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Political Uncertainty Clouds Latin America Energy Future

With several Latin American energy powerhouses set to vote for or inaugurate new heads of state shortly, uncertainty continues to cloud the future investment landscape, with leaders at times giving conflicting signals.

That is especially true for Mexico, where leftist Andres Manuel Lopez Obrador takes office on Dec. 1, and Brazil, whose second-round presidential elections are set for Oct. 28 (OD Oct.23'18).

"We're not going back to the monopoly model under any circumstances," Fluvio Ruiz, an adviser to Lopez Obrador and ex-Pemex board member, said at a Washington conference held by the Inter-American Dialogue think tank.

On the sidelines of the event, Ruiz told Energy Intelligence "we want to keep market prices, we support that," referring to the lifting of fuel price controls and the recent entry of foreign retail chains competing against state-owned Pemex. He acknowledged, though, that the populace might need some convincing.

However, in a presentation to attendees, Ruiz also laid out ideas that might seem incongruent to investors who praised Mexico's 2013 energy reform.

For instance, he questioned if outside players were truly needed in the shallow-water offshore, stating, "We don't think we need a production-sharing agreement there. Pemex can do it."

He also called for granting local communities a vote over energy projects, which has been an obstacle to new work in countries like

Colombia (OD Oct.15'18). Ruiz also admitted Mexico "still needs a plan to gasify," criticizing increasing US exports, and saw few problems with a legislative call to roll oil regulator the CNH, an independent body, into the energy ministry.

Duncan Wood, director of the Wilson Center's Mexico Institute, called that idea "worrisome," noting it would create a "constitutional problem" since that document guarantees CNH autonomy.

Wood also questioned the logic of diminishing natural gas flows into Mexico.

"You have a country on your doorstep producing gas at practically zero [cost]," Wood said, "Why not take advantage of the Americans?" He also said he was troubled by "anti-capitalist" statements uttered by Lopez Obrador's energy minister pick, Rocio Nahle.

"That's the type of language that makes investors nervous," Wood said. "There'll be plenty more Pepto-Bismol to be drank."

For its part, Brazil is also having a tough time making heads or tails of statements from Jair Bolsonaro, the far right-wing frontrunner in its presidential election, who in the past has said he would support privatizing state-controlled Petrobras.

"Two week ago, [Bolsonaro] said he was in favor of opening the market, the refining sector," said Fernanda Delgado de Jesus of Brazil's Fundacao Getulio Vargas think tank. "Now he's saying everything to the contrary." ■

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