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FEATURED Q&A

Do Mexico's New Power Sector Rules Favor the State?

International companies and local industry groups have blasted Mexican President Andrés Manuel López Obrador's new power sector measures. // File Photo: Mexican Government.

Q The Mexican government on May 15 issued new rules for the operation of the country's power grid, affecting dozens of renewable energy projects and drawing criticism for what energy companies and local industry groups say are measures that favor Mexican state-owned electric utility CFE over private developers. What do the new rules entail, and what is the government's reasoning for implementing them? Why have the measures sparked controversy? To what extent will the decision affect foreign direct investment in Mexico's power sector, and particularly ongoing and future renewable energy projects in the country?

A Jeremy Martin, member of the Energy Advisor board and vice president for energy and sustainability at the Institute of the Americas: "The growing war on renewables in Mexico has taken center stage. It has moved to an all-out attack on renewable energy players and the role of clean energy for the nation's energy matrix and economy. The charge of intermittency is but a stalking horse. In late October and again in April, AMLO's government threw many of Mexico's clean energy goals into doubt when it announced it was changing the market rules, first for clean energy certificates and more recently for renewable generators not yet online and to prioritize CFE. The latter was couched in the context of Covid-19, and using the euphemism of reliability, allowed CENACE to postpone renewable project pre-operation testing and essentially halt implementation of several projects; the effort directly favors CFE and the desire to increase Pemex-supplied fuel oil for power generation. There is, of course, great irony in the horrific

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TOP NEWS

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Petrobras Expands Refining as Fuel Demand Picks Up

Utilization at Petrobras' refineries approached pre-crisis levels last week in response to an uptick in the demand for fuel.

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OIL & GAS

Gasoline Cargoes From Iran Arrive in Venezuela

Venezuela has begun preparations to distribute fuel as the fourth cargo of a five-tanker flotilla coming from Iran crossed into Venezuelan waters, in a move that could anger the United States. The Andean nations is struggling amid a sharp shortage of gasoline.

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OIL & GAS

YPF's Plans to Expand LNG Exports on Hold

Argentine state-controlled oil firm YPF is putting on hold plans to expand exports of liquefied natural gas, or LNG, as the market continues to show little appetite for the liquid fuel, according to board chairman Guillermo Nielsen.

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Nielsen // File Photo: Telam.

OIL AND GAS NEWS

Venezuela Preps Distribution as Iran's Fuel Cargoes Arrive

Venezuela has begun preparations to distribute gasoline that arrived this week from Iran, as the fourth cargo of a five-tanker flotilla crossed into Venezuelan waters on Wednesday, Reuters reported, citing Refinitiv Eikon and a government official. Iran is providing the government of Venezuelan President Nicolás Maduro with as much as 1.53 million barrels of gasoline and components to help the Andean nation as it struggles with a sharp fuel shortage that has made Venezuelans wait in line for hours at service stations. The shipments from Iran have brought criticism from U.S. authorities as both Iran and Venezuela are under U.S. sanctions. U.S. assistant secretary of state for Near Eastern affairs, David Shenker said Wednesday that Washington was "not pleased" with the shipments and was looking at "options" for a response, Reuters reported. Venezuela is in dire need of gasoline, just as Iran needs cash, while both countries are eager to defy the administration of U.S. President Donald Trump, The New York Times reported. "It's striking that the Iranian feels confident enough that the Trump administration is not going to get in their way and is willing to take this risk in what is traditionally thought as the U.S. sphere of influence," Risa Grais-Targow, an analyst at the Eurasia Group, told the newspaper.

YPF Plans to Expand LNG Exports on Hold Given Low Demand

Argentine state-controlled oil firm YPF is shelving plans to expand exports of liquefied natural gas, or LNG, as the market continues to show little appetite for the liquid fuel, Argus Media reported May 21. "Very few investment ideas survive in this context that we're going through," YPF board chairman Guillermo Nielsen said last week, in reference to low demand for fuels due to coronavirus-related lockdowns around the world. "Certainly in LNG … We don't see room for that to fly," he added. YPF had been evaluating the possibility of installing a new liquefaction complex in Bahía Blanca in a bid to take advantage of the country's vast shale gas reserves in a context of domestic bottlenecks, Argus Media reported. However, those plans have been suspended. Argentina will continue to be an LNG importer, particularly during the Southern Hemisphere winter when heating demand spirals. Nielsen said the LNG imports and pipeline gas exports to Chile and Brazil, which were recently reinstated after being cut off for years, will remain the preferred model for now. "It's easier to get to our neighbor's markets through pipelines," Nielsen said during a virtual energy conference. His remarks mark a shift from YPF's position last year, when then-CEO Daniel González said the company "definitely need[ed] a liquefaction plant" to absorb rising domestic production that was pushing YPF to shut in wells during periods of low demand, Argus Media reported. González left his position as chief executive last month. Sergio Affronti replaced him.

Petrobras Expands Refining as Demand for Fuel Picks Up

Petrobras has expanded its refining in response to a pick-up in fuel demand, with utilization rates approaching levels on par with those seen before the economic crisis stemming from the coronavirus pandemic, according to the Brazilian state oil company's downstream director, Anelise Lara, Argus Media reported May 21. Utilization at Petrobras' refineries reached 77 percent last week, up from a mid-April low of around 52 percent and just slightly below the 79 percent average registered in the first quarter. The company expects a full return to pre-crisis demand levels in the fourth quarter of this year. The slow rise in demand for fuel comes as coronavirus-related restrictions ease in the South American nation, even as the number of registered infections has spiraled.

NEWS BRIEFS

Indigenous Leaders Seek to Halt Oil Drilling Near Amazon Headwaters

Indigenous leaders are issuing a call for help to stop oil companies from drilling in the headwaters of the Amazon River in the face of the coronavirus pandemic, Reuters reported, citing a video that communities in Peru and Ecuador shared with the wire service on the International Day for Biological Diversity on May 21. "We need to find a new route, post-oil, for economic development, for the well-being of all humanity, not just indigenous people," said Domingo Peas, a leader from Ecuador's Achuar nation.

At Least Five Producers Report Coronavirus Cases in Brazil's Oil Fields

Norway's Equinor and Anglo-French company Perenco are among at least five producers that have reported cases of Covid-19 among employees or contractors at facilities off the coast of Brazil, Reuters reported Wednesday, citing industry and regulatory sources. Royal Dutch Shell and Brazil's Enauta have each registered one case of the novel coronavirus, while hundreds of cases have been recorded at oil fields that state run oil company Petrobras operates, according to the report.

Guyana Loads Second 1 Mn Barrel Crude Cargo

A second one-million-barrel cargo of crude from the Liza oil field allotted to Guyana's government was loaded last week, and a third is scheduled for July, according to the country's energy department, Argus Media reported Monday. Ship shows the Bahamas-flagged vessel carrying the crude en route to the Dutch Caribbean island of Aruba. Guyana awarded the first three cargoes of its share of Liza production to Shell Western Supply and Trading, a subsidiary of Royal Dutch Shell. The first cargo was loaded in February.

Social-distancing measures had hurt demand for fuel in Brazil and elsewhere as people stayed home. The uptick in refinery utilization was also influenced by export demand for low-sulfur marine fuel and high-octane gasoline, according to the report.

Mexico to Remain in OPEC+, Not Planning Further Output Cuts

Mexico is planning to participate in the OPEC+ meeting in June, but it is not considering further production cuts, the Energy Ministry told Argus Media last Friday. "Mexico will participate in the OPEC+ meeting in June, but we do not contemplate more cuts," the ministry said. "There are no plans to leave the group," it added. The group, which consists of the Organization of the Petroleum Exporting Countries and additional producers including Russia and Mexico, has a virtual conference scheduled for June 10, with the aim of exploring further action to rebalance the global oil market. The meeting comes after three months of price volatility and market turmoil amid the coronavirus pandemic and a price war between Saudi Arabia and Russia. Last month, OPEC+ agreed to cut production in a historic deal, which Mexico initially opposed, CNBC reported. Mexico in April agreed to cut production by 100,000 barrels per day (bpd) in May and June, with the United States agreeing to reduce output by an additional 250,000 bpd to compensate. The output reduction amounted to roughly 10 percent of global supply, though some traders have said the cuts are just a fraction of the plunge in demand for crude, Bloomberg News reported last month. OPEC had warned that the reductions could end up being much greater.

OPEC+ members have a call scheduled for June 10 to explore further production cuts.

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damage to Mexico's emission footprint at the time of a respiratory illness pandemic. The good news is that institutions are functioning and responding. Mexico's judiciary and the independence of its legal system are providing a key avenue for reviewing the orders. The legal challenges being considered will have a strong role in the broader policy space. Anti-trust regulator COFEC issued a strong opinion indicating that CENACE's measures would have an anticompetitive impact on the electricity market. Furthermore, seven governors from across Mexico pushed back against the government's renewable energy backsliding and erosion of its climate commitments. They assert the need to respect investment and investor confidence, with an eye to economic development and employment. But the challenge grows by the day, with every presidential morning press conference and interview by CFE director Manuel Bartlett. Investor confidence has been dashed. The message of opposition to private participation in the market has been sent and received loud and clear. Where we go from here is not clear."

A **Víctor Rodríguez, professor at UNAM:** "The May 15 rules seek to bring order to the incorporation of variable-generation power plants—wind and solar—into the electric grid. The opening, liberalization and deregulation of the electricity industry led to a boom in generation permits for variable energies without a prepared power grid. Authorities back then prioritized the entry of private investment, leaving the necessary public investments to improve and expand the transmission network for later. The power grid's vulnerabilities emerged with the fall in demand amid Covid-19. At a low load, the system became unstable, and the network operator has had difficulties in maintaining reliable and quality supply. The risk of blackouts in some regions is real. As such, the government decided to moderate the entry of variable power plants to give the electric system time to adapt. There are also economic reasons. Policy and regulation so favorable to private capital, as well as the implicit subsidies in interconnection, support and porting during the Peña Nieto administration, seriously affected CFE's finances. The government is now looking for private firms to pay full costs that come with presence on the electric grid. Mexico is highly polarized, and any official measure is used to disqualify the government, stir up squabbles and deepen divisions. The business sector and its political, media and academic environment have considered the electricity issue to be a measure against free enterprise, private initiative and competition. Their animosity against the president has led them to dismiss the power grid's technical problems and the enormous damage it has caused the CFE."

A **Dino Barajas, partner at DLA Piper:** "The May 15 resolution was enacted to provide greater operational control to CFE over the country's electrical grid. The government had been criticized for CENACE's May 2 resolution, which prohibited testing and interconnection of intermittent power generation facilities (wind and solar) that weren't already in commercial operation and allowed the government to prioritize fossil fuel facilities over intermittent facilities, irrespective of costs, under the guise of ensuring the electrical grid's stability during the pandemic. The May 15 resolution sought to provide a legal basis for the prior resolution, which essentially amounted to a roll-back of years of energy reforms that had encouraged the development of cost-competitive green sources of electricity. The near-term effect will be chilling on renewable energy development. The unintended longer-term effect may be higher costs of development of the infrastructure sector for both the government and private parties, given that lenders and investors will scrutinize change in law risk and creeping expropriation if they

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POWER SECTOR NEWS

Peru's Electricity Generation Drops by 30 Percent in April

Peru's electricity generation fell by 30 percent in April as all power plants except solar farms lowered their output, according to preliminary figures issued by the Peruvian energy ministry, Renewables Now reported Monday. The country's non-hydro renewables accounted for 6.8 percent of the nation's electricity production last month, generating 224 gigawatt-hours. According to the ministry, renewables output in April was lower as compared to December, but it registered a higher share of total generation. Renewables made up 5.2 percent of all electricity generated in December. All sources of electricity except solar, including hydropower, natural gas, diesel and wind, produced less in April than they did in the same month the previous year. Solar power generation rose by 13 percent year-on-year. In the first four months of 2020, total electricity generation fell by 8.6 percent, reaching 17,321 gigawatt-hours.

POLITICAL NEWS

Brazilian Police Raid Bolsonaro Allies in Misinformation Case

Brazil's Federal Police force on Wednesday executed more than a dozen search warrants targeting supporters of President Jair Bolsonaro in an investigation into an operation to spread defamatory misinformation and make threats against Brazilian Supreme Court justices, the Associated Press reported. The raids were in connection with a probe of an alleged scheme to spread fake news via social networks to damage the image of the high court, endangering the "independence of judicial power," said Supreme Court Judge Alexandre de Moraes. A group of business leaders close to Bolson-

ADVISOR Q&A

Will a Copper Glut Mean Trouble in South America?

Q Chile's copper market will see a supply glut of 200,000 metric tons this year as the economic fallout of the Covid-19 pandemic hits global demand for the red metal, according to a Chilean industry group. Meanwhile, a World Bank report forecasts that production of other minerals such as lithium and cobalt could increase by almost 500 percent by 2050 to meet the growing demand for clean energy technologies. What can the copper industry in South America, including in Chile and Peru, expect in the period ahead? How might the expected supply gluts affect the countries' general economies? Are governments refocusing efforts on production of other minerals, and what else should they be doing now in order to take advantage of the expected long-term demand for lithium and cobalt?

A Pablo de la Flor, executive director of Sociedad Nacional de Minería, Petróleo y Energía (SNMPE) in Lima: "Peru's implementation of strict social-isolation measures since mid-March to curb the spread of Covid-19 has severely hampered the mining industry, bringing it almost to a halt. The sector's activities have since been limited to maintaining critical tasks essential for the care and preservation of operations. In Chile's case, mining was not affected by the suspension of activities, and the main companies have continued operating with relative normalcy despite rigorous quarantine measures there, too. This much is evident in trade data, which also shows a huge divergence in both countries' mining sectors during lockdowns. While Peru's mining exports contracted by 26 percent, Chile saw a 5 percent increase in foreign sales. This difference is likely to have been exacerbated in April, when some of the main Peruvian producers stopped operating completely, leading to an even greater projected contraction in exports. Faced with the notable deterioration of the country's economic conditions, Peru's government has gradually begun reopening different sectors, including large-scale mining in the first phase. This includes 39 operations of 22 companies, which together represent 80 percent of total production. Medium-sized companies, especially relevant in the gold sector, will reopen in a second phase, with small companies resuming operations in the third and final stages. Copper mining in both countries faces a negative international scenario, marked by the drop in prices and the contraction in demand associated with an already settled recession in Europe, the United States and much of Asia. In this scenario, the only encouraging news is the incipient recovery of economic activity in China, after the implosion of the first quarter. Not surprisingly, as a result of these trends we see the postponement of some relevant mining projects. In the case of Chile, large producers such as Tec, BHP and Antofagasta Minerals have already announced investment cuts."

> **"Peru's government has gradually begun reopening..."**
> **— Pablo de la Flor**

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

NEWS BRIEFS

Chile to Expand Network of Isolation Residences

Chile is seeking to expand its newly opened network of isolation residences for coronavirus patients as the country's public health service struggles with a sharp uptick in Covid-19 cases, the Voice of America reported. On Wednesday, President Sebastián Piñera said the network consists of 66 spaces with more than 2,500 rooms to treat coronavirus patients, where food and 24/7 medical attention, Internet access and television are available. Chile has recorded more than 82,000 cases of Covid-19 and more than 800 deaths.

Peru's Mining Output Expected to Decline 15%

Output in Peru's mining sector will decline by at least 15 percent this year, equivalent to as much as $5 billion in lost revenues, due to disruptions brought on by the coronavirus pandemic, Víctor Gobitz, general manager of mining company Buenaventura, said on Wednesday, Reuters reported. Large-scale mining, which represents 80 percent of Peru's copper production, will not be completely up and running until early June, he added. Some mining operations are partially operating now.

Costa Rica Becomes First Central American Country to Legalize Gay Marriage

Costa Rica on Tuesday became the first Central American country, and the sixth one in Latin America, to fully legalize same-sex marriage, UPI reported. The Supreme Court in 2018 ruled the ban on gay marriage unconstitutional and gave Congress 18 months to legislate, or the ban would be automatically lifted. The deadline expired Monday at midnight. The Supreme Elections Tribunal said it had received at least 55 declarations of marriage from same-sex couples on Tuesday that it will begin to process.

aro's government appears to have financed the operation, alleged de Moraes. In postings to Twitter, Carlos Bolsonaro, the president's son, called the investigation "unconstitutional, political and ideological." Carlos Bolsonaro has reportedly been under investigation in connection with a misinformation scheme, but he has denied wrongdoing, calling the allegations against him "garbage" and "a joke," The Guardian reported. Among those targeted in Wednesday's raids are Luciano Hang, owner of retailer Havan; Edgar Corona, owner of a chain of gyms; Allan dos Santos, who operates far-right-wing blog Terçã Livre; and Sara Giromini, an activist known as "Sara Winter," the AP reported. Outside his home in Brasília, dos Santos reacted angrily to the raids. "This will be pathetic for the Supreme Court," he told reporters. "We are no longer living in a democracy." Supporters of the president have frequently criticized judicial rulings limiting his power, and the president himself has joined demonstrations in Brasília in which his supporters have denounced Supreme Court justices. In April, the high court ruled against Bolsonaro when it decided that governors and mayors have the right to impose restrictions to fight the spread of Covid-19 even if they go against the president's wishes. Bolsonaro, who has downplayed the threat of the pandemic, has pushed for reopening Brazil's economy, even as the death toll from the disease rises. On Wednesday, Brazil reported 1,086 new deaths from the novel coronavirus, Folha de S.Paulo reported. The previous day, the country reported 1,039 deaths, putting its daily death toll ahead of that of the United States.

Pandemic May Lead 14 Mn to Go Hungry in Region: U.N.

The coronavirus pandemic could push more than 14 million people in Latin America into hunger, the U.N. World Food Program, or WFP, warned on Wednesday, the Associated Press reported. While 3.4 million people experienced severe food insecurity last year, that number could more than quadruple in Latin America and the Caribbean. "We are entering a very complicated stage," said Miguel Barreto, the WFP's regional director for Latin America and the Caribbean. "It is what we are calling a hunger pandemic," he added. Countries in the region are already seeing signs of mounting hunger, with citizens violating strict stay-at-home orders to go out in search of money and food. Some citizens in countries such as Colombia have been hanging red and white flags in their homes in a cry for government help. Many of those who are going hungry are part of the informal work force, which is estimated to represent 53 percent of the employed population and a third of total GDP in the region, according to the International Labor Organization. The number of people going hungry is likely to be even higher than U.N. estimates, as the organization's projections do not include Venezuela, where it does not operate. One in every three people in Venezuela faced hunger last year.

ECONOMIC NEWS

Venezuela, U.N. Reach Deal to Use Gold for Buying Food

Venezuela has reached an agreement with the U.N. Development Program, or UNDP, to purchase food and medicine in exchange for gold during the coronavirus pandemic, the country's central bank chief said Wednesday, Reuters reported. The deal follows a legal claim that Venezuela's central bank issued earlier this month to try to force the Bank of England to release part of 31 metric tons of gold that belongs to the government of President Nicolás Maduro, whom Britain does not recognize as the Andean nation's legitimate leader. Central Bank Governor Calixto Ortega told Reuters that, under the deal, the UNDP would receive funds directly, in a move that seeks to respond to concerns about potential corruption. Any program would still require the Bank of England to hand over the gold. The bank did not respond to Reuters' request for comment, but Ortega said he was optimistic that the legal case would be resolved soon.

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lose faith in the stability of the legal regime. In an attempt to preserve investors' rights and the value of their investments, our firm developed a legal response strategy for clients, consisting, in part, of filing of claims under NAFTA, other trade agreements and antitrust law. It will be critical for investors and lenders to be proactive in responding to these government policies in order to maintain placeholders for their legal rights in the event that the resolutions are not reversed. It would be more productive to investigate how renewable energy could assist with AMLO's goals, such as rural electrification and promotion of social welfare programs. There are numerous ways for the government to augment its public budget and redirect it to social programs while leveraging private investment and maintaining control over the integrity and proper functioning of its public service utilities."

A **Pedro Niembro, senior director, and Geoffrey Jones, senior vice president, both at Monarch Global Strategies:** "The nationalistic energy goals of the administration are well known: avoiding fuel imports by increasing oil production and refining at Pemex and increasing the CFE's share of power generation. Pursuit of the former, however, has created a headache for Pemex as Mexican oil is heavy and refining it yields significant quantities of high-sulfur fuel oil. Until this year, fuel oil could be sold to the shipping industry, but the IMO 2020 requirement for lower sulfur emissions in shipping has effectively eliminated this customer. Lost demand, combined with limited storage capacity, has resulted in excess fuel oil inventories. To solve this, CFE intends to generate more power from its fuel oil plants, but its capacity to do so is limited by a law that favors lower-priced renewable fuels. The new policy provides a way around this by favoring must-run facilities and returning certain responsibilities of the CRE and CENACE to CFE, which will again influence the electricity mix as it did before the energy reforms. The justification for this is that the intermittent availability of renewables adds stress to an already dilapidated transmission infrastructure as a result of decades of underinvestment in the grid by CFE in favor of generation projects. The financial impact of the new rules will be significant, with an estimated $6.5 billion in private sector projects already in development at risk and the potential loss of another $3 billion-$5 billion per year in renewable investments that will never get off the ground. In addition, tens of thousands of much-needed jobs and income to impoverished communities through land lease contracts could be lost."

A **Héctor Castro, nonresident senior fellow at the Inter-American Dialogue:** "The government's argument responds to the low power consumption of end-users, due to Covid-19. It says the measures are required to ensure electricity supply, noting that the grid is flawed due to the intermittency of renewable energies. Among the actions CENACE mentioned, the suspension for pre-operational testing of wind and solar power plants in the process of commercial operation and the dispatch of 'must-run' power plants in some regions, without specifying the allocation criteria that it will apply, stands out. Mexico's antitrust regulatory agency said the criteria for choosing the 'must-run' plants could result in discriminatory clearance and anticompetitive effects and could affect competition by not allowing solar and wind plants' entry into the grid, regardless of efficiency. Twenty-eight solar and wind plants ready to begin operations will be affected, as well as 16 projects under construction. It could affect more than $6.4 billion of FDI and nearly 30,000 jobs. We should view this as part of energy policy over the past 18 months: a nationalistic approach to strengthening state productive enterprises and a campaign promise of not changing the legal framework, but with acts that raise concerns to the rule of law and that affect certainty for private investment."

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