**FEATURED Q&A**

**Will the Caribbean Attract Big Oil & Gas Investments?**

Caribbean nations are making a push to develop energy production. The Dominican Republic’s energy and mining minister, Isa Conde, this month announced that the country is opening blocks for oil and natural gas exploration.  // File Photo: Gov’t of the Dominican Republic.

With the price of global crude rebounding from recent lows, officials in the Dominican Republic say they expect to draw interest from international oil companies as the country opens for the first time to natural gas and oil exploration this month, Bloomberg News reported March 5. Other Caribbean countries such as Suriname, the Bahamas and Jamaica have also recently made attempts to discover significant oil and gas deposits for the first time. However, previous efforts to find oil off the coasts of some Caribbean countries, such as Cuba, have turned up dry. Are the Dominican Republic and other Caribbean countries, especially ones that are new to the oil and gas game, likely to succeed in attracting international investment? Does the Caribbean hold significantly more potential for new hydrocarbon discoveries than have already been made? What factors are most shaping oil and gas investment decisions in the Caribbean?

Jonathan Benjamin-Alvarado, assistant vice chancellor for student affairs and professor of political science at the University of Nebraska Omaha: "The Dominican Republic and other Caribbean nations may succeed in attracting international investment, especially if they are willing to allow international oil companies to hold concessions or have some other agreement that will ensure a solid return on investment. So under what conditions might that come to pass? If after the exploratory phase, which these Caribbean states would likely have to finance, the results demonstrate that oil and gas extraction is worth the effort, we may see international investment. The extent to which they already did that come to pass is what will determine whether they succeed in attracting international investment."

Continued on page 3

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**TOP NEWS**

**POWER SECTOR**

**Enel Chile Completes Restructuring**

Enel Chile has completed its financial restructuring, the firm’s president announced. The changes included a merger of Enel Green Power and Enel Chile.

**RENEWABLES**

**E.U. Ends Duties for Argentine Biodiesel**

The European Union has eliminated import duties on several biodiesel producers from Argentina, as well as on ones from Indonesia. The European Union had accused the countries of dumping in 2013.

**OIL & GAS**

**Mexico Awards 16 of 35 Oil Blocks**

Mexico’s government awarded just 16 of the 35 shallow-water oil blocks it had up for auction. Investors have hesitated ahead of the country’s July presidential election. Front-runner Andrés Manuel López Obrador has vowed to review oil contracts if elected.
Mexico Awards 16 of 35 Available Oil Blocks

Mexican officials announced on Tuesday that they awarded just 16 of 35 available blocks in their last auction before the country’s July 1 presidential election, signaling hesitance by investors, Reuters reported Tuesday. Mexican state oil company Pemex obtained seven new contracts, six of which are joint ventures, El Universal reported. European firms, including Repsol, British Petroleum, Total and ENI, won several contracts. Former Mexico City Mayor Andrés Manuel López Obrador, the front-runner in the presidential election, said in an interview last week that he would review 90 concessionary contracts that were finalized after the signing of energy reform law, which ended Pemex’s monopoly in the sector, according to ABC News. In the interview, López Obrador said his government would not act in an “arbitrary or authoritarian way” when reviewing contracts. A Mitofsky poll released on March 22 showed López Obrador, a member of the left-leaning Morena Party, surging with 29.5 percent support to conservative Ricardo Anaya’s 21.2 percent, according to Reuters. Conceding that auctions could slow or even stop, Pemex CEO Carlos Treviño has said Mexico’s president does not have the authority to reverse the energy reform, which is enshrined in Mexico’s Constitution. Oil and gas firms also are gathering in Brazil on Thursday for one of its final reserve auctions before the country’s October presidential election, Reuters reported. In Brazil, left-wing contender Ciro Ferreira Gomes has said he would expropriate energy assets from private investors if he is elected. Polls show Gomes trailing conservative candidate Jair Bolsonaro in polls that did not include former President Luiz Inácio Lula da Silva. Lula has been the front-runner in the presidential race, but his ability to run has been complicated by his conviction on corruption charges. An appeals court upheld his 12-year prison sentence on Monday.

Labor Deal in Vaca Muerta Only Partially Implemented

The labor agreement meant to facilitate development of the Vaca Muerta shale reserve in Argentina is only being partially implemented, Reuters reported Tuesday, citing industry sources. Several companies involved in developing the site have complained that the Argentine government is not enforcing the terms of the 2017 agreement, and several unions have held out to demand better terms, the wire service reported. “If you don’t do anything to ensure its terms are applied, then obviously the unions are going to refuse to cooperate,” said an energy industry source. In some cases, companies have paid bonuses in exchange for the unions’ already-negotiated labor. The landmark labor accord was negotiated among the unions, developers and the Argentine government and was finalized last July. Hoping to spur extraction in the Vaca Muerta region, which is one of the world’s largest shale gas and shale oil reserves, the Argentine government agreed to offer large subsidies to producers who would explore and develop it. Although Chevron and ExxonMobil have invested in the reserve, exploration has been slower than expected. The report comes in spite of major investments by Argentine government entities; last Friday YPF Energía Eléctrica, a subsidiary of the state oil company, opened a 220-megawatt thermal power plant in Vaca Muerta, Clarín reported. The government is also planning a tender for a $500 million train line to improve access to the region and cut costs, Bloomberg reported on March 22. A separate Reuters report earlier this

If you don’t do anything to ensure its terms are applied, then obviously the unions are going to refuse to cooperate.”
—Energy industry source

U.S. Asks Brazilian Gov’t to Review Quotas on Imported Ethanol

The United States has asked Brazil to review its quotas on the importation of U.S. ethanol, Folha de S.Paulo reported Wednesday, citing Thomaz Zanotto, director of foreign commerce for the Federation of Industries of the State of São Paulo (FIESP). He said the United States had asked for the review in exchange for its removal of tariffs on steel and aluminum on Brazil. Zanotto also said the United States discussed supporting Brazil’s entry into the OECD.

Maintenance of Venezuelan Upgrader Delayed Until July

The Petromonagas upgrader in Venezuela will not be shut down for maintenance until July at the earliest, Reuters reported Tuesday, citing an official of state-oil company PDVSA. The delay was a reversal from reports on Monday that PDVSA planned to shut down the 150,000 barrel-per-day plant in April. The plant, which processes and dilutes Venezuela’s heavy crude oil, is a joint venture between PDVSA and Russian energy firm Rosneft. Separately, Reuters reported that Russian Finance Ministry official Konstantin Vyshkovsky denied earlier reports that Venezuela had offered to pay off Russian loans with its new digital currency, the petro.

Enel Chile Completes Restructuring

Enel Chile has successfully completed a financial restructuring, the firm’s president said Sunday in a statement. The restructuring consisted of a purchase of common shares in Enel Generación, as well as a merger of Enel Green Power and Enel Chile. “Enel Chile now has a cleaner corporate structure that ensures optimal coverage of the entire value chain,” Enel CEO Francesco Starace said in a statement.
month revealed that YPF expects a 35 percent increase in oil and gas production in 2018, citing falling costs.

POWER SECTOR NEWS

Brazil’s Eletrobras Posts $1.2 Billion Loss in Fourth Quarter

Brazilian state electricity company Eletrobras posted fourth-quarter losses of nearly 4 billion reais ($1.2 billion), a 36 percent decline from the same period last year, O Globo reported Tuesday. The company had posted net profits of 3.51 billion reais in 2016, but has accumulated significant losses since then. Eletrobras controls several transmission and generation subsidiaries, as well as distribution companies in Brazil’s north and northeast. The company cited the sale of subsidiary Celg and other assets for its decreased revenues in 2017. The announcement follows the introduction of a voluntary redundancy plan, through which Eletrobras intends to eliminate 3,000 jobs. Brazil’s government plans to hold a private auction of the company’s distributors on May 21 and hopes to privatize the entire company by the end of 2018, according to O Globo.

RENEWABLES NEWS

E.U. Ends Duties For Argentine Biodiesel Producers

The European Union has eliminated import duties on 13 biodiesel producers from Argentina and Indonesia, Reuters reported March 21. The European Union had accused the countries of dumping when it imposed the duties in 2013. A group of producers from Argentina and Indonesia challenged the duties at the World Trade Organization and the European Court of Justice. Both ruled against the anti-dumping infrastructure will also affect investors’ interest. During the run-up to Cuba’s attempt to find offshore oil and gas reserves, it was apparent that even though there were significant reserves in the Gulf of Mexico, the effort ended up being essentially fruitless and very costly. The states in question can rely on U.S. companies in a way that Cuba could not because of the embargo. There may be deep-water reserves in the region, but relevant issues such as an appropriate market niche, environmental considerations, long-term prices of oil and gas, and start-up costs might become vexing issues. There is no way to know if market forces, after a significant investment, might undermine these attempts or if any of these states will ever be able to turn a profit. These island states’ dependence on energy imports is a key factor for shaping oil and gas investment decisions in the Caribbean. Another is the insecurity due to the virtual collapse of oil supplies from Venezuela to the rest of the region. Investing in domestic energy resources may be a way to minimize the impact of oil imports, especially if these states can develop associated resources such as oil refining plants, chemical processing facilities, pipelines, ports and oil storage facilities to create energy markets for the region. Over the long haul these states should see the development of these resources as a point of departure for the development of sustainable energy for the future.”

**FEATURED Q&A / Continued from page 1**

spending instead of maintenance, it has had to idle rigs. Production is reportedly half what it was in 2005 when Petrocaribe was launched. A good chunk of it now goes to Russia and China to pay off government debts. Even close ally Cuba now buys oil from Algeria and Russia to offset the decline in Venezuelan shipments. Back in the day, the Dominican Republic benefited from cut-rate Venezuelan oil. In 2010, it even sold PDVSA a 49 percent stake in its Refidomsa refinery. By one account, PDVSA was supposed to help expand Refidomsa’s capacity from 30,000 to some 150,000 barrels per day to help it meet local demand, but PDVSA apparently never came through. Two years ago, Venezuela reportedly stopped shipping petroleum to the Dominican Republic altogether, hence the Dominican Republic’s interest in exploring potential domestic reserves. Geologists say that Dominican topography has faults and other structures that might harbor oil. The discovery of huge new reserves off the coast of Guyana in 2015 boosts hopes that exploitable hydrocarbon reserves might be found elsewhere in the region. Perhaps in nearby Suriname, or in Jamaica. Whether or not that comes true, Caribbean countries will have to diversify energy partners and sources to satisfy demand. For now, the goose that once laid a golden egg, looks instead like it, well, laid an egg.”

A Jorge R. Piñón, director of the Latin America and Caribbean Energy Program at the Center for International Energy and Environmental Policy at the University of Texas at Austin: “The notion that the Caribbean is poised to become the next major oil region is a bit premature and highly speculative. With the exception of Trinidad and Tobago’s Columbus Basin and the Guyana-Suriname Basin, oil and gas exploration efforts in recent years in deep waters off the Bahamas, Cuba, Nicaragua, the Dominican Republic and Jamaica have not materialized or resulted in any commercial discoveries.

Continued on page 6
tariff. The move to eliminate the duties is likely to bring large amounts of Argentine and Indonesian biodiesel into the European Union. European producers have expressed uncertainty over the continued viability of their businesses. Archer Daniels Midland announced that it is suspending biodiesel production at a plant in Germany, citing an inability to compete with cheap imports, Reuters reported March 23. The U.S. market is largely closed to imports after it imposed a tariff of more than 70 percent on all biodiesel imports last year. The European Union has only removed duties from the 13 producers that challenged the measure at the European Court of Justice. European law states that the importers may also claim back duties paid when the measure was in place.

**POLITICAL NEWS**

At Least 68 Killed in Fire at Venezuelan Police Station Jail

At least 68 people were killed Wednesday when a fire broke out in the jail area of a police station in the northern Venezuelan city of Valencia, the country’s prosecutor general, Tarek William Saab, said in a posting on Twitter. Sixty-six men and two women were killed in the blaze, said Saab, who added that the women were overnight visitors in the jail. Saab also said four prosecutors have been appointed to investigate the incident. “The Public Ministry guarantees that we will deepen the investigations to immediately clarify these painful events that have left dozens of Venezuelan families in mourning,” Saab said in a tweet. A Window to Freedom, a nonprofit group that monitors prison conditions in Venezuela, said the fire broke out following a riot in the jail, CBS News reported. According to the group, preliminary but unconfirmed reports said an altercation began after an armed detainee shot an officer in the leg. Fires then broke out and spread to mattresses, which then became engulfed in flames. Rescue crews reportedly had to break holes in the cell walls in order to free some of the prisoners trapped inside.

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

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**ADVISOR Q&A**

What Can Peruvians Expect of Their New President?

Martin Vizcarra was sworn in as Peru’s president on Friday, after the country’s Congress accepted the resignation of his predecessor, Pedro Pablo Kuczynski, who was brought down amid graft allegations and accusations that his supporters tried to buy the loyalty of a lawmaker in an earlier impeachment attempt against him. Kuczynski, widely known as PPK, has repeatedly denied wrongdoing. What does Kuczynski’s exit after just a year and eight months in office mean for Peru’s politics and institutions? What can Peruvians expect of Vizcarra? What messages should businesses and foreign investors in Peru take from the episode?

Cynthia McClintock, professor of political science and international affairs at The George Washington University: “The good news for Peru is that the government of Pedro Pablo Kuczynski will not be limping through three more years, bereft of popular support and unable to advance its agenda through a recalcitrant legislature dominated by the Fujimorista party. PPK was elected because he had been considered an honest democrat. However, he was increasingly perceived as blind to the conflicts of interest involving Odebrecht and to have bartered the pardon of authoritarian president Alberto Fujimori for his survival of a December impeachment vote. And it is also good news for Peru that the succession to Martin Vizcarra was orderly and constitutional and that Vizcarra’s reputation as governor of Moquegua was excellent. As PPK’s first transportation minister, Vizcarra was faulted for problematic provisions in an airport contract, but political analysts consider him to be honest. The hope is that Vizcarra will continue the anti-corruption agenda that he began at his inauguration, govern effectively, and gain popular support—or, move toward a new presidential election. Vizcarra has a huge advantage over PPK: the weakening of the Fujimorista party. First, the party has divided between the two siblings—Keiko and Kenji Fujimori, and now Kenji is weakened by the video showing him trying to bribe a legislator. Second, the charges against Keiko for her dealings with Odebrecht have resonated; and, she is widely perceived to have put her desire for revenge against PPK (for her narrow loss in the 2016 presidential election) ahead of the good of the country. There is bad news, too: a diminution of democracy. Every Peruvian president elected since 1985 has been tainted by credible charges of illegal campaign financing from Odebrecht. Of these five leaders, only one (Ollanta Humala) is in jail, and, for most analysts, the reason is political, not legal. The Fujimorista party has been trying to dominate electoral and judicial institutions and has been altering rules in its favor. In a 2017 Latinobarómetro poll, only 16 percent of Peruvians were ‘satisfied with the way democracy was working.’ If leaders’ misconduct continues, the call ‘Que se vayan todos’ (‘Kick them all out’) will become much louder.”

Following the fire, dozens of family members gathered outside the police station, demanding information about their relatives, Veneze-
Peru’s Vizcarra Reportedly Taps Opposition Politician as Prime Minister

New Peruvian President Martín Vizcarra appointed an opposition politician as his prime minister, La República reported Wednesday, citing officials of his party. César Villanueva has reportedly accepted the post and is working with Vizcarra to fill the rest of the cabinet by Monday. César Acuña, president of Villanueva’s Alliance for Progress Party, hailed the move and called on leaders to ensure “political stability” in Peru.

Morales Exploiting Ocean Access Case: Chilean Foreign Minister

Bolivian President Evo Morales is exploiting his country’s case against Chile over access to the Pacific Ocean for political gain at home, Chilean Foreign Minister Roberto Ampuero told Reuters on Tuesday. “The development of anti-Chilean sentiments is a very important component of this campaign of President Morales,” said Ampuero. Landlocked Bolivia is seeking to compel Chile, through the International Court of Justice, to enter talks on granting it access to the ocean. Chile says the matter was settled in a treaty more than a century ago.

Mexico Vows to Spend $4.3 Million to Clean Tijuana River Channel

Mexico’s has said it will spend $4.3 million to clean the Tijuana River channel, following complaints by California cities about sewage flowing into the Pacific. The California cities of Imperial Beach and Chula Vista as well as the Port of San Diego have sued the International Boundary and Water Commission, arguing it has failed to comply with the federal Clean Water Act. Mexico’s National Water Commission said Monday that it will clean overflow channels and drains in the waterway.

Ecuador Cuts off Assange’s Internet Access at Embassy

Ecuador’s government on Wednesday announced that it had cut off Julian Assange’s Internet access at the country’s embassy in London, where the WikiLeaks founder has been living for nearly six years. In a statement, the South American country’s government said it had pulled the plug on Assange’s communications with the outside world because he violated an agreement not to interfere with other nations. Messages Assange wrote on social media “put at risk the good relations that the country maintains with the United Kingdom with the rest of the states of the European union and other nations,” Ecuador’s government said in the statement. Ecuador’s move came after Assange posted a tweet on Monday challenging Britain’s accusation that Russia was to blame for the poisoning of a former Russian double agent and his daughter earlier this month in the English city of Salisbury, The Guardian reported. Assange also questioned the decisions by Britain and more than 20 other countries to expel Russian diplomats in the wake of the poisoning. Assange has been holed up in the embassy since June 2012 to avoid extradition to Sweden over allegations of sex crimes, which he has repeatedly denied. Sweden has since dropped the charges, but he has remained in the embassy in an effort to avoid arrest by British authorities for jumping bail and also on fears that he could be extradited to the United States to face questioning on the leaking of government documents.

Argentina’s Economic Activity Surges in January

Argentina's economic activity grew 4.1 percent in January as compared to same month last year, according to data released on Wednesday by state statistics agency Indec, La Nación reported. The country’s economy expanded 0.6 percent in January as compared to December. “We are on the right path,” said President Mauricio Macri. “That’s why call on everyone to work together and let this new data serve to help us understand that the path we’re on has one clear goal: reducing poverty,” Macri’s government celebrated the release of data yesterday that showed that the number of Argentines living in poverty had fallen by 1.9 million in 2017, reducing the overall rate to 25.7 percent, Clarín reported. The data also showed a significant reduction in homelessness and poverty among children. Macri, a center-right former mayor of Buenos Aires, was elected in 2015 on promises to reform the government and kickstart Argentina’s stagnant economy. One of his first moves as president was revamping the central statistics agency, which had suffered a decline in credibility after his predecessor claimed that Argentina had lower poverty rates than Germany. The data released yesterday showed that fishing and construction were the sectors that grew most in January, compared to the same month in 2017. [Editor’s note: See Q&A on potential labor reforms in Argentina in the Jan. 30 issue of the Dialogue’s daily Latin America Advisor.]
Frontier areas are facing stiff competition for the limited capital of the major and large independent oil companies, as well as competition from emerging and proven geological basins such as Guyana-Suriname, deep-water Brazil and the Mexican portion of the Gulf of Mexico. The Greater Caribbean region's unknown risks are not only its unproven resource base, but also surface issues such as fiscal and contractual terms and conditions, political stability and security, infrastructure and labor, environmental regulations and legal, regulatory and governance risks. And then there is the unconventional proven resource base potential in the United States. In its 2017 report, Canada's highly respected Fraser Institute Global Petroleum Survey ranked Texas as the number-one jurisdiction in the world as ‘the most attractive or least likely to deter investment.’ Not a difficult choice to make on where to invest.”

Asdrúbal Oliveros, director, and Guillermo Arcay, economist, both at Ecoanalítica in Caracas: “Caribbean countries are relatively new to oil markets. Just two years ago, Schlumberger started to map the geology of Dominican Republic. By the end of 2017, the company concluded the first phase of its seismic mapping to determine the viability of oil and gas exploitation, finding six primary basins. However, it’s still unclear if the resources in those basins have enough potential to be commercially exploited while adhering to ecological standards. Despite insufficient information, the Dominican Republic’s minister for energy and mines decided to begin a premature bidding process for two oil basins from the mainland and two deepwater gas basins, all by the first half of 2018. For the oil basins, companies would have to invest in exploration and perform their financial and ecological viability tests afterward. For the gas basins, investors would first have to determine if there really is gas below the water. An early version of the fiscal scheme for hydrocarbon exploitation contracts was recently published. The government will collect a minimum of 40 percent tax over the internal rate of return from the worst performing projects and, depending on performance, the rate over the internal rate of return would increase. Unknowingly, the government might be incentivizing cost overestimation if firms try to reduce their internal rate of return to pay less taxes. To prevent this, the Dominican Republic’s government has said that it will have to approve budgets, and that financial costs will not be recognized for taxation purposes. The Caribbean hydrocarbon market is still a bet with undetermined returns, and clever investors will wait until there is more information before deciding to incur high exploration sunk costs.”

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