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FEATURED Q&A

Will Brazil Remove a Quota on U.S. Ethanol Imports?

Brazil's government is reportedly considering lifting quotas on ethanol from the United States. A fuel station in Brazil is pictured above. // File Photo: Brazilian Government.

Q **Officials in Brazilian President Jair Bolsonaro's administration in recent weeks have been in talks with their U.S. counterparts on the possibility of Brazil lifting quotas on U.S. ethanol in exchange for the United States doing the same for Brazilian sugar, Folha de S.Paulo reported. Brazil currently applies a tariff-free quota of 750 million liters for U.S. ethanol with the surplus volume subject to a 20 percent levy. How likely is Brazil to eliminate the quota on U.S. ethanol imports? What would such a move mean for the South American nation's ethanol producers and the industry at large, and to what extent would it benefit Brazilian consumers? Will a potential change in the U.S. government lead to new developments on ethanol trade between the two countries?**

A **Renata Amaral, co-director of the certificate program on the WTO and U.S. trade law at American University's Washington College of Law:** "As negotiations continue toward a final decision on Aug. 31, at the moment it seems unlikely that Brazil will eliminate the quota on U.S. ethanol imports without a counterpart from the U.S. government. The government seems to be very much aligned with the Brazilian private sector's concerns, and the unilateral elimination of the quota would only serve the U.S. industry (and President Trump's re-election intentions). I would not be surprised if, in order to avoid much noise now, the current quota of 750 million liters for U.S. ethanol is maintained for another year. Brazil has a very dynamic market for its ethanol. In fact, if other countries around the world, including the United States, had blending policies similar to the Brazilian blend in their own

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TOP NEWS

OIL & GAS

Investor Group to Work With Pemex on Climate Change

Climate Action 100+, whose members manage more than $400 trillion in assets, said it was looking to set up talks with the Mexican state oil company. The group focuses on engaging with firms that produce high levels of greenhouse gas emissions in an effort to fight climate change.

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RENEWABLES

El Salvador's First Wind Project Gets First Turbine

The Central American country's first utility-scale wind power project had its first turbine installed.

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OIL & GAS

Lanziani Resigns as Argentina's Energy Secretary

Argentina's energy secretary, Sergio Lanziani, resigned last week, reportedly over differences with Minister of Production Matías Kulfas. Darío Martínez, who heads the lower chamber's energy commission, will replace him.

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Lanziani // File Photo: Argentine Government.

OIL AND GAS NEWS

Lanziani Steps Down as Argentina's Energy Secretary

Sergio Lanziani on Aug. 21 resigned as Argentina's energy secretary, reportedly over differences with Minister of Production Matías Kulfas, Infobae reported. The South American country's energy secretariat until now had been a department within the Ministry of Productive Development. Lanziani, a nuclear engineer, had been at the helm since President Alberto Fernández took office in December of last year. A legislator for the Judicialist Party who is the president of the lower chamber's energy commission, Darío Martínez, will replace him. Martínez represents Neuquén province, where Vaca Muerta, a massive shale oil and gas formation, is located. Vaca Muerta is the second-largest reserve of nonconventional gas in the world and the fourth-largest reserve of nonconventional oil, Reuters reported. Martínez has "a very good relationship with Alberto Fernández and all of the sectors that make up [ruling party] Frente de Todos," an unnamed source told Reuters. In addition to Lanziani's departure, sources told Infobae that the energy secretariat will now fall under the Economy Ministry's responsibilities. Though Martínez will have an office in the treasury palace in Buenos Aires, he will "spend a large portion of his time in the south," near Vaca Muerta, the sources added. The shakeup is intended to relaunch the government's energy policy, with the aim of maximizing hydrocarbons production as well as reframing prices of public services, Ámbito reported.

Darío Martínez, who heads the Argentine lower chamber's energy commission, will take over the energy secretariat.

Investor Group to Engage With Pemex on Climate Solutions

One of the world's leading investor groups calling for more corporate action on climate change said it has added Mexican state oil company Pemex to its list of targets, Reuters reported Aug. 21. Climate Action 100+, whose 450 members manage more than $40 trillion in assets, said it is looking to set up talks with Pemex. The group focuses on engaging with companies that produce high levels of greenhouse gas emissions in an effort to combat climate change. "Pemex has been added to the list of firms engaged through Climate Action 100+ as part of a standard periodic review process," a spokesman for the group told Reuters. The decision to include Pemex, a top issuer of emerging market bonds, follows the action group's engagement with big oil companies including Royal Dutch Shell and BP, both of which have recently announced new long-term strategies in response to climate change. Asset managers Federated Hermes and BlueBay Asset Management will lead engagement with the Mexican company, according to the report. "We expect more from Pemex," said Jaime Gornstzejn, who leads engagement with Latin American companies for Federated Hermes, Reuters reported. "It's such a crucial issue for any oil and gas company for the long-term wealth creation," he added. "That's why we expect a strong shift on climate change by senior management and the board.

Venezuela Restarts Production at Cardón Refinery

Venezuelan state oil firm PDVSA has resumed production at its Cardón refinery, the second-largest refining facility in the country, after fixing the catalytic unit, Reuters reported Sunday, citing five sources familiar with the matter. The restart of production came as the Andean nation has been facing severe fuel shortages

NEWS BRIEFS

El Salvador's First Wind Power Project Gets First Turbine Installed

El Salvador's first utility-scale wind power project, Ventus, had its first turbine installed last week, Renewables Now reported Aug. 21, citing lawmaker Francisco Merino. The legislator for the Santa Ana department posted a series of pictures on his Twitter account of a single turbine on a hill in the city of Calera. The 54-megawatt project will include 15 units of turbines. Danish turbine maker Vestas Wind Systems is supplying the turbines.

Equinor Seeking Licenses for Brazil Wind Projects

The Brazilian unit of Norwegian energy company Equinor has submitted to the Brazilian Institute of Environment and Renewable Natural Resources, or Ibama, a licensing request for two offshore wind projects amounting to four gigawatts of installed capacity, Renewables Now reported Aug. 21. The two projects, Aracatu I and II, have 2 gigawatts of capacity each. In total, they are set to generate enough electricity to power two million homes. The first of the two projects is scheduled to be complete in 2024, according to local newspaper Estadão.

Brazil Prosecutors Charge Two in Petrobras Case

Brazilian prosecutors on Friday pressed charges against two people allegedly involved in a scheme to obtain confidential market information from state oil company Petrobras to benefit Denmark's Maersk, the world's largest shipping firm, Reuters reported. The case is part of the massive Car Wash investigation. Prosecutors allege former Maersk executive Viggo Andersen inflated contract prices with Petrobras and transferred a percentage to then-Maersk commercial representative Wanderley Gandra, who would purportedly act as the scheme's financial operator.

for months. Venezuela's refining capacity, of 1.3 million barrels per day (bpd) of crude, has been paralyzed for years due to a lack of investment and maintenance, in addition to recent U.S. sanctions that have crippled PDVSA. Production at Cardón, which has the capacity to process 45,000 bpd but is currently functioning at 25,000 bpd, is expected to somewhat alleviate the shortages. Union leader Iván Freites told Reuters the refinery began operations on Aug. 20. The announcement came as the United States is reportedly moving to tighten sanctions against Venezuela in a bid to disrupt fuel supply to the Andean nation, Argus Media reported Aug. 21. Companies including Spain's Repsol, Italy's Eni and India's Reliance have been supplying diesel to Venezuela, thanks to an informal exception to U.S. oil sanctions against PDVSA, which allows debt-related and swap transactions on humanitarian grounds. The U.S. Treasury Department's Office of Foreign Assets Control is reportedly looking to lift the exception and ban such transactions to cut Venezuela's access to foreign-supplied fuel.

Guyana Relaunches Tender to Market Government's Oil

Guyana has relaunched a tender for a one-year contract to bring to market the government's share of Liza crude from the ExxonMobil-operated Stabroek block, Argus Media reported Monday. The government announced that the tender will close on Sept. 22. The South American nation's new government, led by President Irfaan Ali, recently announced it had canceled a tender the former administration had initiated to market a minimum of five one-million-barrel cargoes of crude in 2020 and 2021. The original tender was "unfair" to many firms that "acted decently and did not put in a bid because they recognized that there was an illegal government in place," Vice President Bharrat Jagdeo said. Former President David Granger's administration had initiated the process at a time when Guyana's March 2 election results were under review. "We made it clear in the campaign that companies should not be

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markets, consumers and the environment would benefit greatly. As it is known, biofuels' blending policy in the United States is suffering a great deal given that the renewable fuels standard (RFS) is under a lot of pressure. Simply put, the U.S. market cannot absorb all the ethanol it produces, it is not able to reach the 15 percent blend (E15), as many thought would be the case by now. It seems that the government is choosing the oil industry to the detriment of renewables. If we had dynamic biofuels policies around the world, trade (and consumers) would benefit greatly. The U.S.-Brazil relationship is and needs to be more than a bump in the road with the ethanol issue. Currently, both countries are negotiating four important trade-related chapters (trade facilitation, good regulatory practices, digital trade and anti-corruption) that should be finalized before the presidential election. Those are important steps toward a deeper relationship between the two countries. However, although international trade remains an important subject regardless of the next U.S. leader, the priority for the United States in 2021 is clearly going to be the economic crisis and the problems concerning the domestic agenda."

A **Suani Coelho, professor and coordinator of the Research Group on Bioenergy-GBIO at the University of São Paulo's Institute of Energy and Environment:** "Current legislation from Mercosur establishes taxes equal to 20 percent on all ethanol imported by Mercosur countries. In 2019, Brazil's federal government established a limit of 750 million liters without taxes for ethanol imported from United States (until the end of August). All remaining ethanol coming from the United States is subject to the taxes established by Mercosur. Considering this situation, Brazilian producers say the existing quota for Brazilian sugar exported to the United States (150,000 tons) is much lower than the equivalent of 750 million liters of ethanol; this would correspond to a quota equal to 1.2 million tons of sugar equivalent from Brazil. In fact, it is understandable that, for U.S. producers, the Brazilian market is an important option when its local ethanol surplus is high. However, for the Brazilian market, ethanol from United States is also important in order to guarantee local supply when local production is lower. Moreover, there is an important issue to be considered under scientific aspects related to greenhouse gas emissions. When it comes to greenhouse gases, it is well known that corn ethanol (as produced in the United States) has higher emissions, while cane ethanol has a better carbon footprint. Therefore, avoided carbon emissions when replacing gasoline are higher for sugar cane ethanol. This means that replacing cane ethanol with corn ethanol increases greenhouse gas emissions, yet the replacement of gasoline by corn ethanol still has huge environmental benefits. In this context, an interesting option would be to increase the current 10 percent blend in gasoline sold in the United States. This would have an important benefit for climate change due to the reduction of greenhouse gas emissions with the local replacement by gasoline."

> **"For the Brazilian market, ethanol from the United States is also important in order to guarantee local supply when local production is lower."**
> — Suani Coelho

A **Francisco Sanchez, partner at Holland & Knight:** "President Bolsonaro currently faces intense pressure from Washington to eliminate all tariffs on U.S. ethanol. Bolsonaro must choose between severe dam-

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submitting bids to an illegal government that was there at the time," Jagdeo added, Argus Media reported.

López Obrador Says Pemex-Odebrecht Deal Cost $683 Mn

Mexican President Andrés Manuel López Obrador said on Saturday that an "abusive" ethane supply deal between a consortium backed by Brazilian construction giant Odebrecht and Mexican state oil company Pemex likely cost taxpayers around 15 billion pesos ($683 million), Reuters reported. The president has called for the cancellation and review of the deal, which was signed between Pemex and a consortium made up of Odebrecht-controlled Braskem and Mexico's Grupo Idesa under the administration of former President Felipe Calderón, who was in office from 2006 to 2012. López Obrador said the $683 million figure was based on what he described as probable unfair subsidies and fines paid out over a failure to meet the terms of the deal. Braskem Idesa did not immediately respond to Reuters' request for comment, but the consortium last week rejected any wrongdoing, saying it had won the supply contract fairly.

POLITICAL NEWS

Former Presidents Want Vote Delayed for Leader of IDB

A group of former Latin American presidents and prime ministers have signed a letter calling to delay the planned Sept. 12 vote for the next president of the Inter-American Development Bank, Reuters reported Wednesday. A delay would be the "politically sensible" decision, said the former leaders, who include Brazil's Fernando Henrique Cardoso, Colombia's Juan Manuel Santos and Mexico's Ernesto Zedillo, Reuters reported. Spain's Felipe González was also among those who signed the letter. In June, the administration of U.S. President Donald Trump said it would nominate an American, Mauricio Claver-Carone, to head the IDB. The nomination of Claver-Carone, the current head of Western Hemisphere affairs at the U.S. National Security Council, broke an unwritten agreement since the bank was founded that it would always be headed by a Latin American. The former Latin American presidents' call to delay the vote also reflects the possibility that Trump could lose re-election on Nov. 3

ADVISOR Q&A

Will Jamaicans Keep Prime Minister Andrew Holness in Power?

Q Jamaicans are scheduled to head to the polls on Sept. 3 for the country's general election. Prime Minister Andrew Holness hopes to remain in office for a second consecutive term, fending off the opposition People's National Party. How much of a chance do Holness and his Jamaica Labor Party (JLP) have at remaining in power? What are the main factors that will decide the election? What is at stake in the race for Jamaicans, as well as for the country's economy and businesses?

A Carlene J. Edie, professor of political science at the University of Massachusetts at Amherst: "A Jamaica Labor Party (JLP) victory against the opposition People's National Party (PNP) in the Sept. 3 general election would be the first time an incumbent government won re-election since 2002. Recent polling suggests that Prime Minister Andrew Holness and the JLP could remain in power but continue the trend begun in 2007 of a narrow seat and popular vote margin of victory. In its campaigns, the JLP touts a record of economic stability and excellent management of the coronavirus pandemic, while the PNP counters that the JLP does not deserve a second term as it is corrupt, scandal-ridden, unable to curb crime and is presiding over a weak economy that continues to inflict heavy burdens on the majority classes. Despite flagrant government corruption, there is a tacit acceptance within the electorate that politicians are not to be trusted. Jamaican 'change' elections are typically decided by swing voters, disaffected by the economic conditions in the country. The upcoming election does not seem to be a high-stakes election for the Jamaican people. The reason may be that both JLP and PNP supporters believe the government is managing the coronavirus crisis well, although many of the country's businesses have closed and employees have been displaced, and the tourism-dependent Jamaican economy has been seriously affected. The population understands that the election may change the government, but it will not solve the problems of crime, corruption or of an economy dependent on North American capitalist economies that are in a coronavirus-induced recession."

> **"[A JLP] victory ... would be the first time an incumbent government won re-election since 2002."**
> — Carlene J. Edie

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

NEWS BRIEFS

Social Investment in Colombia Key to Ending Violence: Gov't Official

The presence of the armed forces alone will not stop a recent wave of mass killings in Colombia, Rafael Guarín, the presidential advisor for security, told journalists during a video event on Wednesday, highlighting that social investment is key to ending violence, Reuters reported. Separate attacks over the last two weeks in regions where drug trafficking and illegal mining are common have prompted anger and criticism from Colombians and human rights organizations, Reuters reported.

Bolsonaro Says He Rejected Guedes' Proposal for Cash Welfare Program

Brazilian President Jair Bolsonaro said on Wednesday that he had rejected a proposal by Economy Minister Paulo Guedes for a new cash welfare program, Renda Brasil, because it would imply cutting other social programs, Reuters reported. The president and his economy minister are also split over the government's plan to extend emergency pandemic payments to low-paid and informal workers until the end of the year, which Guedes wants to cut from the current 600 reais ($106) to less than 200 reais.

Brazilian Processor Halts Poultry Exports to China Amid Covid-19 Concerns

Brazil's Central Cooperativa Aurora has voluntarily halted poultry exports to China from one of its plants, the food producer said on Tuesday, the latest sign that the coronavirus outbreak in the South American nation is having an impact on meat processors, Reuters reported. The decision came after officials in the Chinese city of Shenzhen found the virus' genetic material on product packages allegedly from Aurora's Xaxim plant.

and that his candidate might find it difficult to work with a new Democratic presidential administration, Reuters reported. The former heads of state said proceeding with the vote as scheduled on Sept. 12 would cause the IDB "irreparable" damage. "It would be an arbitrary imposition that we have no doubt would have very negative consequences for the future of the institution and the future of the relationship between the United States and Latin America," the letter said. More than a dozen countries support Claver-Carone, including the conservative governments of Brazil, Colombia and Bolivia, The New York Times reported. However, critics, including Argentina, fear that putting Claver-Carone at the helm of the IDB could turn the organization into a vehicle for the Trump administration's policy in Latin America. The governments of Argentina and Costa Rica have said they plan to name their own candidates to lead the institution, Reuters reported. Claver-Carone is still the only official candidate ahead of a Sept. 10 deadline for nominations—two days before the planned vote. [Editor's note: See related **Q&A** in the June 25 issue of the daily Latin America Advisor.]

ECONOMIC NEWS

Mexico's Economy Contracts 18.7% in Second Quarter

Mexico's economy contracted 18.7 percent in the second quarter as compared to the same period a year earlier, according to revised data released Wednesday by state statistics agency Inegi, Reuters reported. Compared to the first three months of the year, the country's GDP dropped 17.1 percent in the second quarter. It was Mexico's worst quarterly performance on record, El Financiero reported. The dire figures had been expected, as Mexico halted much of its economic activity and urged citizens to stay home in an effort to curb the spread of the novel coronavirus. Certain sectors gradually began to open in June. Secondary activities, including manufacturing, construction and the energy sector, were particularly hard hit by the lockdowns, plunging 25.7 percent in the second quarter. Services fell 16.2 percent. Primary activities, such as agriculture and forestry, only contracted slightly, by 0.2 percent. The quarterly contraction was much worse than the poorest-performing quarter of the financial crisis in the April-June period of 2009, when Mexico's GDP fell 7.7 percent, El Financiero reported. It also marked the fifth consecutive quarterly contraction at annual rates. Under the current government of President Andrés Manuel López Obrador, the economy grew only during the first quarter of 2019, by 0.07 percent year-on-year. Mexico's central bank on Wednesday said the country's economy could contract by as much as 12.8 percent this year if the worst-case scenarios materialize, Reuters reported.

Argentina May Not Need New Currency Controls: Bank Chief

Argentina's debt restructuring deal with foreign bondholders should limit the need for further currency controls and help narrow the gap between the official exchange rate and the black-market peso, the central bank president, Miguel Ángel Pesce, said on Tuesday, Ámbito reported. In a virtual meeting with Argentine businessmen, Pesce said the peso's current exchange rate is considered "competitive." Argentina's peso, which has been propped up by currency controls since last year, opened 0.11 percent weaker at 73.81 to the U.S. dollar after Pesce's comments, Reuters reported. Meanwhile, the black-market peso traded at 137 per dollar, with the gap between the two rates reaching 85.81 percent. Earlier this month, Argentina reached a preliminary deal with creditors for the restructuring of some $65 billion in foreign debt. Bondholders have until Friday to formally accept the offer, although major creditor groups have already backed the proposal. Former President Mauricio Macri's administration last September began implementing currency controls in a bid to quell speculation and stem the impact of a debt crisis. President Alberto Fernández, who took office in December, has kept those controls as the economy continues to face a dire outlook.

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age to Brazil's ethanol sector or potential retaliation by a Trump administration that views the ethanol industry as important to its support in Iowa. Despite being the 'Trump of the Tropics,' it is unlikely that Bolsonaro will cave to pressure because of the strain that Covid-19 has placed on Brazil's ethanol sector. A year ago, Brazil bowed to pressure from Washington and increased the cap on ethanol to 750 million liters per year. Brazil saw this as a pathway to the United States easing tariffs on Brazilian sugar. However, Covid-19 greatly decreased Brazil's flexibility on ethanol tariffs. The steep decline in energy prices hit an already struggling Brazilian industry hard. In April, ethanol suffered a 50 percent drop in revenue. Since the United States still refuses to concede on sugar, likely due to the influence of the U.S. industry, a flood of cheap ethanol from the United States could cause bankruptcies across the sector. Bolsonaro's best option may be to play for time. Joe Biden is not postured to make ethanol a core issue. Ethanol is mentioned as key to Biden's Plan for Rural America, but it is not mentioned in his $2 trillion energy plan. The outcome of the U.S. election could offer Bolsonaro the opportunity to negotiate with a new administration. Buying time may avoid retaliation from Washington. And in the meantime, currently low fuel prices could provide some cushion against blowback from Brazilian consumers, who could benefit from imported ethanol."

A **Bruno Lima, head of sugar and ethanol at StoneX Inc.:** "The main issue right now is that eliminating ethanol taxes on a volume above the 750 million liters would force the United States to significantly increase sugar imports from Brazil's northeast region for the two measures to equate financially. The impact of a free market for U.S. ethanol to be imported by Brazil could threaten the domestic industry if prices drop further in the United States, or if they rally even more in the domestic market, since it would allow imports in a scenario in which Brazil's center-south region would face a 15 percent reduction on ethanol production due to more cane being diverted toward sugar. Right now, though, ethanol prices in both markets are so high that any import window to Brazil from United States is closed. This could possibly lead to a limited-time, tax-free ethanol trade between the two countries (maybe for another 12 month). However, in a broader timeline, opening a free path for U.S. ethanol into the Brazilian market could limit price potential for Brazilian producers. At the same time, it would benefit final consumers, given that gasoline prices have entirely recovered to pre-Covid levels. It is hard to tell if a U.S. presidential change could have an impact on ethanol trade since I understand a counterparty in another trade area is needed to allow tax-free imports. Sugar would be a possibility, but less probable, as this would affect the entire quota system."

> **"In a broader timeline, opening a free path for U.S. ethanol into the Brazilian market could limit price potential for Brazilian producers."**
> — Bruno Lima

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

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