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FEATURED Q&A

Will Latin America and China's Energy Partnership Change?

Venezuela is the top recipient of lending from China, according to the Dialogue's China-Latin America Finance Database. Venezuelan President Nicolás Maduro is pictured meeting with Chinese President Xi Jinping in Beijing in 2014. // File Photo: Venezuelan Government.

Q Over the past 10 years, China has loaned some $70.2 billion to Latin America for its energy sector alone, according to data from the Inter-American Dialogue's China-Latin America Finance Database. How will Latin America's energy sector be affected as China's economic outlook and investment strategies evolve? How are low global oil prices changing China's engagement with the energy sector in Latin America and the Caribbean? Is China responding to concerns about the environmental and social implications of the methods it uses when investing in the region's energy sector? Will there be local unrest and pushback from the advances?

A Margaret Myers, director of the China and Latin America Program at the Inter-American Dialogue: "China's energy security concerns still motivate much (though certainly not all) of what we see in the way of national oil company (NOC) and policy bank engagement in Latin America's oil and gas sectors. Important elements of China's energy bureaucracy continue to support a considerable presence in countries, such as Venezuela and Brazil, with abundant reserves. The China Development Bank (CDB) gave another $10 billion to Petrobras just last month. Uncertainty about Venezuela's political and economic outlook could put a stop to CDB lending to Caracas in 2016. But China's NOCs are staying the course in Venezuela, Brazil and Ecuador for the time being. Beijing has also focused more intensively on the region's renewable energy and electricity transmission industries in recent years. The '1+3+6 cooperation framework' encourages Chinese banks and firms to pursue deals in these and other strategic industries. Some Chinese

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TOP NEWS

OIL & GAS

Maduro Extends Holiday to Cope With Power Crisis

Venezuelan President Nicolás Maduro said he would extend the official Easter holiday from two to five days next week, effectively shutting down Venezuela amid a deepening electricity crisis.

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POWER SECTOR

Outages Pressure Colombian Power Generators

Unplanned outages at some of Colombia's electricity-generation plants affected approximately 10 percent of the country's electricity supply this month.

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POWER SECTOR

Lula Named Chief of Staff Amid Petrobras Probe

Brazilian President Dilma Rousseff on Wednesday named her predecessor, Luiz Inácio Lula da Silva, her chief of staff, a move that will shield him from prosecution in courts other than the Supreme Court for his alleged role in the Petrobras scandal.

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Lula // File Photo: Lula Institute.

OIL & GAS SECTOR NEWS

Rousseff Names Lula Her Chief of Staff Amid Widening Petrobras Scandal

Brazilian President Dilma Rousseff on Wednesday named her mentor and predecessor, Luiz Inácio Lula da Silva, her chief of staff, a move that will shield him from prosecution in courts

Rousseff and Lula // File Photo: Brazilian Government.

other than the Supreme Court for his alleged role in the massive corruption scandal at state-run oil company Petrobras. The move sparked protests in Brasília and at least three other cities in Brazil as demonstrators took to the streets to denounce corruption, BBC News reported. Some 2,000 protesters gathered, waving flags and banners reading, "All Lies" outside the presidential palace. In naming Lula to the post, Rousseff called the former president a "skillful political negotiator" who would help jump start an economic recovery. Hours after Lula's appointment, the federal judge heading the investigation of Lula released telephone recordings suggesting that Rousseff named Lula to the position to spare him arrest in the Petrobras scandal. The release of the recordings also led to an uproar in Brazil's Congress where opposition leaders took to a microphone to chant, "Resign, resign," directed at Rousseff. Lula has repeatedly denied wrongdoing and says the charges are politically motivated. Earlier this week, top Brazilian Senator Delcídio do Amaral accused President Dilma Rousseff of playing a role in the Petrobras scandal, marking the first time she has been linked to the massive graft scheme that has implicated many top officials in Brazil's government, The Wall Street Journal reported Tuesday. In his plea-bargain testimony, do Amaral, a member of the president's Workers' Party, alleged Rousseff had knowledge of bid rigging and bribery at Brazil's state-run oil company, and also worked with her inner circle to suppress the criminal probe threatening to reach the highest levels of Brazil's business community and government. Rousseff served as the chairwoman of the state oil company from 2003 to 2010. She has denied wrongdoing and has not been charged with a crime. [See related **Q&A** in the March 8 issue of the Latin America Advisor.]

POWER SECTOR NEWS

Maduro Extends Holiday to Cope With Power Crisis

Venezuelan President Nicolás Maduro on Tuesday said he would extend the official Easter holiday from two to five days next week, according to a statement in the Official Gazette, effectively shutting down Venezuela for a week amid a deepening electricity crisis, Bloomberg News reported. Over the weekend, Maduro had originally said that the extended holiday would only apply to government employees. The government has already been rationing electricity and water supplies for months as the country has endured a prolonged drought that has cut power generation at hydroelectric dams. The government has cited the El Niño weather phenomenon and "sabotage" by its

> **"We're reaching a difficult place that we're trying to manage."**
>
> **— Nicolás Maduro**

NEWS BRIEFS

Argentina's YPF Names New President

The Argentine government on March 9 appointed Miguel Ángel Gutiérrez president of state-run oil company YPF, Clarín reported. The government will seek to fill the CEO position as well, which will be separated from the president once the next company assembly is held on April 30, the Buenos Aires Herald reported. Gutiérrez had previously headed Telefónica Group in Argentina. The appointment comes after Miguel Galuccio's announcement that he would step down from his position as CEO.

ELN Rebels Attack Colombia Pipeline

Colombia's ELN rebel group executed two attacks on the Caño Limón oil pipeline over the weekend, halting pumping operations, state oil company Ecopetrol said Monday, Reuters reported. The attacks occurred in the rural areas of northern Norte de Santander and Arauca provinces. The pipeline is 485 miles long and has the capacity to transport 210,000 barrels of crude per day from oil fields operated by U.S.-based Occidental Petroleum, near the border with Venezuela, to the Caribbean port of Covenas.

Lenders to Invest $770 Mn in InterChile for Transmission Line Project

A group of six international lenders, including BBVA, The Bank of Tokyo-Mitsubishi and Banco del Estado de Chile, have provided a $770 million loan package to Interchile, a subsidiary of Colombian state-owned power and telecom operator ISA, Engineering and Mining Journal reported March 10. The financing will cover 70 percent of the cost for a 500 kilovolt transmission line project that will service energy needs in central and southern Chile, as well as some mining operations in northern Chile.

political foes. Critics, however, say a lack of maintenance and poor planning are to blame. Last week, Energy Minister Rafael Ramírez warned that water levels at the Guri dam, which is one of Venezuela's main sources of power, had fallen below the turbines. "We're hoping, God willing, rains will come," Maduro said in a national address Saturday. "Look, the savings is more than 40 percent when these measures are taken. We're reaching a difficult place that we're trying to manage."

Unplanned Outages Pressure Colombian Electric Generators

Unplanned outages at some of Colombia's electricity-generation plants affected approximately 10 percent of the country's electricity supply this month, according to a report released Wednesday by Fitch Ratings. The outages, along with hydroelectric energy shortages due to a prolonged drought, are adding pressure to Colombia's electricity supply and increasing the likelihood of rationing electricity. Fitch has a negative outlook for Colombia's electricity sector this year, citing the El Niño phenomenon, which has caused a 50 percent reduction in average rainfall in Colombia, as well as regulatory weaknesses for thermoelectric plants, as two of the main reasons for the country's energy shortages. Colombia has been trying to balance the energy supply by increasing the load factor of hydroelectric plants, utilizing the entire thermoelectric matrix, purchasing up to seven gigawatt hours of energy from Ecuador and implementing incentive plans to reduce energy demand.

Fitch says the El Niño phenomenon and weak regulation are to blame for the electricity shortage.

RENEWABLES NEWS

Trudeau, Obama Announce Joint Effort on Climate Change

U.S. Barack Obama hosted Canadian Prime Minister Justin Trudeau at a state visit to Washington where the two leaders announced new joint efforts to fight climate change and vowed to work together on other issues including trade, Reuters reported. The United States and Canada long have been close allies, but relations had grown cool during the government of Trudeau's predecessor, Stephen Harper, who pressed the White House in a failed effort to win approval for the Keystone XL oil pipeline. To fight global warming, the two countries agreed to cut methane emissions by 40 to 45 percent below 2012 levels by 2025. They also agreed to help foster environmentally friendly technologies and combat climate change

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firms have already done so successfully. Guodian (State Grid) is a veritable poster child in this respect, having expanded Brazil's electricity transmission capacity while making good with local communities and promoting technology transfer. However, many other Chinese firms are deterred by the region's complex and rapidly changing regulatory and investment environments. Future engagement depends, largely, on the state of China's economy. Slowing growth at home has pushed some banks and firms to pursue even more opportunities abroad, including in Latin America. But a rapid decline in Chinese growth would have a dampening effect on economic engagement with the region's extractive and other sectors."

A **Guo Cunhai, associate research fellow at the Institute of Latin American Studies of the Chinese Academy of Social Sciences and founder and president of Comunidad de Estudios Chinos y Latinoamericanos (CECLA):** "In the last two years, China's sustainable economic growth faced pressure from structural reforms. The draft of the 13th five-year plan clearly emphasized that the driver of economic growth had to shift from investment to innovation. In the energy sector, the key to innovation is to promote energy structure optimization and to develop renewable energy. In the long run, China's investment in the Latin American fossil fuels sector will fall, while investment will shift to renewables, but in the short term, China's demand for Latin American energy will not wane. The fall in international oil prices provides a strategic window for China's energy reform and will accelerate China's transformation in investment in Latin America's energy sector. Chinese authorities are increasingly concerned about the environmental and social issues caused by large investment in sectors such as energy, and one landmark was the 2015 Report on the Sustainable Development of Chinese Enterprises Overseas, jointly issued with the UNDP last November. The report aims to encourage Chinese companies to fulfill corporate social responsibility in the countries in which they've invested so as to make investment sustainable. The current economic difficulties in Latin American countries will be hard to turn around in the short term, and the associated increase in social risks may spill over to foreign firms, including Chinese ones."

A **Matt Ferchen, resident scholar at the Carnegie-Tsinghua Center for Global Policy in Beijing:** "When looking at the China-Latin America energy relationship over the last decade and into the near future, one country stands out: Venezuela. No Latin American country has established a bigger, or more problematic, energy relationship with China

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in the Arctic. Along with the announcement, U.S. officials said they would seek to regulate current oil and gas facilities' methane emissions, though achieving that before Obama's term expires next January is unlikely, The New York Times reported. "The president and I agree on many things, including, of paramount importance, the direction we want to take our countries in to ensure a clean and prosperous future," said Trudeau. "Canada and the U.S. will stand side by side to confront the pressing needs that face not only our two countries, but the entire planet." During their meeting at the White House, Obama and Trudeau also discussed military cooperation, anti-terrorism efforts and trade. They also agreed to keep working toward a final agreement to allow travelers between the two countries to be pre-cleared through immigration and customs. Obama and Trudeau did leave some issues unresolved, including a long-running dispute over softwood lumber exports from Canada, which U.S. officials say Canada unfairly subsidizes, an assertion Ottawa rejects.

Trudeau met with Obama March 10 at the White House. // Photo: Canadian Government.

ECONOMIC NEWS

E.U., Mercosur Plan Revival of Free-Trade Talks

The European Union and South American trade bloc Mercosur want to revive stalled free-trade talks in April, with formal offers on how willing they are to open up their economies to foreign goods, Argentine Trade Minister Miguel Braun said Wednesday, Reuters reported. Past efforts at reviving trade talks, most recently at the E.U.-Latin American summit in Santiago in 2013, stalled because of Argentine protectionist policies, diplomats say. The new government of President Mauricio Macri hopes to give the trade bloc the chance to finally complete the deal. Argentina's Mercosur partners, Brazil, Paraguay and Uruguay, were unwilling to make a trade deal without the inclusion of Argentina. "Argentina is ready to move forward," Braun told Reuters during a visit to Brussels to discuss trade talks with E.U. trade officials. "For Mercosur, this is a priority." E.U. foreign policy chief Federica Mogherini visited Argentina earlier this month and met with Macri, pledging support for a free-trade deal. Uruguay's foreign minister, who currently holds the rotating Mercosur presidency, will travel to Brussels on April 8 and exchange offers over how much duty-free access each side is willing to consider.

ADVISOR Q&A

How Will Latin America Pay for its Infrastructure?

Q **The CPP Investment Board, Canada's largest pension fund with $207 billion in assets, recently told Bloomberg News that it is sticking with plans to expand in Brazil, despite the South American country's current economic downturn, and will focus on investing heavily in infrastructure. Will more institutional investors follow suit? What are the benefits and drawbacks of having foreign pension funds investing in Latin American infrastructure projects? What has held these institutions back from financing infrastructure in the region to date? What best practices and scenarios would yield the most favorable outcomes for all involved?**

A **Norman F. Anderson, president and CEO of CG/LA Infrastructure:** "This is a classic win-win. The Canadians are right to invest, and to advertise that investment. Brazil needs long-term friends to step up and support the country now, and the long-term patient capital of the Canadian pension funds is a perfect match for the long-term promise of Brazil and Brazilian infrastructure. Sadly, more institutional investors are not likely to follow suit, since—aside from the Canadians—very few global pension funds have invested in the kind of sophisticated and creative infrastructure teams required to confidently make intelligent investments. This is a big problem; pension funds need to build out their teams and build their capacity, so that they can make substantial—and strategically intelligent—investments in emerging markets infrastructure. The other big issue not highlighted in the question is that CPP and others have no intention of investing in greenfield projects, something that Brazil desperately needs. Rather, they are investing in brownfield projects, buying long-term cash flow. Indeed, this confusion between greenfield and brownfield investment highlights the current failure—and it is a massive failure—of global public policy in failing to recognize that without significant fresh investment in new projects (not the 'watch the watch' trading of existing projects) emerging market economic performance will continue to slow. We need to inject new investment into new projects in Brazil and throughout the developing world. No one is showing the kind of vigorous, creative leadership required to drive policy and economics in that direction. So, three cheers for the Canadians. But how do we address the real problem?"

EDITOR'S NOTE: More commentary on this topic appeared in the March 17 issue of the Latin America Advisor.

NEWS BRIEFS

Peña Nieto Urges Actions to Fight Air Pollution

Mexican President Enrique Peña Nieto on Wednesday urged state and federal authorities to take steps to control air pollution after the government declared an environmental emergency earlier this week, due to air contamination, Reuters reported. Mexico City had experienced three consecutive days of extreme air pollution, with the concentration of ozone in the air reaching its highest level in 13 years, the government said. Ozone can cause breathing difficulties and worsen heart disease.

Obama Hopes to Make Cuba Thaw 'Irreversible': White House

President Barack Obama wants to make the U.S. thaw with Cuba "irreversible," the White House said Wednesday, Reuters reported. Obama, who is to arrive Sunday in Cuba before talks Monday with Cuban President Raúl Castro, will be the first U.S. president to visit the island in 88 years. Obama plans to detail his vision for the future of U.S.-Cuban relations in a major speech during his visit to Havana.

Guatemalan Court Opens New Proceeding Against Ex-Dictator Ríos Montt

A Guatemalan court on Wednesday convened for a fourth attempt to try 89-year-old former dictator Efraín Ríos Montt on charges of genocide and crimes against humanity during the country's civil war. He is accused of ordering the killing of nearly 2,000 indigenous Ixil Guatemalans during his de-facto presidency from 1982-1983. Immediately after the tribunal was called to order, defense lawyers sought to block the proceedings, and attorneys for the victims argued the tribunal should be split into two separate trials. He had been convicted and sentenced to 80 years in prison in 2013, but the ruling was overturned a new trial ordered.

Argentina's Lower House OKs Debt Deal With 'Holdouts'

The lower house of Argentina's Congress on Tuesday approved the deal made between the government of President Mauricio Macri and so-called "holdout" bondholders, bringing the country one step closer to ending its long dispute with the creditors, Reuters reported. In a vote of 165-86, legislators on both sides of the country's political divide backed the agreement. However, some lawmakers loyal to Macri's predecessor, Cristina Fernández de Kirchner who refused to negotiate with the holdouts, blasted Macri, saying he was selling out by offering 70-75 cents on the dollar to the creditors. Axel Kicillof, who served as finance minister under Fernández, said Macri's plan to finance the deal with an $11.68 billion bond issuance would drive up Argentina's debt. Supporters of the deal say it is needed to allow Argentina to borrow again in international capital markets. The Macri government agreed to pay Elliott Management's NML Capital and three other hedge funds that had refused to accept previous debt restructurings $4.65 billion, U.S. court-appointed mediator Daniel Pollack announced Feb. 29.

POLITICAL NEWS

E.U., Cuba Sign Accord to Normalize Relations

The European Union and Cuba on Friday signed an accord to normalize their relations, BBC News reported. The agreement, which will allow the 28-member E.U. bloc to boost aid and economic cooperation with Cuba, was signed in Havana just ahead of U.S. President Barack Obama's historic March 20-22 visit to Cuba. "We're very happy we could do it now," E.U. negotiator Christian Leffler told Agence France-Presse, adding that the accord's signing just before Obama's planned visit was a "coincidence." During the signing ceremony, the European Union's foreign policy chief, Federica Mogherini, said the agreement marks the end of the European Union's so-called "common position," which it has used since 1996 to encourage human rights progress in Cuba. Havana, however, has rejected the policy as meddling in its domestic affairs. "This is a historic step in our relationship," said Mogherini. "The agreement marks the beginning of a new era in our bilateral relations." At the signing, Cuban Foreign Minister Bruno Rodríguez said the agreement represents "a dynamic process that was not without complexity," AFP reported. The European Parliament still must ratify the accord for it to take effect. The agreement came after two years of negotiations on restoring ties. The two sides previously reached a deal on trade and sped up their talks on restoring relations after the United States and Cuba announced in December 2014 that they would normalize relations.

BUSINESS NEWS

Santander Brasil Considering Bid for Citi's Local Unit

Banco Santander Brasil is considering a bid for the Brazilian subsidiary of Citigroup as it makes an effort to boost its base of wealthy clients, Reuters reported Wednesday, citing Conrado Engel, a senior vice president at Santander Brasil. "Citi has a small share of Brazil's banking market, but we have special interest in their high net worth segment, which we will eye carefully," Engel told investors at an event in Rio de Janeiro. His comments came less than a month after Citi said it would exit its retail banking and credit-card operations in Brazil, Argentina and Colombia. At the end of 2015, Brazil made up just 8 percent of Citi's consumer loan portfolio in the region, as compared to 80 percent from Mexico. Last year, HSBC Holdings exited Brazil, a move that allowed Santander Brasil to boost its base of wealthy clients.

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than Venezuela. And in turn, China's engagement with Venezuela stands out for its sheer scale, riskiness, and now, instability. In theory—and maybe at the beginning it approached this ideal—the relationship should have been simple and mutually beneficial: China needed oil and was willing to pay for a long-term energy partnership with Venezuela. And in turn, Venezuela sought to expand its oil export markets as well as to attract new sources of foreign energy investment; China fit the bill. What has gone wrong? Even before the dramatic drop in oil prices began in the middle of 2014, Venezuelan leaders' politicization of the country's oil resources and of PDVSA itself limited the expansion of oil flows to China. With the drop in oil prices contributing to the country's steep descent into economic and political crisis, Venezuela is in an increasingly poor position to be the energy partner China had hoped it would be. Yet China has not been blameless, it's banks and oil companies misunderstood and miscalculated the direction and instability of Venezuelan politics and economic management, and so failed to anticipate the inevitable and harmful effects on Venezuelan oil management and output. Going forward, the immediate future for China-Venezuela oil ties rests on whether China is willing and able to work with Venezuela and possibly other countries and institutions to help put Venezuela and its oil industry on a more sustainable path."

A **Ramiro Crespo, president of Analytica Securities in Quito:** "Relatively lower economic growth in China will soften the demand for energy commodities over the coming years, which already has had important price consequences in specific markets. In an over-supplied oil market, the need to secure strategic sources of crude has diminished, and with that comes the reduced need for China to invest in certain countries in the region to guarantee future provision of energy commodities. For those countries receiving moderate-to-large investment/debt flows from Chinese sources, i.e. Ecuador and Venezuela, the scenario has deteriorated dramatically, evidenced by lower loan disbursements since 2014. Lack of transparency makes it very difficult to determine the real borrowers' position with respect to China, particularly due to the ample use of oil-backed credit facilities that require the loan repayment with crude shipments. In terms of investment flows, Chinese companies have arrived in countries where a close relationship with the administration in power has sometimes resulted in less accountability and lack of respect for the rule of law. On the upside, the lack of interest from China could force some of China's recipients to again focus on traditional Western companies, which frequently demand—unfortunately not always—higher transparency, environmental and human rights standards. On the policy front, lower Chinese inflows to some countries in Latin America could accelerate democratic transitions of power, many of which are long overdue. Chinese money has helped prolong the plight on the population of authoritarian regimes particularly in Ecuador and Venezuela."

"Lower Chinese inflows to some countries in Latin America could accelerate democratic transitions of power."

— Ramiro Crespo

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

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