LATIN AMERICA ADVISOR

# ENERGY ADVISOR

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**FEATURED Q&A**

## Will Brazil's New Biofuels Policy Yield Better Outcomes?

BP has invested more than $600 million over the past three years to improve productivity in its three ethanol plants in Brazil, using mechanical harvesting as opposed to hand labor, as is still generally practiced in the smaller markets of Central America. // File Photo: BP.

**Q** **In December, Brazil's Congress approved the RenovaBio program, which requires fuel distributors to gradually increase the amount of biofuels traded each year. In late January, a Brazilian official said the government is expected to publish a draft governance model for the program. As global oil prices rise, what will be the effect on Brazil's biofuel sector? Is the industry competitive in the global market? What effect will the program have on Brazil's energy sector as a whole?**

**A** **Mark Langevin, professor and director of the Brazil Initiative at the Elliott School of International Affairs at The George Washington University:** "RenovaBio may achieve Brazil's voluntary Paris Agreement commitment, but the politics behind this new biofuel policy were planted by the stagnation of the country's much-heralded ethanol industry and mounting U.S. imports. The new fuel policy will establish a life-cycle carbon intensity index and a special certified emission certificate to be called the CBio. The certificates will be earned by producers and purchased by distributors to 'balance' the aggregate carbon emissions of their fuel sales. A secondary market may also operate through the B3 market. Prices of the CBio certificates will fluctuate with supply and demand, but will be defined each year by the National Energy Policy Council (CNPE). The policy is more complicated than imposing a carbon tax, but promises to invite greater investment in production as well as research aimed at lowering the carbon intensity of ethanol, biodiesel, biogas and bio-kerosene for aviation. For example, domestic biodiesel production capacity outpaces current demand as reg-

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**TOP NEWS**

OIL & GAS

### Mexico's AMLO Would Halt Oil Block Auctions

Congresswoman Rocío Nahle, Andrés Manuel López Obrador's choice to become energy minister if he wins Mexico's presidential election in July, told reporters that some "successful" results need to be seen from the first exploration and production blocks tendered in 2015 in order to continue with new auctions.

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POWER SECTOR

### Grupo Piasa Opens $61 Million Biomass Plant

The plant in Mexico's Oaxaca State can generate 50 MW of power and reduce $CO_2$ emissions that would be equivalent to what 8,000 automobiles produce annually.

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OIL & GAS

### Bolivia Signs Oil, Gas Deal Worth $2.5 Billion

Bolivian President Evo Morales touted the deal as a signal of international investor confidence in the Andean nation.

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Morales // File Photo: Agência Brasil.

OIL & GAS SECTOR NEWS

# Mexico's AMLO Would Halt Oil Block Auctions: Advisor

Andrés Manuel López Obrador, the front-runner ahead of Mexico's July presidential election, would temporarily freeze the auction of oil blocks in order to reassess the historic liberalization of Mexico's energy sector that began in 2015, The Wall Street Journal reported Feb. 23, citing a campaign advisor. In an interview, Congresswoman Rocío Nahle, the candidate's choice to become energy minister in a future cabinet, told the newspaper that some "successful" results need to be seen from the first exploration and production blocks tendered in 2015 in order to continue with new auctions, according to the report. Nahle added that the contracts already awarded would be reviewed but not canceled, unless some irregularity is found. "Investors can be calm, we'll respect the law," she said. In perhaps the most significant change envisioned by López Obrador, Mexico would seek to end decades of exporting crude in three years, Nahle told Reuters last week. Instead, Mexico would turn its focus to value-added fuels, processing crude domestically to produce more gasoline and diesel at refineries owned by state oil company Pemex, she said. "In a three-year period, at the latest, we need to try to consume our own fuels and not depend on foreign gasoline," said Nahle. Mexico's annual crude oil and gas output last year fell below two million barrels per day for the first time since comparable yearly records were kept starting in 1990. Pemex reported average daily output for 2017 was about 52,000 barrels short of the two million mark. In related news, Pemex on Monday said it lost a hefty 352 billion pesos ($17.9 billion) in the fourth quarter of 2017, Reuters reported. The company blamed a volatile exchange rate and higher financing costs. Revenue fell to $20 billion. While Pemex had a significant production boost in January, up 3 percent as compared with December, its production fell 4.5 percent last month on a year-on-year basis, Platts reported Monday.

**Nahle** // File Photo: @rocionahle via Twitter.

# Bolivia Signs Memo for $2.5 Billion in Oil, Gas Investment

Bolivian state-run oil company YPFB on Monday signed a preliminary agreement with Dubai's Kampac Oil and London-based investment office Milner Capital that could bring in $2.5 billion for oil and gas exploration and production, Reuters reported. Bolivian President Evo Morales touted the deal as a signal of international investor confidence in the Andean nation. "These agreements ... show that Bolivian norms give legal security to foreign companies," Morales said in a post on Twitter announcing the deal. Under the terms of the memorandum, the two foreign companies would invest $2.5 billion in the Madre de Dios basin in northern Bolivia, which has the potential to produce four billion barrels of oil and 12 trillion cubic feet of gas. Kampac would invest $500 million, and Milner would invest $2 billion, according to Reuters. Soon after taking office in 2006, Morales took a firm hand in renegotiating contracts with the hydrocarbons sector, an unpopular move at the time with businesses and an industry that was facing nationalizations elsewhere in Latin America as

**President Evo Morales touted the deal as a signal of international investor confidence.**

NEWS BRIEFS

## Trump Administration Considers New Sanctions Against Venezuelan Gov't

The administration of U.S. President Donald Trump is considering new sanctions in order to increase pressure on Venezuelan President Nicolás Maduro, Reuters reported Wednesday. The administration may slap sanctions on an oil services company run by Venezuela's military, an unnamed U.S. official told the wire service. It also may restrict insurance coverage for the South American country's oil shipments, the official said.

## Grupo Piasa Inaugurates $61 Million Biomass Power Plant in Oaxaca

Grupo Piasa, a sugar company led by Mexico-based Coca-Cola bottler Arca Continental, on Wednesday inaugurated a $61 million electric power generation plant in Oaxaca State using biomass. The plant is capable of generating 50 MW of power and reduces $CO_2$ emissions that would be equivalent to what 8,000 automobiles produce annually, the company said. Surplus power will be delivered to Mexico's Federal Electricity Commission.

## Latin America Leads World in Cities Powered Fully by Clean Energy Sources

Of the 43 cities worldwide that are currently entirely powered by clean energy, the vast majority, 30, are located in Latin America, a study released by research group CDP found, The Guardian reported Tuesday. The widespread use of hydropower helps the region in such rankings. It lags other parts of the world in terms of new investment in renewables, however. Latin American cities reported having instigated $183 million in renewable energy projects during the first half of last year, far less than Europe, at $1.7 billion, and behind Africa, at $236 million.

 

prices for oil soared. More than a decade later, the move has in large part been considered a moderate and relatively successful approach, however. The increase in taxes and royalties allowed the government to increase its income and finance important infrastructure projects, and Bolivia's economy has grown faster than most of its South American neighbors in recent years. YPFB last year announced a $30 billion investment plan. [Editor's note: See related **Q&A** in the Aug. 18 edition of the Energy Advisor.]

# Advisor Video

## Brazil's Election and Latin America's Volatile Politics

An Inter-American Dialogue and Americas Quarterly discussion with Brian Winter, Monica de Bolle and Roberto Simon.

View a webcast of the Feb. 27 discussion

PLAY

## Brazil's Alckmin Would Privatize Petrobras

Brazilian presidential hopeful Geraldo Alckmin of the centrist Brazilian Social Democracy Party, or PSDB, said Monday that he would favor privatizing state oil company Petrobras if he is elected, Globo reported. "It is necessary

**Alckmin** // File Photo: Alexandre Carvalho.

to discuss the model" of the business, he told a local radio program. The current governor of São Paulo State, Alckmin has been polling in the single digits. In 2006, when he ran unsuccessfully for president, Alckmin fought off accusations he would privatize state-owned Banco do Brasil, saying he favored state control of Petrobras and other companies. However, the issue of privatizing Petrobras, Brazil's biggest company and a source of national pride for many Brazilians, could become a significant campaign issue considering the multiple candidates from nontraditional parties and backgrounds running in the election, Reuters reported. The leftist candidates all oppose Petrobras' privatization. It is unclear where the far-right and more popular candidate in the race, Jair Bolsonaro, stands on relinquishing state control of Petrobras. Brazil is struggling with growing public debt and few ways to address its fiscal problems, after plans to reduce the country's generous pension benefits were scuttled earlier this month.

## Ecopetrol Posts Highest Profit in Four Years

Colombian state oil company Ecopetrol said Tuesday that its 2017 net profit totaled 6.6 trillion pesos ($2.3 billion), the highest of the past four years. Profit was 16 percent higher as compared to 2014, despite a 45 percent decrease in the Brent price of oil, the company said. Proven hydrocarbon reserves totaled 1.66 billion barrels-equivalent of oil at the end of 2017, with average reserve life increasing to 7.1 years. The reserve replacement index was 126 percent, the highest of the past three years. "We are successfully experiencing Ecopetrol's 'profitable growth'," company chief executive Felipe Bayon Pardo said in a statement. "For the year as a whole, cash break-even was at $40 per barrel," he added. Bayon said the company would prepay debt totaling $2.4 billion. Ecopetrol invested $2.2 billion in 2017, with 80 of that allocated to exploration and production. Moody's said last week it will maintain its investment-grade rating on Ecopetrol, despite changing its ratings on the sovereign debt of Colombia to negative from stable recently.

## Exxon Mobil Strikes Oil for Seventh Time Offshore Guyana

Texas-based oil producer Exxon Mobil on Wednesday announced its seventh oil discovery offshore Guyana. Drilling on the Pacora-1 exploration well, which lies under 2,000 meters of water in the Stabroek block, started on Jan. 29. New York-based Hess and China's CNOOC Nexen Petroleum Guyana share stakes in the Stabroek block with Exxon Mobil, which said the new find will help bring Guyana production to more than 500,000 barrels per day. ExxonMobil said in January it expects to begin producing oil off Guyana's coast in 2020. Guyana has been working to modernize its legal and regulatory environment after recent discoveries of large oil and gas deposits that could dramatically alter its economy. It remains to be seen, however, if Guyana can avoid the "oil curse" phenomenon that has plagued neighboring Venezuela. A century-old border dispute between Guyana and Venezuela was sent to the International Court of Justice in January, after a year of talks failed to make progress.

POLITICAL NEWS

# Falcón to Run Against Maduro, Defying Opposition

Henri Falcón, a former governor of Venezuela's Lara State, on Tuesday defied his own opposition coalition by announcing he would run against President Nicolás Maduro in the country's presidential election, planned for April, El Universal reported. The Democratic Unity Roundtable, or MUD, opposition alliance previously announced it would boycott the election, saying it would be rigged. In a statement Tuesday, it blasted Falcón's decision to enter the race. "We can not validate a fraudulent electoral system," the opposition alliance said in a tweet. In announcing his candidacy, Falcón called Maduro the "hunger candidate," referring to the severe economic problems, including shortages of basic foods and medicines, that have worsened during Maduro's presidency. "The government promised a paradise to millions of Venezuelans, but they gave them a hell," Falcón told reporters, Reuters reported.

# U.S. Lawmakers Seek Probe of DEA Actions in Mexico, Honduras

U.S. Rep. Eliot Engel (N.Y.) on Tuesday led a group of Democratic lawmakers calling for an investigation into alleged U.S. Drug Enforcement Administration actions in Mexico and Honduras in 2010 and 2011 that may have caused up to 300 civilian deaths. In a letter to the inspectors general of the Departments of Justice and State, the legislators urged the departments to open an investigation into operations carried out by DEA-trained and -funded units that were vetted in Mexico. "These operations raise serious questions about the practices of DEA-trained and funded Special Investigative Units and point to the need for greater accountability for these vetted units," the lawmakers wrote. The letter refers

## ADVISOR Q&A

# What Can Be Done About Venezuela's Migrant Crisis?

**Q Brazil's government is declaring an emergency in Roraima, in order to allocate funding and troops to the northern border state to help control a flood of Venezuelan refugees in the area, Brazil's defense minister said this month. Approximately 40,000 Venezuelans now inhabit the state capital, Boa Vista, representing about 10 percent if the city's population. Meantime, Colombian President Juan Manuel Santos has tightened border controls and heightened security in border cities that have been hardest-hit by the Venezuelan refugee crisis. How well have both countries' governments been handling the influx of Venezuelans? What security issues are most pressing for border areas in Colombia and Brazil? How much assistance will the regional and national governments need to deal with the crisis, and what more can be done as Venezuela's outlook worsens?**

**A Geoff Ramsey, assistant director for Venezuela at WOLA:** "Responding to Venezuela's migration crisis will require the international community to increase funding for humanitarian responses, and to refrain from worsening the crisis by supporting sanctions on Venezuela's oil sector. Civil society organizations responding to the migration flow have criticized the lack of a meaningful humanitarian response. Venezuelan migrants and refugees face major obstacles in accessing food, medicines, housing, education for children and employment. This is particularly true in Colombia, Brazil and the Caribbean, which are primary destinations of the poorest Venezuelans who lack the means to travel further. The United Nations High Commissioner for Refugees estimates that as many as 750,000 Venezuelans have fled to these three destinations. The United States can play an important role in addressing the situation, and in encouraging other actors in the international donor community to do their part. But the response from the Trump administration has been inadequate. So far, the administration has only signaled a willingness to shift a portion of assistance to civil society in Venezuela (for which the State Department requested $9 million in the 2019 fiscal year) to address the needs of Venezuelans in Colombia. A humanitarian response in all affected countries will require a far more significant investment. Ensuring funding for these efforts may be difficult in today's polarized climate in Washington, but there is one way the Trump administration can address the situation without relying on Congress. Sanctions on either Venezuelan crude exports or imports of refined oil would inevitably worsen the already tragic toll of Venezuela's economic collapse, and would doubtlessly accelerate mass migration. For these reasons, an executive order to this effect must be avoided at all costs."

**"Sanctions on either Venezuelan crude exports or imports of refined oil would inevitably worsen the already tragic toll..."**

**— Geoff Ramsey**

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

NEWS BRIEFS

## ‘Dirty War’ General Menéndez Dies at 90

Former Argentine General Luciano Benjamín Menéndez, who had been sentenced to 13 life prison terms for crimes against humanity, stemming from the country’s “Dirty War,” died Tuesday at age 90, Clarín reported. Menéndez was the military commander of 10 provinces in Argentina between 1975 and 1979. Menéndez, who had served time in prison and was most recently on house arrest, died in the city of Córdoba.

## OECD Calls on Chile to Address High Inequality, Low Productivity

The Paris-based Organization for Economic Co-operation and Development in a report Monday called on Chile to take advantage of higher growth rates in order to address low productivity and persistently high inequality. “The current global economic upswing provides a key opportunity to deepen structural reforms so that Chile can ... make the most of globalization and share the fruits more fairly,” said OECD Secretary General Angel Gurría. The OECD projects GDP growth in Chile rising to 2.9 percent in 2018 and 2019.

## Second Candidate Killed Within Days in Mexico’s Guerrero State

A candidate for a local assembly seat in the Mexican state of Guerrero in July’s election was killed Sunday, just days after another office-seeker was shot to death in the same city, the Associated Press reported. The ruling Institutional Revolutionary Party’s candidate, Dulce Rebaja Pedro, was killed Sunday, while Antonia Jaimes Moctezuma, a state assembly candidate for the leftist Democratic Revolution Party, was shot to death last week. A state policeman was also killed in the violence Sunday, as was Rebaja’s aunt.

to a ProPublica investigation into a 2011 massacre by the Zetas cartel in the Mexican state of Coahuila that was triggered after sensitive information that the DEA shared with a vetted police unit in Mexico wound up in the hands of cartel leaders, who ordered a wave of retaliation against suspected traitors. The letter also cited a 2010 incident in which Zetas members stormed a Holiday Inn in Monterrey and took hostage five individuals who have not been seen since. At the time, the DEA and Mexican agents were carrying out an operation from the hotel but switched to a different hotel the night before the attack. Four hotel guests and a hotel manager were reportedly mistaken as government agents and kidnapped.

ECONOMIC NEWS

## Brazil’s Jobless Rate Increases in January

Brazil’s unemployment rate stood at 12.2 percent in the quarter from November to January, state statistics agency IBGE said Tuesday. There are now 12.7 million idle workers in Brazil, down slightly from 12.9 million people in the same quarter last year. The figure was stable as compared to the previous quarter, but January saw unemployment tick up slightly to 12.5 percent, a rate higher than market analysts had expected, according to a research note from Goldman Sachs. The firm also pointed out that the composition of job growth deteriorated somewhat in the most recent quarter, with formal salaried employment in the private sector contracting 1.7 percent, while employment in the informal private sector increased. Average real wages rose by 1.6 percent in January, year-on-year. Economic activity in Brazil expanded at a faster-than-expected pace in December, capping the first annual increase in four years following the deepest recession in decades. On Tuesday, Brazilian Finance Minister Henrique Meirelles said the country’s economy would grow by more than the 2.8 percent rate that economists are currently forecasting, also predicting 2019 growth would be greater than 2.5 percent, Reuters reported.

## Mexico’s Retail Sales Fall for Second Consecutive Month

Mexican retail sales fell for the second month in a row in December, dropping 0.5 percent from November, state statistics agency INEGI said on Monday, Reuters reported. Sales declined 2 percent in December from the same month a year earlier. The decline marked the biggest annualized drop in sales for any month since March 2013. However, activity in the broader services sector in December was “notably stronger than retail,” Goldman Sachs analysts Alberto Ramos said Monday in a research note. Private nonfinancial services grew “a robust” 4.7 percent year-over-year in December. “Overall, the services sectors on the supply side and private consumption on the demand side have been the engines providing most of the thrust to growth,” Ramos said. Mexico’s economy grew by 2 percent in 2017, down from 2.9 percent in 2016, and analysts see a host of risk factors on the horizon, ranging from surging inflation to the potential demise of the North American Free Trade Agreement. As negotiators from the United States and Mexico began their seventh round of talks to renegotiate the two-decade-old free-trade deal on Monday, the Mexican peso shed 0.8 percent as renewed signs of tension between the trading partners cast a pall over markets, the Associated Press reported. A tentative plan for Mexican President Enrique Peña Nieto to visit the White House was derailed following a tense phone call last week between him and U.S. President Donald Trump, The Washington Post reported. The Mexican president had been considering his first trip to Washington since Trump took office more than a year ago, but the plans were shelved after Trump refused to publicly affirm Mexico’s refusal to pay for the multi-billion-dollar border wall that he has vowed to build between the two countries, the newspaper reported, citing unnamed U.S. and Mexican officials. After the call, Jared Kushner, Trump’s son-in-law and top advisor, called Peña Nieto, and the two agreed to continue working together, The New York Times reported.

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ulated by the government-mandated blend for diesel. The blend mandate will increase to 10 percent in March, but RenovaBio also promises to shift production toward more efficient biomass, including palm oil, to earn more CBios. The policy could also trigger greater investments in sugar cane cultivation, accelerating research on sugar cane varieties, and the construction of new mills. The modest increase in petroleum prices creates an opportune moment to incentivize national biofuel production, but the government must erect a transparent framework for scoring and certifying carbon intensity as well as establish a new CBio market. The government controls the policy instruments and expertise, but the new regulatory framework needs to be negotiated with investors and biofuel firms to boost the industry and reach the Paris commitments."

A **João Paulo Botelho, senior market analyst at INTL FCStone:** "Brazil's RenovaBio program was very well-received by the local biofuel industry, but its impacts will greatly depend on how the government regulates it. If it executes this regulation appropriately, the new program should increase biofuel sales and profitability, as well as decrease the policy uncertainty that has plagued the sector in the past. If oil prices continue to rise, the cost of implementation will be greatly reduced, since it will make it easier to incentivize sales of biofuel sales instead of fossil fuel. However, in the long run, one of the program's objectives is precisely to make biofuel sales independent from oil-based product prices. On the international front, Brazil's ethanol industry has recently faced challenges in remaining competitive with U.S. corn-based biofuel. The main reason has been low world corn prices, though low oil and natural gas prices have also been a factor. In the future, the Brazilian industry expects the RenovaBio program to increase competitiveness, since the new program will reward the most productive industries and incentivize investments in more efficient plants and farms. In the long run, we expect the program to completely change the landscape of Brazil's fuel sector. Distributors and consumers will be incentivized to take into account the environmental impact of the fuel they buy. With new investment and policy stability, the biofuel sector will account for a greater share of the fuel market, reducing dependency on the supply of oil products and contributing to goals outlined in the Paris Agreement. The success of this initiative may even inspire similar programs for other sectors, such as electricity."

A **Pavel Molchanov, senior vice president and equity research analyst at Raymond James & Associates:** "While the RenovaBio bill was signed into law in December, key questions remain about details of implementation, such as the specific levels of ethanol blending from year to year. However, it is worth noting that Brazil already has the highest ethanol usage rate of any major economy by far. The standard ethanol blend in Brazil is 27 percent, which compares to 10 percent (sometimes 15 percent) in the United States and single-digit figures in Europe, China and India. In other words, Brazil is already starting this effort from a very high base by international standards. One of the drivers for this reform was the Brazilian government's recognition that the domestic ethanol industry will not be able to rely on growing export volumes, especially to the U.S. market. On the contrary, U.S. corn ethanol has become a frequently cheaper alternative in Brazil itself, leading to the imposition of tariffs last year—the latest instance of trade restrictions in the global biofuel value chain."

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

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