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FEATURED Q&A

Will Argentina and Chile Lead the Way to Integration?



Chilean Energy Minister Susana Jiménez and Argentine Energy Minister Javier Iguacel met on July 20 to discuss the two countries' energy integration. // Photo: @JavierJiguacel via Twitter.

Q Argentina will resume exporting natural gas to Chile in October after an 11-year pause, the Argentine energy ministry said in a statement after Minister Javier Iguacel and his Chilean counterpart, Susana Jiménez, met on July 20 to discuss advancing the integration of the countries' energy sectors. The ministers also reviewed the possibility of opening four new electricity lines between Argentina and Chile. How likely is it that an agreement for deeper electricity integration will be reached soon? What will the renewal of gas exports from Argentina to Chile mean for the country's energy sectors and their economies, and will it be a significant step toward regional integration in the Southern Cone?

A Gabriel Bauzá, partner and director of Gas Energy Latin America in Santiago: "Despite existing interest by both governments to deepen electric integration, a firm deal won't be immediate. The two parties signed terms of reference for a project that aims to develop four areas of interconnection across the Chilean-Argentine border, but there has been no pre-feasibility study yet. This will probably be done in 2019, and a deal going forward would depend on its results. The renewal of Argentine gas exports to Chile will contribute to the development of the enormous potential of Vaca Negra (308 trillion cubic feet in estimated reserves) since the huge investments needed for such a development in turn require some sort of certainty that there will be demand for shale gas output. But this contribution would occur in the long term and principally through installations to re-export gas from Chile to the Asia-Pacific. Chile's potential demand for Vaca Muerta gas

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TOP NEWS

OIL & GAS

Argentina's Fuel Prices Rise by 5% in August

State oil company YPF on Saturday increased fuel prices by an average of 5 percent nationwide. Shell and Axion followed suit on Monday.

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OIL & GAS

Guyana's Granger Defends Choice for Energy Dep't

Guyanese President David Granger defended environmental economist Mark Bynoe, his choice to head the country's new energy department. Bynoe has been criticized for his lack of experience in the oil and gas industry.

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RENEWABLES

Colombia to Hold Renewable Energy Auction in January

Before leaving his post as Colombia's mines and energy minister as the new administration takes over, Germán Arce Zapata announced the government will hold its first large-scale renewable energy auction in January.

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Arce Zapata // File Photo: Colombian Government.

OIL AND GAS NEWS

Argentine Fuel Prices Increase by 5 Percent in August

Argentine state-run oil company YPF on Saturday bumped up fuel prices by an average of 5 percent across the entire country, the company's second price increase in a little more than a month, La Nación reported. Other fuel companies in Argentina, including Shell and Axion, followed suit on Monday, hiking prices by between 4 and 5.5 percent in August, Clarín reported, bringing aggregate super fuel prices up by 29 percent, diesel prices up by 28 percent, and premium prices up by 35 percent between January and August of this year. According to analysts, the fuel price increases will set Argentina's inflation floor for August at around 2.5 percent and may drive



Iguacel // File Photo: @JavierIguacel via Twitter.

consumer prices over 3 percent this month, La Nación reported. The oil companies said the peso's sharp depreciation against the U.S. dollar earlier this year, paired with the rise of crude oil prices in international markets, pushed their costs above previous estimates. In related news, Energy Minister Javier Iguacel on Wednesday announced that electricity rates would rise by an average of 24.4 percent in the country's metropolitan areas, which includes the city of Buenos Aires and 24 other districts, Clarín reported. The price hike will affect some five million homes in the region, of which 40 percent benefit from the lowered rate. The energy minister also recommended Argentines switch to gas heating instead of electric, saying "if there's something ridiculous about the

terrible energy policy installed by 'kirchnerism' and that does not function at all, it's electric heating—it's inefficient." Iguacel added that there will be a second electricity rate increase in February, Clarín reported.

Brazil's Petrobras Posts Strong Profit on Higher Oil Prices

Brazilian state oil company Petrobras on Aug. 4 posted a profit of 17 billion reais, or \$4.58 billion, in the first half of this year. The company said an increase in international oil prices, associated with the depreciation of the Brazilian real against the U.S. dollar, helped the bottom line surpass its biggest profit in seven years, Bloomberg News reported. In the same period, net debt at the heavily burdened company fell 13 percent over first six months of the year, to \$73.66 billion. Cash inflows of \$5 billion from divestments in the first half helped reduce debt, the company said. On the negative side, Petrobras noted there was also a reduction in sales volume in Brazil, mainly gasoline products due to increased ethanol competition and increased biodiesel content in the mix. Utilization rates at Petrobras refineries also rose to 81 percent in June from 72 percent in March. The results beat market expectations, Reuters reported. In related news, Petrobras announced Thursday that it received a return of 1 billion reais, around \$262 million, through cooperation and leniency agreements under the "Lava Jato" corruption scandal, in which the company is "recognized by authorities as a victim of the acts," the statement said.

RENEWABLES NEWS

Colombia to Hold Renewable Energy Auction in January

Colombia's Mines and Energy Ministry on Aug. 2 announced the launch of the government's

NEWS BRIEFS

Guyana's Granger Defends Choice for Energy Dep't

Guyanese President David Granger's appointment of environmentalist economist Mark Bynoe as the head of the newly created department of energy on Aug. 1 has sparked criticism, particularly because Bynoe lacks experience in the oil and gas sector, Stabroek News reported. Granger defended his choice, saying he was looking for someone "who has the intelligence and experience to find people who are experienced for the [energy] industry," adding that Bynoe fit that profile. Bynoe's tasks will include granting oil concessions and licenses.

Venezuela Begins Car Census; Opposition Fears Upcoming Fuel Rationing

The Venezuelan government on Aug. 3 began registering car owners in a nationwide census, a move that the opposition fears will lead to fuel rationing, Reuters reported. Last weekend, President Nicolás Maduro said the country needed "rational" gas use, adding that the census was "the answer to that." Dozens of truck drivers on Saturday blocked the streets of Caracas in protest of the census, which they argue will not solve the common fuel shortages.

Draft Hydrocarbon Law Would Extend Peru Contracts to 40 Years

Peruvian Energy and Mines Minister Francisco Ísmodes on Monday announced plans for a new hydrocarbon law that allows oil concession contracts signed between the government and private companies to extend for 40 years rather than 30, state-run news agency Andina reported. "Major investments need to be made to take advantage of these resources. This is not happening [now] because investments might not be recouped in two or three years," Ísmodes told local media, adding that the royalty terms would remain unchanged.

first large-scale renewable energy auction, to be held in January, Renewables Now reported. The auction will offer power purchase agreements for 10 years to a solar, wind and/or biomass project with a capacity of more than 10 megawatts. The selected bidders will have to start delivering power by December 2022. The total power production will amount to approximately 3.5 gigawatts per year, which is the equivalent of around 1 gigawatts of capacity, PV Magazine reported. "This government was, is and will be the government that promoted the energy transition toward a sustainable energy mix, adaptable to climate change, and that provides security in the power supply," said Germán Arce Zapata, who ended his term as minister of mines and energy this week as President Iván Duque's administration made its transition into office. [Editor's Note: See related Q&A in last week's issue of the Energy Advisor.]

Electric Vehicles May Save \$64 Bn: Report

Converting the current fleet of buses and taxis operating in 22 Latin American cities into electric vehicles today would save \$64 billion in fuel costs by 2030, a U.N.-backed study released Tuesday showed. The conversion would avoid the emission of 300 million tons of carbon dioxide equivalent and save 36,500 people from premature death, according to the report, which was conducted by U.N. Environment and the International Automobile Federation, with support from Spain and the European Union. The report recognized Argentina, Chile, Colombia, Costa Rica, Panama and Uruguay for taking the most advanced steps on the issue.

Brazilian Cane Mills Choose Ethanol Over Sugar Production

Brazilian sugar cane mills will continue to prioritize ethanol production over sugar output well into the next crop season, Reuters reported Aug. 2, citing interviews with mill operators.

FEATURED Q&A / Continued from page 1

is concentrated in the center-south Biobío region, where pipelines to import gas from Argentina already exist. This area is currently supplied with gas by tanker trucks from the liquid natural gas (LNG) Quintero terminal, located 500 kilometers to the north. However, potential demand (less than 0.1 billion cubic feet per day) is small compared to the gas potential of Vaca Muerta, which is the reason why Gas Energy Latin America in Argentina envisions transporting gas via pipelines to the Biobío Region's port, where a liquefaction plant would be built to then export to Asia and the Pacific, important current and future markets for natural gas. Developing the potential of Vaca Muerta would boost economic growth in Argentina by monetizing huge gas reserves, and also in Chile, by broadening the availability of low-price gas in the center-south region, in addition to business gains related to the liquefaction plant in Biobío."

A Gerardo Rabinovich, second vice president at Instituto Argentino de la Energía "General Mosconi" in Buenos Aires: "The resumption of natural gas exports from Argentina to Chile is very good news that marks a turning point in the energy integration of both countries and turns the page of a relationship marked by distrust and the search for alternative solutions by Chile that proved timely and successful. A year ago, the international trade of natural gas between the two countries was resumed in the opposite direction, with Argentina importing natural gas from Chile, from the LNG Quintero terminal, to supply the consumption of a power plant in the northwest of the

country. The arrival of President Macri to the Argentine government has made it possible to overcome the distrust between the two countries by advancing energy integration projects that are mutually beneficial and sustainable over time, and that will increase

“**The resumption of natural gas exports from Argentina to Chile ... marks a turning point in the energy integration of both countries.**”

— Gerardo Rabinovich

the security of energy supply in this part of South America. As a lesson learned, we must always remember that countries must be very vigilant of these energy integration processes: the market can guide the best business decisions, but the possibility of failure generates situations of political and social tension that go far beyond the positive economic aspects, delaying the fulfillment of the objectives that our societies seek. Energy integration is inseparably linked to the improvement of quality of life of our people and the competitiveness of our economies. These agreements can be the beginning of a new privileged relationship in the Southern Cone, if the negative lessons of the past have been learned and the necessary precautions are taken so that they do not happen again in the future."

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High prices for oil have boosted demand for the biofuel despite ethanol stockpiles that have risen to relatively high levels due to an early harvest under currently dry crop conditions in Brazil's center-south. The growing stockpiles have put some pressure on ethanol prices, but today those rates are still providing better

returns than sugar. Brazil's ethanol imports in July were higher than a year ago, Agra-net reported Aug. 2, citing port statistics. Total arrivals amounted to 140 million liters, up from 74 million in the same month a year ago. The entire volume was imported from the United States.

POLITICAL NEWS

Duque Sworn in as Colombia's Youngest President to Date

Iván Duque was sworn in as Colombia's youngest elected president on Tuesday, El Tiempo reported. Duque, 42, took the oath of office in Bogotá in the presence of nearly a dozen regional heads of state including Mexico's Enrique Peña Nieto and Ecuador's Lenín Moreno, Agence France-Presse reported. From the United States, U.N. Ambassador Nikki Haley led the delegation, with Gov. Rick Scott of Florida also attending. In his inaugural speech, Duque promised to "make corrections" to the peace deal with leftist rebels that he inherited from his predecessor, Juan Manuel Santos, who won the Nobel Peace Prize in 2016 in recognition of his achievement in ending a half century of armed conflict with the Revolutionary Armed Forces of Colombia. However, the peace deal has divided the country, with conservatives concerned about the terms being too lenient on rebels who committed crimes. It remains unclear if the peace will last, with armed groups still roaming the countryside and few employment alternatives to illicit crimes to make a living. "The moment has come for all of us to unite to fight against illegal groups," Duque said, promising to get tough on crime, drug trafficking groups and other armed and rebel groups. "We will make corrections to ensure that the victims receive truth, proportional justice, reparations and not a repetition." Colombia's conflict left at least 260,000 dead, some 60,000 missing and millions displaced. [Editor's Note: See related [Q&A](#) on the June 19 issue of the daily Advisor.]

Former Argentine VP Sentenced for Graft

Amado Boudou, Argentina's former vice president and economy minister, on Tuesday was jailed and sentenced to nearly six years in prison for corruption, La Nación reported.

ADVISOR Q&A

Are Latin American Economies Finally Going to Integrate?

Q The presidents of Colombia, Peru, Mexico, Chile, Brazil and Uruguay met July 24 during a joint meeting of the Mercosur and Pacific Alliance trade blocs in the Mexican resort city of Puerto Vallarta. The presidents signed a letter of intent to establish a regional free trade agreement. How much did the leaders of the two trade blocs accomplish at the meeting? How important is deeper trade integration to the economies of the South American countries involved? Which industries stand to benefit the most from such an agreement?

A Shunko Rojas, undersecretary of international trade at the Argentine Ministry of Production: "The leaders of Mercosur and the Pacific Alliance signed a declaration agreeing to continue to work to promote and facilitate trade in the region, as well as to eliminate unnecessary technical barriers to trade. Moreover, the leaders renewed the agreement they reached in Buenos Aires in April of last year, signing a plan with a series of concrete actions that are going to be addressed over the next months in areas such as technical barriers to trade, regional value chain, rules of origin, trade facilitation, regulatory cooperation, small- and medium-sized enterprises, trade in services and e-commerce, among others. Promoting deeper trade integration is perhaps the most fundamental opportunity for regional economic growth for the countries of Latin America, both with regard to closer trade and invest-

Boudou, who held office during the administration of former President Cristina Fernández de Kirchner, was found guilty of an attempt to buy a money-printing company through a front business. In 2010, when he was economy

ment relationships between Mercosur and Pacific Alliance, but also more generally among all countries in the hemisphere. Deeper trade integration means bigger markets for our companies and increased competitiveness for exports of goods and services to countries in the region. Furthermore, a deeply integrated market increases the attractiveness of Latin American coun-

“A deeply integrated market increases the attractiveness of Latin American countries for foreign investors.”

– Shunko Rojas

tries for foreign investors that would have access both to a larger 'domestic' market and to the possibility of setting up efficient regional value chains. We are convinced that attaining this objective is one of the keys to sustained growth for our industry, our food and agricultural sectors and, in particular, for the small- and medium-sized companies that together make up the largest source of employment in the region."

EDITOR'S NOTE: More commentary on this topic appears in the Q&A of the Aug. 6 issue of the Latin America Advisor.

minister and before becoming vice president, Boudou lifted a bankruptcy declaration against a currency firm owned by Nicolás Ciccone, Ciccone Calcográfica, in return for an equity stake. A court in Buenos Aires found him guilty of

NEWS BRIEFS

Lula Wins Party Backing With Haddad as ‘Plan B’

Brazil's once-dominant Workers' Party on Saturday named imprisoned former Brazilian President Luiz Inácio Lula da Silva as its candidate to run for president again in October's elections, Folha de S.Paulo reported. Lula, who has been jailed on bribery charges, leads most opinion polls, but courts are likely to block his candidacy. On Sunday, the party named former São Paulo Mayor Fernando Haddad, 55, as Lula's running mate on the slate, placing the left-leaning politician as the party's 'Plan B' candidate if Lula is not allowed to run.

Bolivian Police Arrest Thief Who Mistakenly Stole Presidential Medal

Police in Bolivia said Wednesday they have captured one of the thieves who had stolen the historic presidential medal and sash out of a car that a military officer had left unattended, La Razón reported. Two other accomplices have fled to neighboring Peru, according to the report. When the thieves realized what they had stolen and the likelihood they could not sell it for cash easily, they left the bag in a local church and called a media outlet to tip off police. The gold medal is studded with emeralds and dates to the country's founding in 1825.

Maduro Blames Leaders of Opposition for Attack

Venezuelan President Nicolás Maduro on Tuesday accused opposition lawmakers of having a role in a failed attempt to assassinate him with armed drones over the weekend, Reuters reported. In a public speech, Maduro said Julio Borges, now living in exile in neighboring Colombia, was a co-conspirator in the plot. Another opposition lawmaker, Juan Requesens, who has been arrested by police, was also singled out by Maduro in the speech.

committing "passive bribery" and conducting business "incompatible with public office," BBC News reported. Ciccone was given a four-and-a-half-year sentence. The court also sentenced José María Núñez Carmona, a friend and partner of Boudou, to five years and six months in prison. Alejandro Vandenbroele, a friend of Núñez Carmona, who was considered a front-man of Boudou, was sentenced to two years in prison with a stayed sentence. Boudou says he is innocent and vows to appeal the ruling.

ECONOMIC NEWS

Mexico Consumer Confidence Makes Surprise Comeback

Mexico's consumer confidence index in July rose by the most on record, the national statistics agency said Aug. 3, Reuters reported. The consumer confidence index jumped 15 percent to 101.7 in July when adjusted for seasonal factors, the highest level since 2008 and the biggest percentage gain on record in data going back to 2001. The "very large and unexpected" spike in consumer confidence is "hard to square" with recent macroeconomic data, Goldman Sachs analyst Alberto Ramos told clients in a research note on Aug. 3. Wire reports attributed the significant increase in sentiment indicators to the outcome of the July 1 general elections and the landslide victory by President-elect Andrés Manuel López Obrador. Another factor could be workers' remittances sent home from abroad, which reached a much higher than expected \$3.1 billion in June, a 23 percent increase year-over-year. In May and April, remittances also exceeded expectations by a large margin, putting cash into the pockets of primarily low-income Mexican consumers who have a propensity to buy consumer goods. The U.S. economy has grown strongly in recent quarters, providing jobs to Mexican migrants in key industries such as construction and agriculture. [Editor's Note: See related [Q&A](#) on the drivers of remittance flows in the region in the June 13 issue of the Financial Services Advisor.]

Nearly Half of Brazil Agencies Pay Extra Salaries: Audit

Internal auditors in Brazil found that 44 percent of the federal government's agencies spend nearly \$200 million each year combined on improper payroll costs, Folha de S.Paulo reported Monday. The audit by Brazil's Federal General Accounting Office found that all three of the main branches of government made irregular payments to a combined 12,658 employees. More than 4,000 cases are under investigation. The report identified 21 different kinds of problems, ranging from payments to deceased pensioners, employees receiving disability payments who have kept their employment, people who kept two government jobs in situations where it was not allowed, and employees who kept jobs in the private sector while

Inflation in Brazil likely slowed in July for the first time in two months.

concurrently working for the government. Last March, when the audit took place, Brazil had a monthly payroll of around \$6 billion. A separate auditing unit in Brazil disclosed this week that a government program aimed at helping low-income citizens paid about \$1.4 billion to people who should not to have received benefits. The government acknowledges that nearly a third of the program's benefits are paid improperly, but cited a recent Supreme Court decision that changed the formula used to determine benefits. Because it has been "too complicated" to delete some individuals from the program, the benefit is still being paid to 151,000 people, according to the report. Brazil has been trying to pull out of its deepest recession on record, as many families in Brazil's "fragile middle class," boosted by the commodities boom of the past decade, have struggled to remain out of poverty. Inflation in Brazil likely slowed in July for the first time in two months, a Reuters poll released Monday showed.

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A **Philippe Benoit, adjunct senior research scholar, and Akos Losz, senior research associate, both at the Center on Global Energy Policy at Columbia University:** “The recent announcement about the imminent resumption of pipeline gas exports from Argentina to Chile is a useful step for the energy sectors and overall economies of both countries and can help spur greater energy integration in the Southern Cone. However, the extent to which both countries ultimately benefit will depend on whether this ‘reconciliation’ is sustained and expanded over time. The context has changed since the gas trade ‘breakup’ 11 years ago, and both countries have learned their hard lessons from this troubled past. Chile’s gas supply today is more diverse and secure, thanks mainly to the country’s LNG terminals and the expanded use of renewables. As it re-engages with Argentina, its position could be characterized as ‘trust, but diversify.’ Argentina’s efforts to re-establish robust energy trade with its neighbor are being built on more than its historical role as an exporter, as it has also been importing gas from Chile (notably during the peak winter months). Rebuilding an energy trade relationship based on gas flows going in both directions may help accelerate the re-establishment of much-needed commercial trust. Argentina has much to

gain from robust natural gas trade as it looks to exploit the rich Vaca Muerta formation. Ultimately, however, the two countries’ ability to reap the benefits of increased energy trade will largely depend on whether trust is re-established to the point of supporting

“**The extent to which both countries ultimately benefit will depend on whether this ‘reconciliation’ is sustained and expanded over time.”**
— Philippe Benoit and Akos Losz

substantial trade volumes. We are not yet there, and actions over the short, medium and long term will be critical. But just as with any effort to reconcile after a messy breakup, small initial steps are needed to begin the process. Moreover, demonstrating the benefits of trade sends an important message to other parts of the world.”

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

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