LATIN AMERICA ADVISOR

ENERGY ADVISOR

A WEEKLY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

September 27, 2019

FEATURED Q&A

Is López Obrador Changing Course on His Energy Policies?

Mexican President Andrés Manuel López Obrador's government has earmarked some $4.4 billion for state oil company Pemex. // File Photo: Mexican Government.

Q **Mexican state oil company Pemex in the months ahead will launch a bidding process for 15 public-private contracts for integrated exploration and extraction, Finance Minister Arturo Herrera said this month. Days earlier, Herrera unveiled President Andrés Manuel López Obrador's 2020 budget, which includes 86 billion pesos ($4.4 billion) earmarked for Pemex in the form of a capital injection as well as tax breaks. Will the announced tender attract international and national companies, and what benefits would such public-private partnerships bring for Pemex? To what extent is López Obrador's government signaling a more pro-business approach in the energy sector, and what implications would such a move have on the country's investment environment? How significant is the financing included for Pemex in the budget, and is it enough for the company to avoid a downgrade to "junk" status?**

A **Pablo Zárate, managing director and strategic communications lead at FTI Consulting in Mexico City:** "There has been some confusion about the public-private contracts that Pemex announced. The reality is that these contracts, known as CSIEEs, are not really partnerships in the traditional sense. They are a rehash of the old incentivized service contract model, in which service companies are encouraged to deploy additional resources by being offered a portion of the upside. However, this is all based on keeping Pemex as the sole operator—and, hence, having Pemex's balance sheet as a limiting factor for developing Mexico's hydrocarbons. In contrast to the so-called farmouts (real JVs with other companies), this kind of contract is

Continued on page 3

TOP NEWS

OIL & GAS

AMLO: Capacity of Mexico's Refining Plants Up to 50%

President Andrés Manuel López Obrador said the processing capacity of state oil company Pemex's six refineries has increased from 38 percent to 50 percent.

Page 2

RENEWABLES

Bolivia Launches 50-Megawatt Solar Plant in Oruro

The government plans to double the plant's capacity in the coming years.

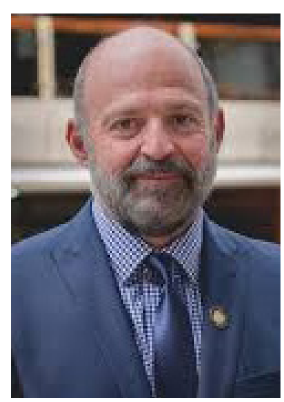
Page 2

OIL & GAS

Costa Rican Court Authorizes First Step for Vote on Oil Exploration

A Costa Rican court has authorized pro-exploration activists to gather signatures in support of a referendum to vote on the country's oil exploration ban. Environment and Energy Minister Carlos Manuel Rodríguez blasted the proposal as incoherent and illogical.

Page 2



Rodríguez // File Photo: Costa Rican Government.

OIL AND GAS NEWS

Processing Capacity of Mexican Refineries Up to 50%: AMLO

The processing capacity of six refineries of Mexican state oil company Pemex has increased from 38 percent to 50 percent, Mexican President Andrés Manuel López Obrador said Monday, adding that his government expects to boost the capacity to 75 percent by the end of next year, Reuters reported. Combined, the refining plants are able to process some 1.6 million barrels per day (bpd) of crude, but they have been operating at about one-third of total capacity for several months. At the end of July, the refineries were processing some 657,000 bpd, according to the report. "We are investing in refineries," López Obrador said. "They were producing very little. There were halted refineries that had not operated in months." He added that his government had begun a "rehabilitation process" to bring that capacity to 50 percent. On Tuesday, Energy Secretary Rocío Nahle said that since December, when López Obrador took office, the six refineries' production of crude and fuel was up by 20 percent, adding that she expects production to reach 900,000 bpd by the end of the year. One of the López Obrador administration's staple projects is the construction of a new refinery in Dos Bocas in Tabasco State with the aim of reducing Mexico's dependence on fuel imports, which mostly come from the United States. The government's goal is to launch the $8 billion refinery in three years, Bloomberg News reported. However, analysts have blasted the project as unrealistic and overly costly for Pemex, the world's most indebted oil firm. "Construction of the Dos Bocas refinery is a project that almost certainly will destroy value for Pemex and Mexico," the Mexican Institute for Competitiveness, a public policy think tank, said in May, the Associated Press reported. [Editor's note: See related **Q&A** in the Dec. 21 issue of the Energy Advisor.]

> **"We are investing in refineries. They were producing very little."**
> **— Andrés Manuel López Obrador**

Costa Rica Court OKs First Step for Vote on Oil Exploration Ban

A Costa Rican court on Sept. 20 authorized pro-exploration activists to gather signatures to propose holding a referendum to vote on the country's ban on oil and gas exploration, Reuters reported. The Central American nation prohibited such exploration under former President Abel Pacheco in the early 2000s, a ban that three subsequent administrations extended. Earlier this year, President Carlos Alvarado's government further extended the moratorium until 2050, at the same time that it announced plans to decarbonize the country's economy, La Nación reported. Carlos Roldán, a chemical engineer at Costa Rica's State Institute of Technology, has led efforts to reverse the ban. Pro-exploration activists, including Roldán, must obtain the support of at least 5 percent of voters, or 171,000 people, to go forward with the referendum. "If politicians deprive us of the possibility to take advantage of our own resources for our well-being, the people have the opportunity to decide otherwise," Roldán said, Reuters reported. "We cannot afford to have this wealth and not use it," he added. If Roldán and other activists gather the required signatures, electoral magistrates are expected to review and approve the legislative bill on the referendum. Energy and Environment Minister Carlos Manuel Rodríguez blasted the proposal as incoherent and illogical. "Fossil fuels are not part of the future and of societies," he said, La Nación reported. "The world is going in one direction, and Costa Rica is going in the same one. If we have oil exploration, we would be putting the biggest brake on the process of electrifying the country's transport sector," he added. In recent months, Cuba, the Dominican Republic and Panama have also taken steps to

NEWS BRIEFS

Electric Bus Fleets to be Launched in Medellín, Increased in Cali This Year

Cali, Colombia's third-largest city, will receive 110 electric buses by the end of the year, according to Verónica Uribe, the head of operations for Metro Cali, the city's bus system, Reuters reported last Friday. The new arrival adds to the 26-electric bus fleet launched in Cali earlier this month, the first such fleet in the Andean country. In Medellín, Colombia's second-largest city, city hall has invested about $22 million to finance a fleet of 64 electric buses, which are set to roll out in November.

Bolivian Gov't Inaugurates New 50-MW Solar Plant in Oruro Department

A 50-megawatt (MW) solar plant in Bolivia's western department of Oruro has begun operations, the government said, Renewables Now reported Tuesday. Spanish firm TSK Electrónica y Electricidad built the Oruro photovoltaic farm, which Bolivian state utility Empresa Nacional de Energía, or ENDE, owns. Some $42.6 million was invested in the plant, whose capacity the government plans to double in coming years, Vice President Álvaro García Linera said during the inauguration event. Bolivia has 194 MW of renewable capacity, enough to meet 13 percent of the country's power demand, he said.

Electricity Restored in Venezuela's Amuay, Cardón Refineries: Source

Electricity has been restored in Venezuela's Amuay and Cardón refineries, which are part of the country's largest refining complex, Reuters reported last Friday, citing three sources at Venezuelan state oil company PDVSA. A power outage on Sept. 19, a result of an electrical storm in the area, shut down the refineries' operations. Additionally, a separate fire in a unit of the Amuay refinery was put out.

open up the possibility for oil exploration, the wire service reported.

U.S. Sanctions Firms Shipping Venezuelan Oil to Cuba

The administration of U.S. President Donald Trump on Tuesday imposed sanctions on four companies that operate ships transporting Venezuelan oil to key ally Cuba, the Miami Herald reported. The U.S. Treasury's Office of Foreign Assets Control, or OFAC, said it was sanctioning Caroil Transport Marine, a Cyprus-based company operating three shipping vessels that had delivered or loaded Venezuelan crude with Cuba as a final destination. The Treasury Department also slapped sanctions on the registered owners of those ships, Trocana World Inc. and Tovase Development Corp., both based in Panama, as well as Bluelane Overseas. However, OFAC also said it had lifted sanctions on two companies after they halted business relations with Venezuela and Cuba.

Colombia Fracking Pilots May Bring Investments of $5 Bn

Four pilot projects that are to use hydraulic fracturing, or fracking, in Colombia could generate as much as $5 billion in annual investments, industry leaders said Tuesday, Reuters reported. Colombia's top administrative court, the Council of State, is hearing a case that could lead to fracking in the South American country. However, the court has said that pilot projects that an expert commission has recommended can proceed. "In the first phase of the four pilots, they will require investments of around $600 million per year—so we'll surely have two, even up to three years, with investment of that amount, and once we pass to the production phase they will require investments of around $5 billion per year," Francisco Lloreda, head of the Colombia Petroleum Association, told reporters Tuesday.

FEATURED Q&A / Continued from page 1

not attractive for international oil companies or other national oil companies and, so far, we have seen that it's only some domestic service companies that are keen on working with Pemex in this way. Clearly, this all has rhymed much more with Pemex's past than with what we had hoped would be Pemex's future. In recent weeks, however, there has been a marked move in discourse toward pragmatism—as messaging from more pragmatic officials (such as presidential chief of staff Alfonso Romo and Finance Secretary Arturo Herrera) seems to be gaining traction. The Ministry of Energy has continued to consider roughly the same resource base for the five-year E&P plan—a move supposed to set the direction for new bidding rounds. There has also been a new round of promising statements from senior officials regarding the need for additional private investment to tap into resources in more technologically challenging areas, such as deepwater and gas-focused opportunities. This should be the way forward: reactivating the licensing, production-sharing and farmout contracts so that enthused global investors and operators would decisively stoke investor confidence in Mexico and help Pemex pave a way toward financial sustainability."

A **Dwight Dyer, independent consultant on political, regulatory and security risk for Mexico's energy sector:** "The Spanish philosopher Jorge Santayana coined the phrase, 'Those who do not remember the past are condemned to repeat it.' Regarding Pemex, I would add that, alas, those who do remember it already know what's coming. The López Obrador administration's insistence on using service contracts to attract private sector participation to Pemex's oil and gas exploration and production activities is bound to deliver results no better than those achieved in the mid-to-late 2000s, when they were first put to the test. It is even ironic that López Obrador would resort to the mechanisms tried unsuccessfully during one of his neoliberal nemesis' administration. The principal criticisms about the service contracts during the Calderón presidency included the poor alignment of incentives between contractors and Pemex and the fact that Pemex carried the totality of the risk if they failed to produce results. In hindsight, the critics appear to have called it right. Why should Mexicans think that this time around a variant of these instruments will produce the desired results? The current administration has not made its case with clarity, but it purports to offer a short-term solution to Pemex's ailing operations. The risks for the company and the administration cannot be understated. Judging by shop talk in the Mexican oil industry, many domestic contractors are giddy at the prospects of working for Pemex, and major, international service companies are unlikely to let an opportunity as large as this pass. However, when these contracts fail to live up to expectations, the opportunity cost to resurrect the tools in the 2013 energy reform, namely farmouts and joint ventures, will have sunk. Pemex, and Mexico, will probably regret having chosen this path."

> **"Pemex, and Mexico, will probably regret having chosen this path."**
> **— Dwight Dyer**

A **Fluvio Ruiz Alarcón, Mexican oil sector analyst:** "Given what has been the Mexican left's historical position and the electoral platform of the ruling coalition, it was not surprising that the current administration undertook a radical turn in Mexico's oil policy. This change meant the halt of bidding rounds for exploration and production contracts, as well as the cancellation of farmouts, which were used more as a

Continued on page 6

Lloreda added that he hoped work on the pilot projects could start next year, at least on the infrastructure that would be needed. He said the pilot projects could produce as much as 450,000 barrels of oil per day. Currently, Colombia produces approximately 860,000 barrels per day. The pilots are projects of coal company Drummond, as well as Colombian state oil company Ecopetrol, and U.S.-based ExxonMobil and ConocoPhillips. The potential use of fracking in Colombia has led to charged debate, with environmental groups saying it could harm water supplies and also cause earthquakes. Supporters, however, say the practice is needed for Colombia to be energy self-sufficient. The Council of State's decision to allow the pilot projects has led to their being separated from a larger case on allowing the use of fracking, Germán Espinosa, the leader of Campetrol, an oil services guild, told reporters on Tuesday. "The pilots have nothing to do with the regulation that exists currently so surely what will happen is that [the government] will need to create some technical protocols and the national environmental authorities will need to say how this experimental phase will be managed," he said, Reuters reported. Colombia's licensing authority suspended Ecopetrol's request to begin a pilot project before the court ruled that the pilot projects can go forward. Prior to the decision, requests for licenses by ConocoPhillips and Canacol also were shelved. [Editor's note: See related **Q&A** in the Nov. 9 issue of the Energy Advisor.]

POLITICAL NEWS

Trump Bars Top Venezuelan Officials From Entering U.S.

U.S. President Donald Trump signed an order Wednesday barring top members of Venezuelan President Nicolás Maduro's government from entering the United States, Reuters reported. The proclamation bars the entry of all Venezuelan government officials with a position of vice minister or higher, all members of the military with a rank of colonel or

NEWS BRIEFS

Guatemalan Congress Creates Commission to Review CICIG's Work

Guatemala's Congress on Tuesday approved the creation of a committee to evaluate and potentially roll back work that U.N.-supported anti-corruption mission CICIG carried out in the country over the past 12 years, the Associated Press reported. The committee would have the power to review information from anyone affected by CICIG investigations and to file complaints, look over the commission's financing and request personal information from people who worked with the anti-graft body. CICIG ceased work in Guatemala earlier this month after President Jimmy Morales did not renew its mandate.

Argentina a 'Top Priority': Incoming IMF Director

Argentine Finance Minister Hernán Lacunza met Wednesday with the International Monetary Fund's incoming director, Kristalina Georgieva, at the IMF headquarters in Washington, where Georgieva told him that she "wanted the first meeting of her administration to be with Argentine officials," Argentina's treasury ministry said in a statement, Reuters reported. Argentina is a "top priority" for Georgieva, the statement added. Georgieva begins her term on Oct. 1.

IMF, Ecuador Agree on Findings of Loan Review Program

A mission of the International Monetary Fund and Ecuadorean officials have agreed on findings related to the second review of a $4.2 billion loan program, the Associated Press reported Monday. The review will now be up for consideration by the IMF's executive board, and an approval would give Ecuador access to an additional $250 million. The Andean country has already received $550 million from the IMF.

above, members of the pro-Maduro Constituent Assembly and their immediate family members. Additionally, the ban also includes anyone acting "on behalf of or in support of" Maduro, along with people who receive "financial benefit" from the government, BBC News reported. On the sidelines of the United Nations General Assembly meeting in New York, Trump told Latin American presidents who recognize opposition leader Juan Guaidó as Venezuela's legitimate president, as do the United States and several other nations, that they were members of a "historic coalition." Trump said, "Venezuelans are starving and they're dying from lack of medicine, doctors, help." He added that socialism has "destroyed" oil-rich Venezuela and that the United States was doing everything possible "to isolate Maduro and his cronies." Last month, the Trump administration imposed sanctions that froze any property that Maduro's government has in the United States and also barred U.S. companies from doing business with Venezuela. Also on Wednesday, Trump met with Guaidó's representatives to the U.N. General Assembly instead of Maduro's, the Associated Press reported. The United Nations continues to recognize Maduro as Venezuela's president. "We will stand with the Venezuelan people every single day until they are finally freed from this horrible and brutal oppression," said Trump. "They will be freed. It will happen." Trump's meeting with Guaidó's delegation to the United Nations drew an angry response from Maduro's foreign minister, Jorge Arreaza. He called the meeting "shameful," accusing Trump of "trying to distract the public from his own scandals," Fox News reported.

U.S. Announces Migration Deal With Honduras

The administration of U.S. President Donald Trump on Wednesday announced a migration deal that will allow the United States to send asylum seekers to Honduras, one of the world's most violent nations, The Washington Post reported. Officials at the Department of Homeland Security reached an agreement with the government of Honduran President Juan Orlando Hernández, who recently was accused in connection with a major U.S. drug trafficking case. Under the deal, U.S. immigration authorities would be allowed to send migrants who reach the U.S.-Mexico border to Honduras, a country where gang wars have pushed hundreds of thousands of citizens to flee to the United States. More than 250,000 Hondurans have crossed the U.S. border during the past 11 months, with many filing protection claims that have added to the backlog of asylum cases in U.S. courts, according to the report. The accord with Honduras follows similar but not yet implemented deals with the other so-called Northern Triangle countries—Guatemala and El Salvador. The three nations combined are the largest source of illegal immigration to the United States, the Financial Times reported.

ECONOMIC NEWS

Colombia Seeking to Boost Trade With Asia: Duque

Colombia is seeking to increase its level of trade with Asian countries, President Iván Duque said Wednesday on the sidelines of the U.N. General Assembly meeting in New York. Colombia wants to strengthen trade ties with China, Japan, South Korea and Singapore, Duque told Bloomberg Television in an interview. The Andean nation also wants to secure funding for infrastructure projects such as roads and ports, said Duque. "Colombia is looking to diversify its exports and consolidate markets," he told Bloomberg Television. "We will continue to call investors worldwide to look at Colombia as the place in Latin America." Duque added that he wants to send Colombian agricultural products, such as beef, bananas and avocados, to China. Duque added that Chinese companies have expressed interest in constructing a port on Colombia's Caribbean coast, and some have also expressed interest in participating in the project to construct a subway system in Bogotá. China is Colombia's second-largest trading partner after the United States, Bloomberg News reported.

FEATURED Q&A / Continued from page 3

palliative to Pemex's budget limits (giving up a good part of the future income) than as instruments to establish productive synergies with other operators. In that sense, beyond the mere economic issue, it would be highly significant, from a political point of view, that the government resumes tenders and farmouts without using its legislative majority to make legal changes to, for example, allow Pemex to select its own partners, or at least use existing provisions in the Hydrocarbons Law to establish a mandatory participation of Pemex in the fields to be tendered. This would mean that pragmatism would have defeated the government's ideological firmness, thus legitimatizing the core of the energy reform. Support for Pemex would be more effective if accompanied by modifications to obtain an institutional architecture that reflects the government's willingness to make Pemex the central axis of the oil sector, without eliminating the presence of different operators already in it. The budgetary effort will lose effectiveness while the rules of the game, contained in the sector's various laws, regulations and regulatory provisions, are not modified."

"It would be highly significant, from a political point of view, that the government resumes tenders and farmouts..."

— Fluvio Ruiz Alarcón

A **Greg Ahlgren, partner at Diaz, Reus & Targ LLP:** "Pemex's long-term challenges are multifaceted and subject to the tides of Mexican politics. Saving the state-owned oil company from a downgrade will require the confluence of several key focus areas. Many see farmout agreements with the private sector as the best hope for boosting productivity. Additionally, the injection of funds may improve Pemex's liquidity situation, but other endemic problems persist, such as fuel theft. The fuel theft issue is a recurrent and special theme for AMLO's government, as was made evident at the Mexican government's Independence Day parade in Mexico City on Sept. 16—AMLO is in a determined public relations campaign on the issue of 'huachicol.' Nevertheless, Pemex forms a significant part of AMLO's plan to redistribute wealth in southern Mexico, as evidenced by the Dos Bocas refinery project, which was a key proposal in AMLO's presidential campaign. Consequently, the long-term health of Pemex's finances remains an unresolved and keenly important issue for the achievement of AMLO's political objectives for reforming the Mexican state."

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

LATIN AMERICA ENERGY ADVISOR
is published weekly by the Inter-American Dialogue
Copyright © 2019

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