexico has unlimited energy resources and

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reported Monday. The projects—of which one is photovoltaic, and the other three are wind—now have priority status, which will speed up their implementation, according to the decrees. The 25-megawatt São Pedro e Paulo I photovoltaic plant is located in the northeastern state of Pernambuco, and it is a partnership between Kroma Comercializadora de Energia and Z2 Energias Renováveis, with each having a 50 percent participation in the project. The three wind plants, Monteverde of 46.2 megawatts, Boqueirão I of 42 megawatts and Boqueirão II of 37.8 megawatts, are owned by EDP Renováveis Brasil and are located in Rio Grande do Norte state, Renewables Now reported.

POLITICAL NEWS

Trump Meets With Venezuela's Guaidó at the White House

U.S. President Donald Trump met Wednesday at the White House with Venezuelan opposition leader Juan Guaidó, whom the United States and dozens of other countries recognize as the South American nation's legitimate interim president. The meeting in the Oval Office happened a day after Guaidó attended Trump's State of the Union address at the U.S. Capitol. During the annual address on Tuesday night, Trump called Venezuelan President Nicolás Maduro "an illegitimate ruler" and "a tyrant who brutalizes his people," and called Guaidó "a very brave man who carries with him the hopes, dreams and aspirations of all Venezuelans." The White House said Wednesday that Guaidó's meeting with Trump was an "opportunity to reaffirm the commitment of the United States to the people of Venezuela," the Associated Press reported. The two men were to discuss how the United States and Guaidó can work together to "expedite a democratic transition in Venezuela that will end the ongoing crisis." U.S. Vice President Mike Pence met with Guaidó at the Capitol before leaving on a trip to Pennsylvania, the wire service reported. Guaidó has been on a two-week international tour that has included stops in Colombia, Europe and Cana-

ADVISOR Q&A

Is the U.S. Government Creating Divisions Within Caricom?

Q Barbados and Trinidad and Tobago on Jan. 22 reportedly boycotted a meeting with U.S. Secretary of State Mike Pompeo in Jamaica on topics including Venezuela, trade and national security. It was the latest development of a growing dispute among member countries of the Caribbean Community, or Caricom, over leaders' alliances with the U.S. government. What are the reasons behind the spat, and what consequences could it have on diplomatic ties among Caribbean countries? Why did the prime ministers of Barbados and Trinidad and Tobago refuse to participate in the meeting with Pompeo, and are their decisions justified? What effects could such moves have on U.S. relations with these specific countries, and with Caricom in general?

A Ronald Sanders, ambassador of Antigua and Barbuda to the United States: "No Caricom government boycotted the Jan. 22 meeting, hosted by the government of Jamaica, with U.S. Secretary of State Mike Pompeo. All invited Caricom countries attended. Eight Caricom countries, including Barbados and Trinidad and Tobago, were not invited. The meeting's real purpose was to target six Caricom countries and the Dominican Republic to vote for Luis Almagro to be re-elected as the secretary general of the OAS. Almagro has been an ardent associate of the U.S. government in its policies toward the Maduro government in Venezuela; and in the stance it has taken on other countries, such as Nicaragua and Bolivia. But Almagro has been a divisive and controversial secretary general and, having added up the numbers, the U.S. government is aware that he does not have the 18 committed votes needed to win. Trade and national security were never on the agenda for the meeting. A few Caribbean foreign ministers raised issues such as migration, the loss of correspondent banking relations, the decline in U.S. aid and investment in the region, except for Haiti and Jamaica, and the poor terms of trade. By all accounts, Pompeo was not briefed for those discussions and made no commitments. The concerns of Barbados' prime minister, as current chair of Caricom, about 'attempts to divide Caricom' would better have been directed at Caricom countries themselves, for only they can allow Caricom to be divided. Generally, it has been the practice in Caricom that when high-level representatives of a major country visit a Caricom state, all Caricom countries are invited for a multilateral meeting. The meeting in Jamaica departed from this general practice. U.S. relations with Caricom countries, generally neglectful, is ad hoc. Nothing will change because of the Jan. 22 meeting. A coherent Caribbean policy, developed in consultation with Caribbean countries, is required. To be effective, it would have to include efforts to address the economic and global warming challenges confronting the region, now being addressed by other major players, especially China."

> "Nothing will change because of the Jan. 22 meeting."
> — Ronald Sanders

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

NEWS BRIEFS

Colombia Nears Economic Growth Target for 2019

Colombia's economy last year grew close to its long-term target for 2019, the country's central bank said on Wednesday, Reuters reported. Bank officials expect the trend to continue for the next two years, which will likely lead them to increase the benchmark interest rate. In related news, Fitch Ratings said Wednesday that Colombia's latest tax reform will likely lead to revenue losses in 2020, "underscoring the view that meeting this year's fiscal deficit target will be challenging and rely on extraordinary revenues."

New Head of Brazil's Indigenous Agency Draws Criticism

Brazilian President Jair Bolsonaro on Wednesday named a former Christian missionary, Ricardo Lopes Dias, to run its indigenous affairs agency, The New York Times reported. Anthropologists and officials within the National Indian Foundation quickly protested the appointment, saying that Dias, who previously evangelized in remote communities, could cause "irreparable damage" to isolated groups in Brazil's Amazon region. Since the late 1980s, Brazil's government has largely refrained from making contact with the dozens of tribes living in voluntary isolation there.

At Least 138 Salvadorans Killed After Deportation From U.S.: Report

At least 138 Salvadorans have been killed since 2013 after being deported from the United States, Human Rights Watch said in a report released Wednesday. The 117-page report also documents cases of more than 70 others who were beaten, sexually assaulted, extorted or tortured. The perpetrators of the attacks include gangs, former intimate partners and Salvadoran police and security personnel.

da as he seeks support for his efforts to oust Maduro. Guaidó defied a Venezuelan Supreme Court ban on his travel outside Venezuela. On Wednesday, the Trump administration vowed "very significant consequences" for Maduro if he interferes with Guaidó's return to Venezuela or harms him.

Brazil Senate Passes Bill to Prepare for Coronavirus

Brazil's senate on Wednesday passed a bill that establishes rules and measures to control the spread of deadly coronavirus in its territory, Agência Brasil reported. The legislation, which is expected to be signed by President Jair Bolsonaro, will allow for the isolation and treatment of people suspected of carrying the virus, as well as rules for closing borders and ports. An Air Force plane dispatched to China Wednesday to transport 34 Brazilians home is expected to return on Friday.

Mexican Farmers Clash With Troops Over Water Dispute

Angry local farmers pushed back against Mexican National Guard troops guarding a water dam on Wednesday, as a dispute over water payments to the United States took a new turn after President Andrés Manuel López Obrador said his country has to pay its debts, the Associated Press reported. Under a 1944 treaty, Mexico and the United States allow cross-border flows of water to each other, but Mexico has fallen behind on payments, according to the report. Officials with the local government of the border state of Chihuahua have said Mexico should give scarce water to local farmers now, saying they hope that heavy summer rains will fill dams enough to repay the United States. In response, Mexico's federal government dispatched National Guard troops to the La Boquilla dam Tuesday, but hundreds of farmers pushed them back from the facility's control room. Earlier this week, farmers took over another dam near the border town of Ojinaga. Mexico's National Water Commission said they broke open locks, which could put the downstream population in danger if they tried to open flood gates at the dam. López Obrador stepped into the conflict Wednesday, saying there was enough water both for local farmers and payments to the United States. "We do not want an international conflict," the president said. "Treaties have to be lived up to. If we have signed a treaty, we have to comply with it," López Obrador added.

ECONOMIC NEWS

Venezuelan Banks Storing Millions in Dollars, Euros: Report

At least six Venezuelan banks have begun storing millions of dollars and euros that businesses have accumulated in cash during an unexpected economic liberalization under President Nicolás Maduro, Reuters reported Tuesday, citing unnamed sources. Approximately $1.8 billion has flowed into Venezuela over the last year, according to three senior banking sources, mainly from remittances and from the country's oil and gold exports to allied nations, including Turkey and Russia. The private lenders' custodial services are new, reportedly beginning discreetly late last year. The service is only available for well-known firms with significant revenue and longstanding accounts, four finance industry senior executives told Reuters. "It is a service for traditional customers," one said. Such a move aims to circumvent U.S. sanctions that ban companies from doing business with Maduro's government. The sources asked for the banks not to be named for security reasons.

> **The dollar inflows came mostly from remittances and oil and gold exports.**

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the required infrastructure to achieve this goal independently. Within this context, the government's decision, enforced by Mexico's Energy Regulatory Agency, attempts to curb private access to Mexico's midstream and downstream markets by implementing poorly designed policies. By altering the regulatory frameworks that allowed private companies to participate in a competitive market effectively, the Mexican government is bending the rules of the game in favor of Pemex. However, these decisions wouldn't provide Pemex with additional operational, nor technical capacities, hurting competition without strengthening Pemex. Although only a couple standards have been officially overturned, Pemex has already introduced its 'Christmas gifts list' to the government, requesting multiple backdrops in the regulations that prevented it from dominating the fuels market. If more standards are reversed, the fuels market will be off balance, limiting the private sector's involvement and putting the country's fuel supply in a feeble position to handle Mexico's growing demand and other possible above-ground risks."

A **Kent Williamson, executive director of refining and marketing for Latin America at IHS Markit:** " 'Por el Rescate de la Soberanía (For the Rescue of Sovereignty)' has adorned Pemex's logo since Andrés Manuel López Obrador took office, nicely summarizing his view of the enterprise. AMLO has consistently opposed energy reform and vowed to 'rescue' Pemex, viewing it as a bulwark against 'hegemonic powers' (Mexico imports most of its fuel from the United States) and a vital tool to fulfill 'social obligations' (fuel prices are economically and politically sensitive) within Mexico. AMLO seemingly left downstream energy reform alone through most of 2019, as Mexico's fuel markets continued to rapidly evolve. By the end of the year, however, Pemex had lost around one-third of its retail stations to competing brands and seen private gasoline and diesel imports grow to

> **"The rapid loss of wholesale market share, and the prospect of more to come, was undoubteldy a key factor in recent government actions..."**
>
> **— Kent Williamson**

more than 17 percent of demand, cutting its gasoline and diesel sales by roughly $5 billion. The rapid loss of wholesale market share, and the prospect of more to come, was undoubtedly a key factor in recent government actions favoring Pemex. The firm now has increased flexibility to compete more aggressively, and perhaps unfairly, through pricing, control of logistics and the implicit backing of the government. However, Pemex is already financially vulnerable and may not be able to sustain unprofitable fuel sales for long, especially given severe challenges in other areas of its business. Pemex overreach could also potentially hasten competitor moves to diversify away from Pemex as a supplier, especially with planned new private fuel logistics infrastructure likely to reach critical mass in 2020-21."

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

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