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FEATURED Q&A

Will Argentina's New Economy Minister Shift Energy Policy?



President Alberto Fernández (left) this month named Silvana Batakis (right) as Argentina's new economy minister, following the unexpected resignation of former Minister Martín Guzmán. // Photo: Argentine Government.

Q With Argentine Economy Minister Martín Guzmán's July 2 resignation and the appointment of Silvana Batakis as his replacement, analysts are questioning the future of Argentina's \$44 billion debt restructuring deal with the International Monetary Fund, particularly as it relates to energy subsidies for consumers. While Guzmán wanted the government to reduce subsidies on electricity and gas bills at a slower pace than anticipated due to Russia's invasion of Ukraine, Batakis has said those subsidies should be reduced "rapidly." What will the change at Argentina's finance ministry mean for the subsidies, and why is cutting them such an important part of Argentina's deal with the IMF? What will having Batakis at the helm of the finance ministry mean for other parts of Argentina's energy sector, such as the oil industry? What is the outlook for investment in the country's energy sector, and how are factors such as inflation and the country's exchange rate affecting investment?

A Claudio Loser, president and CEO of Centennial Group Latin America and former head of the Western Hemisphere department at the International Monetary Fund: "Minister Silvana Batakis still constitutes an economic unknown. However, her recent statements have brought some calm to the markets. The exit of Minister Guzmán was a traumatic event, worsening expectations about the government's ability to pursue its program with the IMF. The new minister said she will continue to observe the agreed program, and her communications with the IMF managing director were positive. Batakis

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TOP NEWS

OIL & GAS

Russian Tanker Discharging Oil at Cuban Terminal

A Russian oil tanker with approximately 700,000 barrels of fuel oil on Monday began to discharge its cargo at Cuba's Matanzas terminal.

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OIL & GAS

Brazil's Petrobras to Cut Gas Prices Today by 5 Percent

Brazilian state-run oil company Petrobras lowered gasoline prices by 5 percent on Wednesday. The oil company has been under pressure to lower fuel prices ahead of the October presidential election.

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POWER SECTOR

U.S. Seeks Dispute Consultation With Mexico Over Energy

The United States is seeking dispute settlement consultations with Mexico through the USMCA trade accord over Mexico's energy policies.

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Tai // File Photo: @AmbassadorTai via Twitter.

POWER SECTOR NEWS

U.S. Seeks Dispute Consultation With Mexico Over Energy

The U.S. government on Wednesday requested dispute settlement consultations with Mexico over the neighboring country's energy policies, saying they put U.S. firms at a disadvantage and favor Mexico's state-owned power utility, Comisión Federal de Electricidad, or CFE, Reuters reported. The U.S. Trade Representative's Office announced the move to request the consultations under the U.S.-Mexico-Canada Agreement, or USMCA. The request is the most serious dispute between the two countries since the trade agreement took effect two

“We have repeatedly expressed serious concerns about a series of changes in Mexico's energy policies...”

— Katherine Tai

years ago, and it could lead the United States to impose punitive tariffs if the issue goes unresolved, Reuters reported. “We have repeatedly expressed serious concerns about a series of changes in Mexico's energy policies and their consistency with Mexico's commitments under the USMCA,” U.S. Trade Representative Katherine Tai said in a statement. If the United States wins a panel case and Mexico refuses to change its energy industry measures, the United States could design retaliatory tariffs that would maximize political and economic pressure on the neighboring country, said Kenneth Smith Ramos, who was Mexico's chief USMCA technical negotiator when the agreement was signed in 2018, Bloomberg News reported. Within hours of the U.S. announcement, Canada's government said it would also seek dispute settlement consultations with Mexico over its energy policy.

OIL & GAS NEWS

Brazil's Petrobras Cuts Gas Prices by 5% Under Pressure

Brazil's Petrobras on Wednesday reduced gasoline prices by approximately 5 percent, its first price cut this year, a move that the state oil company announced on Tuesday, Reuters reported. Petrobras said prices would drop to 3.86 reais (\$0.714) per liter, a 0.20 real decrease from the previous 4.06 reais. “This reduction follows international benchmark prices, which have stabilized at a lower level for gasoline, and is in line with Petrobras' pricing policies,” Petrobras said Tuesday. Federal lawmakers and President Jair Bolsonaro, who is trailing former President Luiz Inácio Lula da Silva in polls ahead of the October presidential election, have been pressuring Petrobras' leadership to lower gas prices in recent months. In a little over a year, Bolsonaro has fired three chief executives of Petrobras. Bolsonaro tapped Caio Mario Paes de Andrade as the company's chief executive officer in May, and Petrobras' board voted him into the position last month, Reuters reported. Vinícius Teixeira and Victor Freitas, two energy consultants at BMJ Consultores Associados, told the Energy Advisor in a June 3 Q&A that Bolsonaro has been trying to balance two competing objectives. “On the one hand, he wants to signal to the population that he's acting to reduce fuel prices. On the other hand, he wants to show the market that he will not interfere in Petrobras,” Teixeira and Freitas said.

São Paulo, Minas Gerais States Cut Local Ethanol Taxes

The governments of the Brazilian states of São Paulo and Minas Gerais on Monday cut local taxes on ethanol in an effort to make the biofuel more competitive at the pump, Reuters reported. Minas Gerais cut the ICMS tax, which

NEWS BRIEFS

Corinthien to Replace Leveque as CEO of Engie Energía Chile

Engie Energía Chile, the Chilean unit of French-owned power company Engie, on Monday announced the resignation of its chief executive, Axel Leveque, Reuters reported. Leveque, whose resignation will be effective Sept. 30, has been the CEO of the unit since 2014. Rosaline Corinthien, who has been the CEO of Engie France Renewables since 2019, will replace Leveque when he leaves the company, Engie said in a statement.

Cuba's Power Blackouts Likely to Continue Into Next Year: Gov't Minister

The Cuban government said late Monday that electricity blackouts in the country are likely to continue indefinitely, Reuters reported. “The operating reserves that we have in the electrical system are insufficient to cover the demand, making effects on service inevitable,” Liván Arronte Cruz, the country's energy and mining minister, said during televised remarks. The power outages are likely to go on during the coming summer months and into next year.

Protesters Block Roads in Panama After Rejecting Deal With Government

Protesters in Panama this week blocked roads with burning tires in Panama City after rejecting a deal signed Sunday with President Laurentino Cortizo's government, Agence France-Presse reported. Cortizo's administration agreed to cut the price of gasoline to \$3.25 per gallon and continue discussions on reducing the costs of food and medicine, but several unions called the agreement inadequate and said that it excluded many groups. Protesters have been taking to the streets for three weeks over high fuel prices and increasing living costs in Panama.

is similar to a value-added tax, by seven percentage points to 9 percent, and São Paulo cut the tax from 13.3 percent to 9.57 percent. The Brazilian state of Paraná decreased its ICMS tax by six percentage points to 12 percent. The

São Paulo, Minas Gerais, Paraná and Goiás are Brazil's largest ethanol markets.

state of Goiás on Friday cut its tax on hydrous ethanol from 17 percent to 14 percent. The states are Brazil's four largest markets for ethanol. "In addition to easing the pockets of miners, the tax reduction will maintain the competitiveness of biofuel, an important generator of jobs in our state," Romeu Zema, the governor of Minas Gerais, said in a tweet. The ICMS cut for São Paulo is set to reduce ethanol prices by about 0.17 reais (\$0.0314) per liter, said São Paulo Governor Rodrigo Garcia, Reuters reported.

Russian Tanker Discharging Oil at Cuban Terminal

A Russian oil tanker with approximately 700,000 barrels of fuel oil began on Monday to discharge its cargo at Cuba's Matanzas terminal, Reuters reported, citing Refinitiv Eikon data. Cuba has in recent months increased fuel imports in an effort to complement its own output, as well as imports from Venezuela.

RENEWABLES NEWS

Brazil's Congress Revives Biofuels Tax Advantage

Brazil's Congress on July 13 approved legislation that reinstates a tax advantage

FEATURED Q&A / Continued from page 1

has indicated support for fiscal and monetary discipline, though she has defended the erroneous notion that the exchange rate system is in good shape. The new minister has indicated that she will act aggressively in reducing the subsidies on energy consumption—a major source of dispute between the president and Cristina Fernández de Kirchner—and has announced a freeze on public sector hiring. These statements go in the right direction, but the issue is whether she will be able to implement these policies, given existing political constraints. However, Batakis' job is being eased by the collapse in world energy prices, which reduces the required level of subsidies. Another source of potential economic and budgetary relief are the enormous nonconventional gas and petroleum reserves in the Argentine south. There are no technical extraction problems, but government actions have delayed the completion of the relevant pipelines. Finally, about one-third of Argentina's debt with the IMF has already been restructured within the program, thus improving the country's financial position. Still, the minister faces an uphill battle, both with the members of the governing coalition and the market's perceptions."

A Gerardo Rabinovich, vice president of the "General Mosconi" Argentine Institute of Energy: "The change of the economy minister has been a traumatic event in the political life of Argentina, due to the manner and contexts that have characterized this

event. Minister Guzmán has been the main negotiator of the debt and of the agreements signed with the IMF, in which the commitment to reduce energy subsidies is highlighted, as well as to approximate the rates to the economic costs of electricity and natural gas production. His replacement, Silvina Batakis, has promised to continue the policies that her predecessor initiated, particularly to advance in the modification of electricity and gas rates. However, her political weakness is evident as she has not received the support of Vice President Cristina Kirchner, who represents the real power in the government coalition and who has so far opposed changing the rate policy. To put the magnitude of the challenge into perspective: this year imports of natural gas and oil products from Argentina could exceed \$11 billion, the deficit in the energy trade balance is estimated to be around \$6 billion and energy subsidies are at 2.8 percent of GDP, more than double the commitment assumed in the agreement with the IMF. Residential electricity users pay an average of 41 percent of the production cost, while in the case of natural gas this coverage is 29 percent of the supply cost. The change of ministers will not resolve this problem without a strong political will that the ruling coalition does not demonstrate; therefore, the risks of noncompliance with the IMF are high. In this context, the prospects for investment in the country's energy sector today are not very encouraging, and in the immediate future if there are no changes in the power scheme, they will worsen."

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for biofuels as compared to fossil fuels for a period of 20 years, Reuters reported. Under the law, states and the Brazilian government are to go back to preferential biofuel taxation levels as they were prior to May 15, when a different law had modified the process for fuel taxation in the country. Citi analysts said on Thursday that the measure will likely benefit companies that produce ethanol in the long term, the wire service reported. "From our perspective,

this measure is very positive for agribusiness companies, as it will maintain competitiveness of biofuels in the long term," Gabriel Barra and Joaquim Alves Atie, analysts from Citi, said in a research note. "With a constitutional guarantee that renewable fuels will pay lower taxes relative to fossil fuels (recognizing fossil fuels' negative externalities), ethanol and other biofuels could enjoy a much stronger outlook ahead," investment bank BTG Pactual said in a

report. In related news, Brazil is seeking to buy as much diesel as possible from Russia, both for the country's agribusiness and for Brazilian drivers, said Foreign Minister Carlos França, Reuters reported.

POLITICAL NEWS

El Salvador Extends State of Emergency for Fourth Time

El Salvador's Legislative Assembly, which is controlled by President Nayib Bukele's party, for a fourth time extended the state of emergency that Bukele first declared in March to fight gangs, BBC News reported Wednesday. Lawmakers approved the month-long extension, which allows the state of emergency to



Bukele // File Photo: @PresidenciaSV via Twitter.

remain in force until late August, in a vote of 67-15. Under the emergency conditions, some constitutional rights are suspended, and security forces have more latitude in making arrests. Sentences for gang involvement have also been toughened, BBC News reported. Since Bukele first sought the state of emergency in late March, authorities have arrested some 46,000 people. Human rights groups have said the measures have led to arbitrary detentions, but Salvadoran officials say they are making the country safer, BBC News reported. "Hundreds of people have sought information about detained loved ones, with little luck, and Bukele announced that 'terrorist' prisoners will be under lockdown with rationed food and water, which is considered torture under national and international law," Leonor Arteaga, program director at the Due Process of Law Foundation,

IN PROFILE

Luis Gilberto Murillo, First Afro-Colombian Official to Be Ambassador to the United States

Name:

Luis Gilberto Murillo

In the News:

Luis Gilberto Murillo was tapped by President-elect Gustavo Petro as the incoming ambassador of Colombia to the United States on July 12. With the appointment, Murillo would become the first Afro-Colombian official to step into the role as the country's primary envoy to Washington. Murillo was former presidential candidate Sergio Fajardo's running mate during the most recent presidential election in the Andean country. He has U.S. citizenship, which he will have to renounce following his official swearing in after Petro's inauguration on Aug. 7.

Background:

Murillo, 55, was born in the largely Afro-Colombian province of Chocó, on Colombia's Pacific coast, one of the country's poorest regions. He studied engineering in the Soviet Union at the State Geological Prospecting University in Moscow. In 2000, Murillo was kidnapped in Colombia by a right-wing paramilitary group. After being released hours later, he and his family fled to Washington. There, Murillo worked at several international development organizations, including the World Bank.

In 2016, Murillo was named Colombia's minister of environment and sustainable development during the administration of former President Juan Manuel Santos, for whom he also served as the manager of the Pacific Plan Program. Murillo served twice as the governor of his home province of Chocó, and he worked as the director of the province's regional environmental authority, Codechocó.

Of Note:

Murillo thanked Petro for his appointment in a Twitter posting. "It is a great responsibility to lead bilateral relations with the U.S.," he said. "We will work to strengthen the paths of peace and carry out coordinated work to bring greater prosperity to our two nations," he added.

Sources: Associated Press, Inter-American Dialogue



Murillo // File Photo: Inter-American Dialogue.

told the Latin America Advisor in a [Q&A](#) published April 12. Amnesty International has said the emergency measures have "undermined the rights to defense, the presumption of innocence, effective judicial remedy and access to an independent judge," BBC News reported. Additionally, El Salvador-based human rights group Cristosal has said it has documented

the cases of 63 people whom it says died during detention. However, Bukele's allies have praised the emergency measures. El Salvador has "ceased to be the most dangerous country in the world," said lawmaker Caleb Navarro, a member of Bukele's Nuevas Ideas party, the news service reported. The Central American country's defense minister, René Merino

NEWS BRIEFS

Gomes Enters Race for Brazil's Presidency

Leftist Brazilian politician Ciro Gomes on Wednesday officially entered the race for Brazil's presidency, the Associated Press reported. About 8 percent of respondents in a June Datafolha poll said they would vote for Gomes. Former President Luiz Inácio Lula da Silva received support from 47 percent of respondents in the poll, while current President Jair Bolsonaro had the support of 28 percent. The vote is to be held Oct. 2.

Peru's Congress OKs Re-establishing Bicameral Legislature

Peru's Congress on July 15 voted to approve a reform to restore the country's bicameral legislature, which was merged into a unicameral legislature in the 1990s, Reuters reported. However, the lack of a supermajority in favor of the proposal means that there will need to be a referendum on the issue. Peru's Congress has been a unicameral body since former President Alberto Fujimori's administration, when he used the military to shut down the legislature and reform it. Peruvians rejected a similar referendum in 2018, the wire service reported.

CAF Approves \$1.65 Billion in Financing for Five Latin American Countries

The CAF-Development Bank of Latin America on Tuesday announced that it approved \$1.65 billion in financing for Argentina, Brazil, Paraguay, Peru and Trinidad and Tobago, Reuters reported. There will be seven rounds of funding, which will be used in "strategic sectors." The sectors include social development, energy, water and health, CAF said in a statement. On Monday, Honduras became a full member of the 18-member-state development bank, the Central American country's foreign ministry said, the wire service reported.

Monroy, dismissed criticism from international groups. "We don't need advice from anyone to confront crime, neither from here nor from outside the country," Merino Monroy said. "What we are doing has yielded enormous results," he added, BBC News reported.

U.S. Lawmakers Call on Biden to Extend TPS for Nicaraguans

In a letter to U.S. President Joe Biden's administration, a bipartisan group of members of Congress from Florida on July 15 requested that the government "redesignate and extend" Temporary Protected Status, or TPS, to eligible Nicaraguans already in the United States, the



Ortega // File Photo: Galería Ricardo Patiño via Creative Commons.

Miami Herald reported. TPS is a humanitarian protection status that shields migrants in the United States from being deported. The letter cited political violence from Nicaraguan President Daniel Ortega's administration that could cause a "great risk to [Nicaraguans'] safety should they return to Nicaragua at this time," the newspaper reported. The United States first granted TPS to Nicaraguans in 1998 following Hurricane Mitch, which caused widespread devastation in Central America and killed more than 10,000 people. Former President Donald Trump moved to end the designation in 2017, but Nicaraguan beneficiaries of TPS sued to maintain it, the Miami Herald reported. Currently, a preliminary injunction remains in effect, allowing eligible Nicaraguans to maintain the status. However, the U.S. Department of Homeland Security has said it may "terminate the validity of relevant TPS-related documentation" if a final "non-appealable" court order were to take effect.

ECONOMIC NEWS

New Colombian Gov't May Cut Corporate Tax Rate: Ocampo

José Antonio Ocampo, who is set to become Colombia's finance minister when Gustavo Petro is sworn into office next month as the country's president, said that the new administration will not raise taxes on companies, but that if conditions allow it could cut the corporate tax rate by up to five percentage points, the Financial Times reported Friday. "There are too many taxes on companies and not on individuals, and tackling the issue of personal income tax is essential if we want to make the system more progressive," he told the newspaper in an interview. Petro's incoming government is seeking to push a new tax reform plan by the end of this year, which will focus on the extraction of more taxes from wealthy individuals instead of businesses. The Petro administration will veer away from radical changes in Colombian monetary policy and remain fiscally responsible, Ocampo told the Associated Press. "We want a Western European kind of capitalism," he said. "Not a capitalist system in which the distribution of wealth is among the most uneven in the world," he added. The incoming government will not immediately prioritize its planned pension reform, Ocampo said, the Financial Times reported.

Argentina's Economy Registers Unexpected Growth in May

Argentina's economy grew 0.3 percent in May as compared to April, an unexpected expansion following a Bloomberg News survey in which economists anticipated a 0.5 percent decline in economic activity, the news service reported, citing government data published Wednesday. The Argentine economy grew 7.4 percent compared to the same period last year. Argentina's central bank expects that the country will go into a brief recession later this year.

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A **Megan Cook, independent Latin America risk analyst:** “Guzmán’s resignation came as Argentina’s 2022 annual inflation projections pushed 80 percent and as he increasingly lost political support within the governing coalition. The reduction of energy subsidies has been a recurrent point of tension due to concerns among some parts of the governing coalition about their political impact, especially in a context of high inflation. Nevertheless, reducing energy subsidies is key for meeting fiscal deficit reduction targets agreed with the IMF—in 2021, government subsidies were equivalent to 2.4 percent of GDP. In general terms, Batakis has ratified the path established by her predecessor. This includes a commitment to the IMF agreement’s targets, and the ministerial change brings new impetus for the implementation of a segmentation scheme established in June under Guzmán, which is now being rolled out after facing implementation delays. Under this scheme, residential electricity and gas users will be divided into three groups according to income or assets, which will determine whether they are eligible for a subsidy and its amount. The highest income group will cease to be eligible for subsidies as the scheme is fully implemented in the coming months. In terms of energy policy more generally, Batakis has given few specifics, except for stating her support for green hydrogen, lithium and the development of Vaca Muerta. Energy Sec-

retary Darío Martínez, who continues in his role but now reports to Batakis, has made clear that the government will continue with efforts to advance the Néstor Kirchner gas pipeline to Vaca Muerta, expand Plan Gas incentives and promote investment in the sector. Nevertheless, while Argentina’s energy sector continues to offer attractive opportunities, foreign investment remains constrained by the country’s macroeconomic situation, particularly foreign exchange controls, despite some recent limited efforts to create special frameworks to facilitate access to foreign currency for investors and hydrocarbons producers.”

A **Tomás Lanardonne, partner and manager of the Neuquén office of Martínez de Hoz & Rueda in Argentina:** “In the short term, Batakis will likely implement a gradual cut to energy subsidies. I also believe that Batakis and the Energy Secretariat, which reports to her, will incentivize the construction of crude oil pipelines and oil storage facilities through the extension of current transportation concessions. That will trigger massive investments in both the midstream and the upstream sectors, which will be able to export larger volumes of crude oil through the Atlantic and Pacific oceans.”

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

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