Will Election Results in Argentina Upend its Energy Policy?

Peronist opposition candidate Alberto Fernández, whose running mate is former President Cristina Fernández de Kirchner, trounced incumbent President Mauricio Macri by a wider-than-expected margin in the country’s Aug. 11 primary vote. What’s at stake for Argentina’s energy sector in the upcoming October election? Which candidates have the best or worst energy proposals? How big of a challenge is Macri facing, and to what extent can continuity in energy policy be expected in the case of a potential Macri loss?

Jeremy M. Martin, member of the Energy Advisor board and vice president of energy & sustainability at the Institute of the Americas: “The dust has not completely settled from President Macri’s resounding defeat in Argentina’s Aug. 11 national primary, or PASO. Argentine voters loudly rejected his approach on the economy. Moreover, the 47 percent support amassed by the Fernández-Fernández coalition proved just how unreliable the polls have been. Indeed, exceeding the 45 percent threshold required for an outright victory in the Oct. 27 general election was surprising. The headwinds for President Macri’s re-election are stronger than ever and perhaps insurmountable. Financial markets wasted no time in responding to what they saw as the clear trend line heading toward October: A return to power of Kirchnerismo. According to Bloomberg, Argentina’s Merval stock market index lost almost half its value in dollar terms on Aug. 12. So where does that leave the outlook for the energy sector? Let’s focus on the Fernández-Fernández coalition and Vaca Muerta, the key to Argentina’s energy

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Ecuadorean Gov’t Divided on Future of Esmeraldas Refinery

Ecuador’s government is divided on how to deal with the future of the country’s Esmeraldas refinery, which has been facing inefficiency and pollution problems, El Comercio reported Saturday. Presidential advisor Santiago Cuesta said on Aug. 15 that the government is planning to close the refining plant, which can process 110,000 barrels per day. Instead, it will launch an international tender to build a new one for $6 billion, he said, Argus Media reported. He made the announcement at Esmeraldas in Quito, alongside the managers of state-owned oil company PetroEcuador and enterprise coordinator Emco. However, Energy and Nonrenewable Natural Resources Minister Carlos Pérez the following day issued a statement clarifying that the government’s plan is to hold a tender to contract a private investor to manage and improve the technical and environmental conditions of the refining complex, El Comercio reported. Pérez opposes the refinery’s closure, though he says he will follow through with it if an authority mandates it, according to the report. Both Cuesta and Pérez said that regardless of the refinery’s future, there will not be any massive layoffs at Esmeraldas. “We have to work on improving the technical condition of the plant on two fronts: emissions to the environment and fuel quality.”

— Carlos Pérez

being discussed because local communities had complained about an odor reportedly coming from the country’s largest refinery. Operations at Esmeraldas had been suspended for five months earlier this year for a scheduled maintenance. In his announcement last week, Cuesta told reporters that the refinery “has to close because of pollution.” Adding, “A new one that is less polluting, under Euro 5 [emissions] norms, incomparable to what we have now, will be offered in concession,” Argus Media reported. [Editor’s note: See related Q&A in the April 5 issue of the Energy Advisor.]

Argentina’s YPF to Cut Monthly Capex Due to Oil Price Caps

Argentine state-controlled oil company YPF will cut its capital expenditures, or capex, by between $100 million and $200 million each month in an attempt to offset expected losses from the government’s recently announced 90-day freeze on oil prices, Argus Media reported Aug. 16. Argentine President Mauricio Macri last week announced a freeze on crude oil and retail fuel prices as part of a series of measures designed to help Argentines through the country’s recession. The announcement came just days after Peronist opposition candidate Alberto Fernández trounced Macri in the country’s primary election by a wider-than-expected margin of 15 percentage points, Reuters reported. The decree prohibits firms from increasing retail gasoline and diesel prices despite the run on the peso and the local stock market’s sharp drop following the primary vote. The capex reduction will help make up for the negative earnings impact of the price freeze, YPF Chief Executive Daniel González said in a call with investors, Argus Media reported. “Together with the rest of the industry, we have communicated to the government the negative effects that we believe this measure will have on all of us,” González said. Adding, “This is a regulatory measure that we do not share, but we will respect.” The freeze is also likely to weigh on the value of YPF’s reserves and could slow down production, though the company

Residents of Peru’s El Alto District Protest China’s CNPC, Set Fire to Building

Locals of the El Alto district in northern Peru set fire to a building on Aug. 16 as they protested Chinese state-owned oil company CNPC, Reuters reported. The incident followed the end of talks between CNPC and local residents of El Alto, who are demanding that the Chinese firm commit to local development projects and hire some 100 employees from the district.

Brazil’s CPFL Energia Considers Potential Purchase of Cemig

Brazilian power company CPFL Energia might purchase utility Companhia Energética de Minas Gerais, or Cemig, as part of its expansion strategy, CPFL Chief Executive Officer Gustavo Estrella told Reuters on Aug. 16. “Cemig is in the same region as CPFL, so it’s an asset that we would have to look at and evaluate,” he said in an interview. Earlier that day, Cemig CEO Cledorvino Belini said the utility’s privatization may be approved by the end of the year. Cemig has a market value of 22 billion reais ($5.5 billion), according to Reuters.

China National Petroleum Suspends Oil Loadings From Venezuela

Chinese state-owned company China National Petroleum Corp., or CNPC, has suspended oil shipments from Venezuela following the latest round of U.S. sanctions against the government of Venezuelan President Nicolás Maduro, Reuters reported Monday, citing two Beijing-based senior sources with direct knowledge of the matter. CNPC is waiting for more guidelines from the U.S. Treasury before moving forward in dealing with Venezuelan oil, as the Chinese company is “worried that [it] is likely to be hit by the secondary sanctions,” one source said.
Lozoya has been at large since late May. His location is unknown.

Mexico Preparing New Charges Against Former Pemex CEO

Mexican authorities are preparing to file more criminal charges against Emilio Lozoya, the former head of state oil company Pemex, as the government of President Andrés Manuel Obrador boosts anti-corruption efforts, The Wall Street Journal reported Tuesday. Lozoya has been at large since late May after being charged in two separate corruption investigations in connection with his allegedly receiving more than $12 million in bribes from Brazilian construction giant Odebrecht and Mexican steelmaker Altos Hornos de México, or Ahmsa, during his time at Pemex. Lozoya’s location is unknown. Mexican investigators are now preparing to add charges in connection with his alleged involvement in a bribery scheme in which prosecutors claim he received some $2.8 million in bribes linked to Pemex’s 2015 purchase of Grupo Fertinal, a fertilizer company, The Wall Street Journal reported, citing a person with knowledge of the investigation. The Finance Ministry’s financial intelligence unit plans to file money laundering, bribery and embezzlement charges with Mexico’s attorney general’s office within several weeks, the source added.

Fertinal, which a Pemex report released this year described as “technically bankrupt” at the time of acquisition, was allegedly bought for about $194 million above its actual value. Lozoya, who led Pemex from 2012 to 2016, has repeatedly denied wrongdoing. In an open letter published in June, the former Pemex CEO said he was a victim of “political perse-

sector. The shadow cast by Cristina Kirchner is important but could be overestimated in terms of the medium-term impact on Vaca Muerta. Indeed, it was under her administration that YPF launched the Vaca Muerta pilot projects with partners such as Chevron and Dow Chemical; her final term also featured a major overhaul of the nation’s hydrocarbons law, which was well-received by oil companies. Moreover, there have been reports of her advisors meeting with industry to discuss Vaca Muerta and how to manage the resource in terms of economic benefits for the country. Certainly, energy policies that Kirchner embraced before, including price controls and capital repatriation restrictions, could possibly return with her, particularly if the current macroeconomic environment worsens. The key question is to what degree and whether even slight intervention or the perception of a heavy-handed state impedes investment and choking off growth in Vaca Muerta. What seems clear is there would surely be changes at the government’s energy secretariat and YPF’s senior management. Indeed, the importance and primacy of YPF in the nation’s broader energy plans and Vaca Muerta specifically could be one of the most important outcomes of a change in government.”

Gerardo Rabinovich, second vice president at Instituto de la Energía “General Mosconi” in Buenos Aires “The day after Argentina’s primary election, the peso lost more than 25 percent of its value, and the fall of the main economic parameters continued without finding a brake that week. Clearly, the opposition coalition led by former President Cristina Fernández de Kirchner does not have the confidence of the markets, which have responded very nervously to the election’s results. It is very unlikely that President Macri will be re-elected in October. Very little is known about the proposals of Peronism in the energy field, although some ideas have been advanced, such as continuing to support oil and gas development in Vaca Muerta, but without explaining how they will attract the necessary investments to do so in a context of distrust toward Argentina. Another idea of Argentina’s possible new leaders is to stop the development of wind and solar projects that have begun to have an important participation in the electricity matrix, jeopardizing the commitments that the country assumed in the fight against climate change. In the unlikely event that the ruling party manages to reverse its defeat, the energy policy is known: it will continue the trend of the last four years. This would include encouraging a greater participation of renewable energies in the electricity matrix, generating an aggressive energy efficiency policy and encouraging development in Vaca Muerta in a business-friendly environment, reducing the country’s energy trade deficit. In sum, Argentina has entered a zone of turbulence, and the most likely outcome is a setback to populist policies implemented prior to 2015.”

Isabella Alcañiz, associate professor at the Department of Government and Politics at the University of Maryland: “After the Macri government suffered a brutal electoral beating in nationwide primaries on Aug. 11 and the ensuing collapse of the Argentine peso the following day, it is hard to predict what will happen next with the country’s doomed economy and its energy sector. A re-election for Macri seem highly unlikely, given the results of the primaries (which virtually ensure an October win for...”}

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cution” and a “media campaign,” adding that a warrant for his arrest had been irregular and illegal. “There has been a media persecution against me since 2017, in which I have been accused, judged and condemned, violating to my detriment the human rights enshrined in the Constitution,” Lozoya wrote, Notimex reported. [Editor’s note: See related Q&A in the June 7 issue of the Energy Advisor.]

**RENEWABLES NEWS**

**Brazil’s CADE OKs Enel’s Purchase of ‘Green’ Projects**

Brazil’s Administrative Council for Economic Defense, or CADE, has approved without restrictions multinational energy company Enel’s acquisition of 378 megawatts of wind and solar projects, Renewables Now reported. Enel’s Brazil unit will buy the Ventos de Santo Orestes Energias Renováveis, Ventos de São Roque Energias Renováveis and Fortons de Santo Anchieta Energias Renováveis projects from Grupo Mário Araripe. The three projects are currently nonoperational. The solar plant has the capacity to generate as much as 300 megawatts of electricity, while the Santo Orestes wind farm and the São Roque have the capacity to generate 8 megawatts and 70 megawatts of electricity, respectively.

**POLITICAL NEWS**

**Acting U.S. Homeland Security Secretary Arrives in Panama**

Acting U.S. Homeland Security Secretary Kevin McAleenan arrived Wednesday in Panama, where he plans to discuss migrant smuggling and drug trafficking with officials in the Central American country, the Associated Press reported. McAleenan said he is not seeking

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**THE DIALOGUE CONTINUES**

**What’s Behind the Energy Deal Scandal Sweeping Paraguay?**

Paraguayan Foreign Minister Luis Castiglioni and other officials, including the head of state power company Ande, resigned last month amid a public outcry over the signing of an energy deal with Brazil in relation to Itaipú—one of the world’s largest hydropower plants, which the countries jointly manage. Paraguayan lawmakers and officials said the secret deal would be detrimental to Paraguay and cost the country some $200 million. Following the scandal, the two countries scrapped the deal. What is at the heart of the controversy, and what effects will it have on Paraguayan President Mario Abdo Benítez’s agenda? What did the energy deal consist of, and was it indeed unfavorable to Paraguay? How important is Itaipú for each country, and should Brazil and Paraguay work to integrate their power sectors more? To what extent does hydropower dominate Paraguay’s energy mix, and should it look toward diversifying it with other sources of power?

**Benigno López, Paraguay’s finance minister:** “It is important to clarify that the disputed agreement is an energy deal. Instead of the usual energy deal signed between the technical teams of Ande and Eletrobras, which occurred without interruption over the last 30-40 years, a diplomatic solution was requested at the beginning of this year due to a stalemate among both counterparts. The problem with this energy deal was that Ande and Eletrobras did not sign an agreement. According to Article XXII of the treaty, if no agreement is reached within Itaipú, the countries’ foreign affairs ministries must get involved—thus resulting in the agreement that was signed in May. This deal was widely criticized by the public, which referred to it as a secret, detrimental to Paraguay’s sovereignty, and ultimately, one that would increase the cost of electricity for Paraguayans. Unfortunately, there are a number of misconceptions. The deal was conducted with the same level of ‘secrecy’ as all previous ones, among representatives of both countries and without disclosure to the media. In terms of Paraguay’s sovereignty, the diplomatic deal does not relinquish any previous rights—Ande will keep its priority right over the excess energy. Furthermore, to avoid any increases of tariffs to Paraguayans, Itaipú will provide more than $200 million for infrastructure investments to Ande over the next four years. Despite this, President Abdo Benítez found the agreement ambiguous in some points and said it could be improved. Thus, he decided to cancel it. As of today, the energy agreement will be resolved at the technical level within Ande and Eletrobras, as it should be. Itaipú has an extraordinary importance for Paraguay. It is the top producer of clean and renewable energy of the world. We should take advantage of that and make all the necessary arrangements to use all of our share in order to grow in a friendly environmental scenario.”

**EDITOR’S NOTE:** The comment above is a continuation of the Q&A published in the Aug. 16 issue of the Energy Advisor.
**Brazil Moving Financial Activities Control Board Under Central Bank Unit**

Brazil’s government has issued a decree to move the Financial Activities Control Board, or Coaf, into a new financial intelligence unit within the central bank, MercoPress reported Wednesday. The move gives the central bank president control over who heads the new unit, as well as which officials are appointed to it. The Financial Intelligence Unit is designed to produce and manage financial intelligence information “for the prevention and combat of money laundering, terrorist financing and the financing of the proliferation of weapons of mass destruction,” according to the decree.

**Fintechs Aiding Financial Inclusion. Not Displacing Large Banks: Moody’s**

Fintechs in Mexico will not displace larger banks, but they will foster financial inclusion, Moody’s said in a note on Wednesday. While fintechs will focus on expanding services to the unbanked and underbanked, who are a sizable portion of the population in Mexico, they will not be displacing large Mexican banks any time soon, Moody’s said, adding that smaller banks might lose customers to new entrants if they fail to adapt to digitization. [Editor’s note: See related Q&A in last week’s issue of the Financial Services Advisor.]

**Former Honduran First Lady Convicted of Embezzlement**

A Honduran court on Tuesday convicted former First Lady Rose Elena Bonilla of embezzling approximately $600,000 in public funds during the presidency of her husband, Porfirio Lobo, the Associated Press reported. Bonilla is to be sentenced Aug. 28 and faces up to 87 years in prison. Lobo, who was in office from 2010 to 2014, vowed to appeal.

**Brazil’s Senate Approves Measure to Reduce Bureaucracy**

Brazil’s Senate on Wednesday passed a deregulation package aimed at boosting the country’s sluggish economy by simplifying business, The Wall Street Journal reported. Measures include launching a fast-track process to open new firms, waivers for some permit requirements and expanding the acceptance of digital documents, among others. “It is an attempt to reduce Brazil’s regulatory environment with that of global economic powerhouses by reducing the state’s interference in business,” André Marques, a lawyer with the firm Guerra Batista, told The Wall Street Journal. “They will let money circulate more freely.” Brazil is well known for its crippling bureaucracy, with the country ranking 109th out of 190 nations in the World Bank’s Ease of Doing Business index, lower than 10 other Latin American countries, including Mexico, Chile and Colombia. Opponents of the deregulation package have expressed concern over its implications on labor rights and environmental protections. “This is very harmful,” said opposition Senator Humberto Costa of the Workers’ Party, The Wall Street Journal reported. “Reducing bureaucracy won’t create jobs,” he added. Others have criticized a regulatory change that allows businesses to operate without getting environmental permits. President Jair Bolsonaro is now expected to quickly sign the bill into law. Economic activity in Brazil fell slightly in the second quarter, suggesting the country may have slipped into recession, Reuters reported.

**Argentina to Use Dollar Reserves to Bolster Peso: Lacunza**

Argentina will use its dollar reserves to shore up declines in its currency, said new Finance Minister Hernán Lacunza, as debt ratings agency Fitch warned that the peso’s recent depreciation “suggests a real risk of default” and “raises the potential for a sharper deterioration in economic growth,” BBC News reported. The country’s central bank has spent $709 million to support the peso since President Mauricio Macri’s resounding defeat in the Aug. 11 primary vote, which sent the peso spiraling.
the Peronist candidate Alberto Fernández), the president’s tone-deaf response to them and the vicious deepening of Argentina’s economic meltdown. Regardless, come next December, the energy sector will greatly preoccupy the next administration. Three key problems need immediate attention: high utility prices; major shale gas and oil reserve Vaca Muerta; and foreign investments. President Macri’s track record with these issues is not good. The Macri administration promised generous investments from abroad and a stable and bustling sector. Instead, the government created a Ministry of Energy and Mining only to downgrade it (back) to a secretariat less than three years later. In a little more than three years, the sector saw three different heads. President Macri also presided over a countrywide power outage, that even left neighboring Uruguay in the dark. Approximately 50 million consumers—most already desperate from price hikes in utilities of close to 50 percent—were affected and left without power for a day. All this has happened amid deteriorating economic conditions stemming from spiraling inflation and debt and a contracting economy. It seems unlikely that a Fernández administration would willingly choose continuity in energy policy.”

Patricia I. Vázquez, research associate at the Center of Conflict, Development and Peacebuilding of the Graduate Institute of Geneva: “The Vaca Muerta shale development in the province of Neuquén has been President Macri’s signature project, which he said would solve Argentina’s energy deficit of recent years, bring back foreign investments and generate much-needed employment. Macri delivered in part on his promises. Argentina is on its way to recovering the status of natural gas exporter it had lost to the previous government’s wrong energy policies, and investors arrived at Vaca Muerta. But production costs at Vaca Muerta remain relatively high in spite of efforts at reducing them. The government was forced to subsidize wellhead natural gas prices to attract investors. In addition, making Vaca Muerta commercially viable calls for major investments in infrastructure that the government is not in a position to make at the moment, and investors have been unwilling to commit to. News of Macri’s landslide loss in the primary elections on Aug. 11 created economic jitters in expectation of a return to power of populist former President Cristina Kirchner, who is running as vice president on the opposition ticket. A return to Kirchner’s previous interventionist policies would negatively affect future investor interest. However, her presidential candidate, Alberto Fernández, pledged during the campaign that preceded the primaries that his government would be more moderate if he were to win the October presidential election. Investors will most likely take a wait-and-see approach, and we will probably not see major changes to energy policies until mid-2020.”

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