LATIN AMERICA ADVISOR

ENERGY ADVISOR

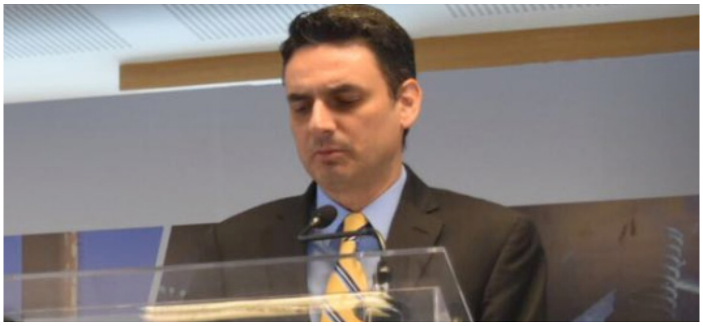
A WEEKLY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

March 22, 2019

FEATURED Q&A

Will Mexico's Energy Regulators Lose Clout Under AMLO?



Mexican President Andrés Manuel López Obrador's government has opened an investigation of Guillermo García Alcocer (pictured), who heads the commission that oversees the country's electricity and gas sector. // File Photo: Mexican Government.

Q **Mexican President Andrés Manuel López Obrador last month accused Guillermo García Alcocer, the head of Mexican energy regulator CRE, of conflicts of interest and called on him to step down amid an investigation into the regulator's alleged involvement in a money laundering case. The allegations against García Alcocer, who denies wrongdoing, come at a tumultuous time for the regulator, after four commissioners left in less than two months and López Obrador slashed its budget for this year by 30 percent. What is the probe about? What can be expected of the CRE under López Obrador's administration, and how has the cut in funding affected the regulator's functions? Is the agitation between the government and the CRE rattling investors?**

A **Christian Wagner, political analyst at global risk analytics firm Verisk Maplecroft:** "The probe is looking into García Alcocer because of his brother-in-law's activities as an executive and stakeholder in several electricity and gas companies, and allegations that the brother-in-law was involved in tax evasion and money laundering. García Alcocer disclosed the relationship in his conflict of interest declaration before he took up his post in 2016 and recused himself from any decisions involving those companies. The government's accusations came after García Alcocer criticized AMLO's proposed candidates for CRE commissioners, given their lack of sector expertise, their political party connections and their weak interviews before the Senate, in which they lacked knowledge about the CRE's activities. Overall, we expect the regulators to be gradually sidelined from major decisions and

Continued on page 3

TOP NEWS

OIL & GAS

Venezuela Power Outages Hit Oil and Gas Sector

A nationwide power outage as well as sporadic blackouts in the crisis-wracked country have hindered oil exports. Continued problems with the power grid could seriously disrupt the global oil market, the IEA said.

Page 2

RENEWABLES

Anglo American Opens Floating PV Farm in Chile

The London-based mining company has completed a photovoltaic farm on top of a tailings pond near a copper and molybdenum mine, located about 45 kilometers from Santiago.

Page 3

OIL & GAS

Ecuador to Launch Auction for New Refinery in May

Ecuador's government is planning to launch an international bidding round to construct a new refinery, according to the country's energy minister, Carlos Pérez.

Page 2

Pérez // File Photo: Ecuadorean Government.

OIL AND GAS NEWS

Venezuela Power Outages Hit Oil and Gas Sector

Continued problems with Venezuela's power grid could trigger "serious disruption" to the global oil market, the Paris-based International Energy Agency (IEA) warned in a report released March 15, CNBC reported. A nationwide power outage that led to sporadic darkness earlier this month has been resolved, for now, but its repercussions linger. "Although there are signs that the situation is improving, the degradation of the power system is such that we cannot be sure if the fixes are durable," the report said. Since March 7, the sporadic power outages seriously disrupted industrial operations, leading to "ongoing losses on a significant scale" that "could present a challenge to the market," according to the report. The outage crippled the OPEC member country's oil exports and left millions of citizens struggling to find food and water. Until recently, the IEA said Venezuela's oil production had stabilized at around 1.2 million barrels per day (bpd). The IEA added that Saudi Arabia could step in to help make up for lost Venezuelan crude supply on the global market. Due to recent production cuts aimed at boosting prices, OPEC members hold approximately 2.8 million bpd of effective spare production capacity, with Saudi Arabia accounting for two-thirds of it. Also on March 15, the special U.S. representative for Venezuela, Elliott Abrams, said the South American country's oil exports have been falling by approximately 50,000 barrels per month, Reuters reported. Venezuela's oil production is likely to fall below one million barrels per day "within a month or two," Abrams told reporters in Washington. The decline over recent days is likely to have partially been due to the country's blackouts. The United States and its allies have been asking the international community to pressure President Nicolás Maduro to leave office, or at least to hold legitimate elections. Venezuelan National Assembly President Juan Guaidó, who has been recognized internationally as the country's interim president, has dismissed Maduro's allegations that he sabotaged Venezuela's electrical system, CNBC reported. Earlier this month, Guaidó said oil that Venezuela ships to Cuba is needed at home. "We have decreed no more shipment of petroleum to Cuba," Guaidó said during a session of the National Assembly, EFE reported. Guaidó also appealed to other countries to keep Venezuela from exporting oil to Cuba. "Moreover, not only do we decree it, but we request international cooperation to make this measure effective," he said. Cuba receives some 100,000 barrels per day of oil from Venezuela on preferential terms through Venezuela's PetroCaribe program, the wire service reported. On Tuesday, Azerbaijan's energy ministry cited Venezuelan Oil Minister Manuel Quevedo in saying that Venezuela has suspended oil exports to India, Reuters reported. Venezuela sees Russia and China as its main destinations for exported crude. The statement followed talks in Baku between Azerbaijan's energy minister and Quevedo.

Ecuador to Launch Auction for New Refinery in May

In May, Ecuador's government plans to begin an international bidding round to build a new refinery with a capacity to process 300,000 barrels of crude per day, Energy Minister Carlos Pérez told Reuters Monday in an interview. Along with the bidding round, the government plans to offer a concession for upgrading the Esmeraldas refinery, a 110,000-barrel-per-day facility that is currently undergoing maintenance and has been partially shut down since March 1, Pérez told the wire service. Officials had planned to keep the facility partially closed for 54 days to allow the maintenance work to be completed. However, Pérez added that Esmeraldas will be closed for an additional six weeks. The refinery currently has an output of 55,000 barrels per day, approximately half its normal capacity. The facility will be partially closed for longer than anticipated because workers are finding some "issues" upon disassembling parts of the refinery, including ovens and its catalytic crack-

NEWS BRIEFS

Mexico Unveils List of Bidders Invited for $8 Billion Refinery

Mexico on Monday unveiled a list of domestic and international companies it has invited to bid on the construction of an $8 billion oil refinery, Reuters reported. Four consortia comprised of companies from around the world—including Bechtel, KBR and Jacobs of the United States—were selected. Mexican national oil company Pemex would own the facility, which will be built near the Dos Bocas port on Mexico's southern Gulf coast. In his election campaign last year, Mexican President Andrés Manuel López Obrador pledged to wean the country off fuel imports.

Aruba to Resume Restoration of Citgo Refinery

Aruba will resume refurbishment at a refinery operated by a unit of Citgo, the U.S.-based refiner of Venezuelan state oil company PDVSA, Prime Minister Evelyn Wever-Croes said Sunday, Reuters reported. U.S. sanctions against PDVSA had led Citgo Aruba to suspend a $685 million deal to restore the refinery, which has the capacity to process 209,000 barrels of crude per day. The U.S. Treasury last week gave Citgo more time to buy crude and make debt payments, allowing the restoration project to continue, Wever-Croes said.

Eco Boosts Estimates for Guyana Offshore Field

Canadian exploration company Eco Atlantic increased its estimates for an oil and gas field it co-owns offshore Guyana with London-based Tullow and France's Total, Reuters reported Monday. The Orinduik block, which is located next to an ExxonMobil field, contains 3.9 billion barrels of oil equivalent, nearly a third more than what was estimated in September, the company said.

ing unit, Pérez said. "There is a lot of work to be done, which is why we want someone to come and administer it adequately," he added. Former Ecuadorean President Rafael Correa's government undertook an overhaul of the refinery, but the $2 billion project did not adequately repair and modernize the facility, the wire service reported. State oil company Petroecuador was then forced to plan new projects for the refinery's maintenance as well as upgrade work under current President Lenín Moreno. Ecuador's government wants to increase output of crude to 560,000 barrels per day, a 30,000-barrel-per-day increase from current levels, by the end of this year, said Pérez.

RENEWABLE ENERGY NEWS

Anglo American Opens First Floating PV Farm in Chile

London-based miner Anglo American has completed a floating photovoltaic farm on top of the Las Tórtolas tailings pond near a copper and molybdenum mine about 45 kilometers from the capital city of Santiago in Chile, Renewables Now reported last Friday. The floating farm has 256 pieces of 330-watt polycrystalline modules installed. The project is expected to annually reduce carbon dioxide emissions by 58 metric tons and generate 150,000 kilowatt-hours of electricity per year, according to the report. It will also reduce the evaporation of the water surface it covers by 80 percent, which is expected to increase the availability of water to reuse in the company's mining processes. Tailings deposits usually contain toxic waste resulting from mining operations. The floating farm is the first such project in Chile, and the first photovoltaic plant built on a tailings deposit in the world, Anglo American said, Energía Renovable reported. The farm's modules are connected to a monitoring system, which will track its performance in order to explore whether the project could eventually be expanded into a larger solar power island, the company added.

FEATURED Q&A / Continued from page 1

to gradually lose independence as AMLO replaces commissioners. After the loss of the four commissioners, the CRE has lacked the quorum needed to hold sessions and approve permits. The budget cuts have also obliged the CRE to cut 54 senior positions. Moving forward, several appointments will give AMLO a majority on the CRE board, as well as greater influence on the board of the National Hydrocarbons Commission (CNH), thereby increasing the risk of politicized decision-making. Given Mexico's notorious corruption challenges, the professionalism and transparency of the CNH-led auction rounds to assign upstream blocks received international acclaim. The independent regulators have been a key factor in the success of Mexico's liberalizing energy reform to date. AMLO, however, considers them superfluous—believing that the government should act as overseer. He has also criticized them for having a 'privatization' mentality. Even before AMLO took office, Morena deputies proposed that both regulators be absorbed into the energy ministry via legislative reform; it was shelved after significant criticism from the private sector. An absence of independent and technically competent regulators would be a key concern for international energy companies operating or interested in the Mexican market. For them, the lack of independent regulators would have to be factored into their operating risk calculations and almost certainly would include higher outlays on measures to avoid corruption and potential reputational damage through any association, even indirect, with public-sector corruption."

A **Fluvio Ruíz Alarcón, Mexican oil sector analyst:** "The president's remarks against the head of the CRE, are a reflection of the new administration's belief that the regulator has had an overly aggressive attitude against Pemex since the promulgation of the secondary legislation of the energy reform. With some nuances, I myself have shared this questioning, especially since the CRE has issued resolutions that contradict one of the principles established by Scott Hempling, considered one of the great regulation theorists, who said the establishment of free-market conditions at all costs cannot be viewed as regulatory bodies' only function. The stubbornness of the CRE in advancing and loosening the (still non-existent) free gasoline market is an example of this. However, these CRE positions were in line with—as the law establishes—the previous administration's energy policy. Given the turn in direction of such a policy, what the new administration requires is a regulatory body that is technically, legally and politically strong. Otherwise, given the scope of its responsibility and without legal changes to reverse those established by the energy reform, the CRE could end up being a simple administrative shell, unable to be an effective form of support for the energy policy of the new government—for the benefit of private interests and the detriment of collective interest."

A **David Shields, independent energy consultant based in Mexico City:** "Mexico's energy industry is going through a delicate period in which politics and nationalist ideology are being given priority over business and competitive energy markets. This is clear in the day-to-day discourse of President Andrés Manuel López Obrador, who has a discouraging message for investors almost every time he speaks on the subject. He never misses and opportunity to berate 'neoliberalism' and recent open-market energy reforms, and he has put oil bidding rounds and electricity auctions on hold. Tenders for key projects, such as major transmission lines, have been canceled at the same time as he tries to halt deterioration at the state-run energy companies. The president's attempts to undermine and control the energy regulators are part of this picture. His harassment of García Alcocer is a personal vendetta, because García

Continued on page 6

POLITICAL NEWS

Nicaragua Vows to Release All Jailed Protesters

Nicaraguan President Daniel Ortega's government on Wednesday promised to release all protesters who have been jailed since violent anti-government demonstrations erupted in the Central American country nearly a year ago, the Associated Press reported. The government said it would release the demonstrators within 90 days, according to Waldemar Sommertag, the papal nuncio in Nicaragua, who announced the Ortega administration's decision alongside

Ortega // File Photo: Nicaraguan Government.

officials from the government and the opposition. The prisoners' release has been a top demand of the opposition for continuing talks with Ortega's government. In return for the release of the protesters, Ortega is asking for sanctions against his government to be lifted, the wire service reported. Some 640 demonstrators are estimated to be behind bars. Talks that began Feb. 27 would resume Thursday, the statement said. The situation in the Central American country has been particularly tense in recent days since security forces broke up demonstrations last weekend. On Saturday, police used tear gas against protesters and temporarily detained about 100 of them amid an anti-government demonstration, MercoPress reported. The Civic Alliance for Justice and Democracy, or ACJD, said Tuesday that it would not participate in talks with the government until all "political prisoners" are released and authorities cease repression of anti-government protesters. The statement that said talks would resume Thursday added that the discussions would focus on electoral reforms, the Associated Press reported. Ortega has been accused of seeking to remain in power indefinitely. At least 325 people have been killed in connection with the anti-government protests since last April, according to the Inter-American Commission on Human Rights. The protests began as a public reaction to cuts in social security benefits. Ortega's government backed off from those cuts, but the protests escalated into general

ADVISOR Q&A

How Successful Was Bolsonaro's Trip to Washington?

Q **Jair Bolsonaro visited Washington for the first time as Brazil's president this week and on Tuesday discussed issues including trade ties, military cooperation and the ongoing turmoil in Venezuela with U.S. President Donald Trump. What came of the visit, and how might it affect Brazil-U.S. relations going forward? What are the most important areas of cooperation between the two countries, and what issues remain major sticking points? What is motivating Bolsonaro's policy toward the United States, and how much of a turnaround will it be from the approach of past Brazilian administrations?**

A **Peter Hakim, president emeritus at the Inter-American Dialogue:** "The prospect of a re-energized U.S.-Brazil relationship has fired up both nations' governments. Bilateral ties have been cool and detached for the past half-dozen years. Presidents Bolsonaro and Trump demonstrate a special affinity—sharing similar worldviews, convergent policy priorities and matching temperaments. Both have proclaimed enthusiasm for deeper, more robust economic, political and security relations. The United States wants Brazil on its side. Recently, the White House has focused much of its Latin America attention on Venezuela and Cuba, pursuing regime change in both. The United States has steadily escalated pressures on the Maduro government, even suggesting a willingness to employ military force. Washington sees Brazil's backing as essential for a successful strategy. For its part, Brazil views U.S. support on trade and other economic issues as crucial to its struggle to recharge its static, troubled economy—the Bolsonaro government's most critical task. This would help build confidence of domestic banking and corporate communities and reassure international investors about Brazil's economic future. Will the gains from Bolsonaro's visit lead to a broader reshaping and deepening of bilateral ties? Will they generate momentum for new U.S.-Brazil trade arrangements, cooperation on nuclear proliferation and energy development, or backing for Brazil's aspiration for a permanent seat on the U.N. Security Council? It is too early to say. The obstacles remain substantial: Brazil's tradition of diplomatic independence, divergent interests of the two nations and existing Brazilian commitments to other partners, including Argentina and China. Trump and Bolsonaro are rather anomalous leaders. They could profoundly change their countries or depart without leaving much behind. Brazil could diminish its global stature by yielding its international autonomy and tying itself to the United States. Similarly, by once again embracing a strongman leader, it may see its global status shrink."

EDITOR'S NOTE: More commentary on this topic appears in Thursday's issue of the Latin America Advisor.

NEWS BRIEFS

U.S. Senator Rubio Meets With Haitian President in Port-au-Prince

U.S. Senator Marco Rubio (R-Fla.) on Wednesday met with Haitian President Jovenel Moïse and lawmakers in Port-au-Prince, where they discussed the reshuffling of Moïse's cabinet following the ouster of Jean-Henry Céant as prime minister through a vote of no confidence in Congress, Reuters reported. Moïse, who in recent weeks has faced an internal crisis following paralyzing nationwide protests against him, on Twitter said he and Rubio had spoken about security and holding parliamentary elections.

IMF Commends Macri's Policies in Argentina

The International Monetary Fund on Monday announced that its staff had reached an agreement with Argentina over its third review of the country's economy after a financing deal last year, Reuters reported. "We commend the authorities' policy efforts and strong determination to address macro-economic imbalances and advance their economic stabilization plan," the IMF said in a statement. The review unlocks $10.87 billion, which will help preserve "high-impact social spending."

Trump to Meet With Caribbean Leaders

U.S. President Donald Trump is planning to meet with the leaders of several Caribbean nations on Friday at his Mar-a-Lago resort in Florida, The Hill reported Tuesday, citing a White House statement. Trump will meet with the leaders of the Bahamas, the Dominican Republic, Haiti, Jamaica and Saint Lucia and will stress his administration's "strong friendship with and commitment to these countries, and signal the importance of the Caribbean to the hemisphere," the White House said in the statement.

Venezuelan Gov't Authorities Detain Key Aide to Guaidó

Venezuelan government security forces early Thursday morning detained a key aide to opposition leader Juan Guaidó, who has international recognition as the country's acting president, the Associated Press reported, citing an opposition legislator. Intelligence agents raided the Caracas home of lawyer Roberto Marrero, capturing him in an overnight operation, said the lawmaker, Sergio Vergara, whose home was also searched. Agents woke up Vergara by banging on his door and pointed weapons at him when he answered, he said. Vergara and Marrero recently traveled with Guaidó on a tour of Latin American countries to shore up support for the opposition's efforts to push President Nicolás Maduro from office. anti-government demonstrations and calls for him to leave office and allow new elections. [Editor's note: See related **Q&A** in Tuesday's daily Latin America Advisor.]

Guatemalan Judge Issues Warrant for Candidate's Arrest

A Guatemalan judge has issued an arrest warrant for former attorney general and current presidential candidate Thema Aldana, a court said Tuesday, but her candidacy gives her immunity from prosecution, Prensa Libre reported. A spokeswoman for Guatemala's Supreme Court said the warrant is related to a corruption investigation alleging some form of embezzlement, but authorities have not provided further details, the Associated Press reported. Aldana, 63, who is running with the relatively new Seed Movement party and is polling in second place, has denied wrongdoing. She was the Central American country's top prosecutor from 2014 to 2018 and led some of the country's most prominent investigations. Among them was the case against former President Otto Pérez Molina who, along with other politicians, was jailed for corruption. Aldana worked closely with the U.N.-backed International Commission Against Impunity in Guatemala, or CICIG, to try to lift President Jimmy Morales' immunity to start a probe into his alleged involvement in illicit campaign financing in 2015. The president has denied wrongdoing, and attempts to remove his immunity have failed in Congress. Morales, who claims the anti-graft agency has overstepped its bounds, in January said he would shutter CICIG, at the time hailing criticism from U.N. Secretary General António Guterres. CICIG has uncovered more than 80 criminal networks in Guatemala that involve more than 1,000 people, the Financial Times reported.

ECONOMIC NEWS

Brazil's Bolsonaro Proposes Military Pension Reform

Brazil's government on Wednesday sent lawmakers a proposal that seeks to save a net 10.45 billion reais ($2.8 billion) over 10 years by imposing tougher retirement rules for the military, The Wall Street Journal reported. President Jair Bolsonaro, a retired army captain, personally went to Congress to deliver the military pension reform plan, accompanied by Economy Minister Paulo Guedes and Defense Minister Fernando Azevedo, as well as army commander Edson Leal Pujol, Folha de S.Paulo reported. The government's bill would raise payroll contributions to 10.5 percent from 7.5 percent and increase the minimum number of years members of the military would have to serve before retiring from 30 to 35. Among those affected would not only be the armed forces, but also military police and firefighters. The conservative government submitted the military pension reform proposal exactly one month after delivering its plans for a major pension overhaul that would save more than $240 billion in taxpayer money over 10 years if approved in its current form. However, analysts expect Congress will water down the reform. [Editor's note: See related **Q&A** in the March 14 issue of the daily Latin America Advisor.]

FEATURED Q&A / Continued from page 3

Alcocer refused to resign from his position and has criticized new energy policy and, in particular, the candidates being proposed as future commissioners at the CRE, who lack experience in electricity and in complex energy markets. Accusations against García Alcocer are mostly aimed at family members and are very minor. This has caused outrage as no action has been taken against people suspected of major corruption at Pemex in recent years. AMLO's economic advisors publicly assure that private investment in energy remains welcome and that bidding rounds and auctions will resume soon, once results and procedures have been reviewed. But it is the president himself who is running this show, and he has no reassuring words at all."

A **Gonzalo Monroy, managing director of GMEC in Mexico City:** "President Andrés Manuel López Obrador's decision to criticize and ostracize CRE President Guillermo García Alcocer is an escalation of the overall capture of all regulators and entities of the government to consolidate political power. A budget cut for the CRE in 2019, which led to the dismissal of more than 250 temporary and career employees at the regulator, preceded AMLO's decision. With the resignation of three commissioners, and another whose term expired, the CRE has become nullified, as it does not have a quorum to proceed. As such, permits have become an issue for existing and potential players in the market. One of the most worrying signals about the decision to diminish the role of the CRE is that the whole notion of a fair, level playing field for all participants in the energy sector is at risk. The narrative that AMLO and his officials push is not to encourage market participation but rather to strengthen the importance, role and participation of state-owned entities, be they CFE or Pemex. It is fair to say that AMLO sees the regulator not as a guardian of the public interest, but rather as an obstacle to the state-owned companies' market preeminence."

A **Dwight Dyer, independent consultant on political, regulatory and security risk for Mexico's energy sector:** "The confrontation between president López Obrador and CRE President Guillermo García Alcocer actualized to near certainty a serious political risk for private sector companies in the Mexican energy industry. The consequences of this episode branch out into the institutional, legal and business arenas. García Alcocer's statement regarding the inadequate balance in substantive specialization of López Obrador's candidates for CRE commissioners—heavy on hydrocarbons, lacking on electricity—was pertinent on technical grounds and politically innocuous. The vehemence with which the administration launched administrative and tax-related investigations into García Alcocer's purported conflict of interest revealed the president's instinctive intolerance of regulatory agencies' institutional autonomy. When the Senate confirms López Obrador's evidently inapt candidates, CRE's executive board will suffer from poor technical expertise and acute political bias, most likely leading to contentious, divided decisions. One can only hope that García Alcocer can convince new commissioners to guarantee regulatory support for competitive energy markets. Should the new commissioners band together, CRE's decisions may end running counter to current legislation. Private-sector companies would then be able to challenge them in the courts. The opportunities for building a world-class energy industry are still there, but progress will require patience and true grit. Energy companies are no strangers to political risk, yet Mexico had made strides to mitigate it. Alas, no longer."

LATIN AMERICA ENERGY ADVISOR
is published weekly by the Inter-American Dialogue

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter
achacon@thedialogue.org

Latin America Energy Advisor is published weekly, with the exception of some major U.S. holidays, by the Inter-American Dialogue
1155 15th Street NW, Suite 800
Washington, DC 20005 **Phone:** 202-822-9002
www.thedialogue.org
ISSN 2163-7962

Subscription Inquiries are welcomed at
ebrand@thedialogue.org