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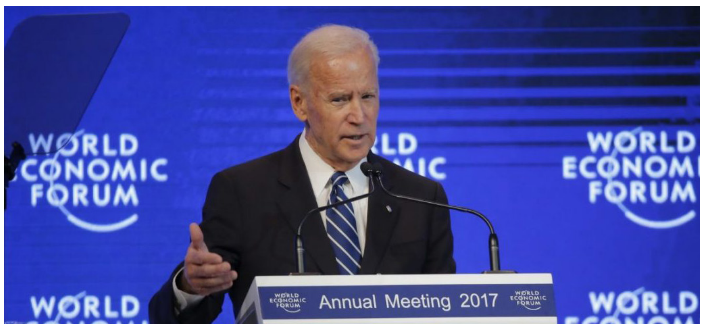
FEATURED Q&A

How Will Biden Engage With Latin America on Energy?



Joe Biden is expected to make the fight against climate change a key priority when he takes office as the president of the United States next month. // File Photo: U.S. Embassy in Brazil.

Q **Among the energy policies that the Biden administration is expected to prioritize toward Latin America and the Caribbean are efforts to modernize and double the capacity of the Central American Electrical Interconnection system, as well as more collaborative approaches in the fight against climate change, according to Biden's Central America plan. Is the United States likely to take a leading role on energy-related issues under the Biden administration? Are big changes in U.S. policy with regard to Latin America and the Caribbean expected in areas including oil and gas, renewables and climate change? Which countries have the most potential for increased cooperation with the United States on energy and environmental issues?**

A **David Goldwyn, president of Goldwyn Global Strategies and former U.S. State Department special envoy and coordinator for international energy affairs (2009-2011):** "President-elect Biden will prioritize climate globally, but he will also place a strong emphasis on stabilizing the Northern Triangle and the Caribbean for migration, security and geopolitical (with an eye to China) as well as climate policy reasons. As the former champion of the Caribbean Energy Security Initiative (CESI), which grew to include Central America, as president, Biden will prioritize sustainable development in the region. This will include continued diplomatic efforts to complete a second Central American Electrical Interconnection System (SIEPAC) line as well as capacity additions and upgrades, support for biofuels development and access to liquefied natural gas (LNG) to substitute for coal and other high-emission power generation fuels. The Obama/Biden Caribbean policy was to help

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TOP NEWS

RENEWABLES

EnfraGen Units Issue $710 Million Worth of Notes

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OIL & GAS

Fuel Consumption in Brazil Exceeds Pre-Virus Levels

Brazil has stood out as one of the few nations outside Asia whose oil demand is rebounding to pre-coronavirus levels.

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OIL & GAS

Gov't Weighing Further Tax Cuts for Pemex: Yorio

Mexican Deputy Finance Minister Gabriel Yorio said the government is considering further reductions to the tax burden of state oil company Pemex next year.

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Yorio // File Photo: Mexican Government.

OIL AND GAS NEWS

Mexico Weighing Tax Cuts for Pemex Next Year: Deputy Minister

The government of Mexican President Andrés Manuel López Obrador is considering further reductions to the tax burden of state oil company Pemex in a bid to bring it closer to that of ordinary corporations, Deputy Finance Minister Gabriel Yorio told Reuters in an interview last week. "Changing the tax burden is a structural change that Pemex needs, but we have to do it gradually," Yorio said. López Obrador's administration has already granted several tax benefits to the company, reducing the shared utility tax from 65 percent to 58 percent. Yorio said the shared utility tax could be further reduced to 54 percent next year. Still, Pemex has continued to struggle amid years of dwindling production and losses. In April, ratings agencies stripped the company of its investment grade credit rating. In the interview, Yorio said the modifications to Pemex's tax burden should happen between 2021 and 2024 so that the company can "start paying taxes like other corporations in Mexico," though he stressed that no decision has yet been made. "We'll have to see how much of this our public finances can absorb," he said. Pemex is the most indebted oil company in the world. Ratings agency Standard & Poor's announced last week that its 2021 ratings decision for Mexico will depend on the López Obrador government's management of Pemex's finances and its impact on the country's fiscal performance, including the tax regime. "Things we are looking [at] for the next year is how is the government going to manage Pemex finances and operations, and what will the results be," said Joydeep Mukherji, sector lead for sovereign ratings in the Americas. S&P Global Ratings earlier this month affirmed Mexico's 'BBB' long-term foreign currency and 'BBB+' long-term local currency sovereign credit ratings. The agency also maintained its negative outlook due to a "likely soft economic recovery" and Pemex's "strained finances," which could prove to be a downgrade risk in the next 12 to 18 months, according to the statement.

S&P this month affirmed Mexico's 'BBB' long-term foreign currency and 'BBB+' long-term local currency ratings.

Venezuela's PDVSA Begins Unloading Oil From Listing Tanker

Venezuelan state oil company PDVSA has started unloading oil from a stricken tanker that was seen listing to one side, raising alarm about a potential environmental disaster, Bloomberg News reported Wednesday. PDVSA started transferring oil from the FSO Nabarima on Tuesday, according to two people who were unnamed because they were discussing internal matters, the news service reported. The oil is being transferred to a barge, and it will then be placed onto a smaller crude oil tanker, the sources said. The vessel is located in the Gulf of Paria, between Venezuela and Trinidad and Tobago. The operation to unload it is expected to take as long as two months. Images of the tanker listing to one side sparked concerns in October, though a delegation from Trinidad and Tobago found that it was not in danger of capsizing. Still, environmental groups warned that if the vessel overturned, it would be a disaster.

Fuel Consumption in Brazil Surpasses Pre-Virus Levels

Brazil has stood out as one of the few nations outside Asia whose oil demand is rebounding, as demand in other countries in the Americas and Europe continues to stall amid the coronavirus pandemic, Bloomberg News reported last week. Fuel consumption in Latin America's

NEWS BRIEFS

Trinidad & Tobago's LNG Production Set to Decline Further in 2021: Minister

Trinidad and Tobago's dwindling production of liquefied natural gas, or LNG, will decline even more next year, said Energy Minister Franklin Khan, Argus Media reported last week. The decrease is expected as 20 percent of the liquefaction capacity of the country's Atlantic refinery will undergo an indefinite turnaround because of a natural gas shortage, Khan said. Atlantic's Train 1 will not be totally shut down due to shortages, and the turnaround will put it "in an operations-ready mode for all of 2021 into 2022," Khan added.

Pemex Unit Reportedly Halting All Business With Vitol Due to Bribery Probe

PMI Comercio Internacional, the trading arm of Mexican state oil company Pemex, has temporarily suspended all business with Vitol Inc. following the announcement of a probe in the United States into an alleged bribery scheme that extended to Mexico, Brazil and Ecuador, Reuters reported last week, citing an internal company letter. Vitol is the world's largest independent oil trader. Ecuadorean state-owned company Petroecuador also recently announced it had removed Vitol from its lists of clients and suppliers.

Colombia Grants Easements to Spain's Elecnor for Wind Farm

Colombia's National Land Agency has granted two easements in La Guajira department to Spanish infrastructure group Elecnor for the purpose of constructing a 50-megawatt wind farm, Renewables Now reported Monday. Elecnor, through local project firm Guajira Eólica I SAS, secured the rights to use two properties it needed to build the El Ahumado wind farm, along with a 110-kilowatt transmission line.

largest economy has already exceeded pre-Covid levels, and, going into 2021, it is set to be stronger than last year. Robust agricultural demand in combination with higher levels of driving have led to stronger demand. "The rebound in fuel demand was a big surprise," Paula Jara, an analyst at consultancy Wood Mackenzie, told Bloomberg News. "When you come to think about it, [Brazilian state oil company] Petrobras is arguably a unique case worldwide because they were able to raise fuel-making pretty quickly," she added. Petrobras' refineries processed 1.85 million barrels per day of crude oil in October, 17 percent higher than the same month a year earlier, as the company aimed to supply stronger diesel demand amid a record crop season and more driving during the summer, according to the report. Petrobras also saw benefits from an increase in demand for low-sulfur fuel oil, which it produces. The Brazilian firm has been able to weather the uncertainty wrought by the Covid-19 pandemic and the plunge in oil prices early in the year relatively well. "Despite the expected accounting loss, operational and financial performance improved significantly, as demonstrated by the increase in oil and natural gas production and the utilization factor of refineries, and by the strong cash generation and reduction of net debt," Adriano Pires, founding partner and director of the Brazilian Center of Infrastructure, **told** the Energy Advisor.

Ecopetrol to Invest Between $3.5 Bn and $4 Bn Next Year

Colombian state-owned oil company Ecopetrol's board of directors has approved an investment plan of between $3.5 billion and $4 billion next year, the company announced Monday in a statement. The investment plan is oriented "toward restoring the Ecopetrol Business growth's path, increasing competitiveness, strengthening the energy transition … and enhancing its sustainability agenda through positive social and environmental impact in the communities where the company operates." About 80 percent of the investment is expected

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all those countries that were interested in transforming their frameworks by providing legal, technical, framework and financing support. The challenge now is much graver. Throughout the region, but particularly in the Caribbean, countries suffer from high debt levels, mischaracterization of their economies as 'middle income' (distorting access to development aid), energy insecurity based on high dependence on fossil fuels, weak administrative capacity and, of course, the economic setbacks of Covid-19, which has especially devastated tourism-dependent economies. There is great opportunity

> **"Growing electricity interconnections in Central America and moving the Caribbean off fossil fuel dependency will be a win for American climate policy."**
> **— David Goldwyn**

for increased wind and solar generation, geothermal development in the Eastern Caribbean, natural gas to replace diesel and kerosene in the Western Caribbean, and a small set of subregional interconnections. I believe the Biden administration will rise to this challenge, in all likelihood using the U.S. role in the Inter-American Development Bank and World Bank as well as the Development Finance Corporation and bilateral relationships to create coalitions of support. Growing electricity interconnections in Central America and moving the Caribbean off of fossil fuel dependency will be a win for American climate policy, a potential source of emissions offsets for those seeking creative approaches and support overarching United States national security goals."

A

Benigna Cortés Leiss, nonresident fellow in Latin American energy at the Baker Institute and former general director of Chevron Energía in Mexico: "Given the new administration's focus on having a more collaborative approach in the fight against climate change and its plan to reducing supply chain dependency on China, Latin America offers opportunities to make this happen through current and/or through updating existing trade agreements. Focusing on the energy sector, Latin America's energy consumption represents just 6 percent of the energy consumed globally, as the region still has some communities without energy access. Carbon emissions at 4 percent are also low as a whole, but individual countries and cities have different situations, particularly in the transportation sector. More than of 50 percent of the region's electricity is already generated by renewables: hydro, solar, wind, geothermal, biomass and waste. However, most of these sources need backup to avoid power interruptions. Natural gas can play a key role while power storage is reliably built. The region also has critical metals for the manufacturing of electric cars and batteries, including copper and lithium, as well as the solar radiation required to generate relatively cheap solar power to produce green hydrogen. Lithium production is primarily exported to China for the manufacturing of batteries rather than advancing its manufacturing in the producing countries or in the Americas. The plans to produce and export hydrogen by 2030-35 are receiving significant funding to support ongoing research and pilot projects to produce hydrogen with electrolysers fed either with solar power or wind power. The private sector and local governments are providing funding, as is the European Union. In conclusion, the new U.S. administration has the opportunity to support the development of 'green materials' in the Southern Cone, as well as promote free trade agreements and investment to advance the energy transition,

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to be allocated to projects in Colombia, while the remaining 20 percent will be mostly earmarked for projects in the United States and Brazil. Likewise, 77 percent of investments will go toward exploration and production projects, and 14 percent will be directed at expanding the gas chain and other energy sources, the statement said. Nearly $80 million will be allocated to investments in technology and innovation.

RENEWABLES NEWS

EnfraGen Units Issue $710 Million in Senior Secured Notes

Indirect subsidiaries of EnfraGen, a developer, owner and operator of grid stability and renewable energy infrastructure businesses across Latin America, this week issued $710 million worth of senior secured notes, Renewables Now reported. EnfraGen's co-owner, Glenfarne Group, announced the move last week. The issuers include EnfraGen Energía Sur SAU, Prime Energía SpA and EnfraGen Spain SAU. The notes will bear an interest rate of 5.375 percent and will mature in 2030. Glenfarne said the proceeds will be combined with a $1.05 billion bank debt package for a total of $1.76 billion, which EnfraGen will use to refinance its existing debt portfolio and fund additional growth. The company has offices and assets in Chile, Panama, Colombia and the United States.

POLITICAL NEWS

Mexico's Congress Approves New Rules for Foreign Agents

Mexico's Congress on Tuesday approved legislation to limit foreign agents' activities in the country, a measure that U.S. Attorney General William Barr said would damage cooperation between the two countries and only benefit criminal organizations, Bloomberg News reported. The Chamber of Deputies approved the legislation, which the Senate previously passed. The measure now goes to President Andrés Manuel López Obrador, who proposed the bill and is expected to sign it into law. Under the measure, foreign agents, such as agents of the U.S. Drug Enforcement Administration, would have no criminal immunity and would be required to hand over to Mexican authorities any information they gather and also file a monthly report on their movement, the news service reported. Additionally, the legislation requires local Mexican authorities to report to the government any meetings or tele-

ADVISOR Q&A

Will Chile's Pension Withdrawals Cause Long-Term Pain?

Q Chilean President Sebastián Piñera this month signed legislation to allow savers to tap an additional 10 percent from their pension funds, the second withdrawal approved this year amid the economic turmoil brought on by the Covid-19 pandemic. Piñera's government has been vocal about its disagreement with pension withdrawals, but it introduced the bill in order to counter the opposition's own proposal. What are the merits and downsides of the latest legislation, along with its long-term effects on the pension system? What political dynamics are at play, and can the Piñera administration consider this a win? What does the new law mean for citizens and businesses?

A Kathleen C. Barclay, former president of the American Chamber of Commerce in Chile: "The withdrawal of a second 10 percent of private pension savings will provide an immediate boost to the economy, estimated at 1 percent of GDP due to increases in private consumption. The impact is expected to be less than with the first withdrawal as, first, many have already exhausted their savings and, second, individuals remaining in the system tend to belong to higher-income groups less likely to spend on consumption. One important downside of the legislation is that roughly four million of the 11 million contributors will no longer have savings in the private system. Two groups are particularly affected: 1.) 18 percent of those over the age of 50, who will have no remaining pension balance and a limited time horizon to restore their savings and 2.) younger people who will have eliminated or reduced savings at an early age, making the need to increase future savings greater to obtain adequate pensions. This measure is short-term consumption driven and will have a negative impact on longer-term investment, making it harder to return to the medium-term growth trajectory needed to face the increased social demands. From a political standpoint, the second 10 percent withdrawal was less negative than the first due to the Piñera government's initiative to collect taxes on withdrawals by higher-income individuals. While an improvement from legislation presented by the opposition, it reflects the failure of Chile's political class for well over a decade to address the underlying need to reform the pension system. The Piñera government has filed a case with the Constitutional Court to prevent further withdrawals initiated by the legislature. The outcome of the case is pending."

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

NEWS BRIEFS

López Obrador, Bolsonaro Congratulate Biden on U.S. Presidential Win

Mexican President Andrés Manuel López Obrador and his Brazilian counterpart, Jair Bolsonaro, have congratulated U.S. President-elect Joe Biden after the Electoral College cast its votes on Monday, making official the former vice president's win, the Associated Press reported. López Obrador and Bolsonaro, both of whom have been seen as close to U.S. President Donald Trump, were among the last world leaders to recognize Biden's victory. López Obrador's brief letter to Biden contained an implicit warning against U.S. involvement in Mexican internal affairs, the AP reported.

Uruguay to Close Borders Next Week to Noncommercial Traffic

Uruguay will temporarily close its borders next week to noncommercial traffic, and the government has called on citizens to limit holiday gatherings as the South American nation sees a surge in Covid-19 cases, Reuters reported Thursday. The borders will remain closed from Dec. 21 to Jan. 10, except for cargo transportation, the government said. On Wednesday, Uruguay recorded 476 new confirmed cases of the novel coronavirus and four deaths, and the virus reached all of the country's provinces for the first time since the pandemic began.

Hurricanes Caused Honduras $10 Billion in Damage: Foreign Minister

Back-to-back Hurricanes Eta and Iota caused $10 billion in damages in Honduras, the country's foreign minister, Lisandro Rosales, said Monday in a plea for international support, Reuters reported. The two storms hit Honduras and other Central American nations last month, killing hundreds of people and bringing devastating flooding.

phone calls they have with foreign agents. The measure passed the Chamber of Deputies on a vote of 329-98, with 40 abstentions, the Associated Press reported. Mexico has historically relied on U.S. agents to generate much of its intelligence on drug trafficking organizations in Mexico. However, Mexican officials have a history of leaking information and sometimes even sharing it with drug cartels, the AP reported. The legislation was seen as Mexico's retaliation for U.S. authorities' arrest last October of former Defense Minister Salvador Cienfuegos. The retired general was arrested at Los Angeles International Airport on charges of accepting bribes from a drug cartel. However, Mexican officials were reportedly blindsided by the arrest. U.S. authorities eventually dropped the charges against Cienfuegos and returned him to Mexico. Mexican Foreign Minister Marcelo Ebrard said the country's government had threatened to terminate bilateral cooperation over the arrest, saying Cienfuegos' detention violated a 1992 agreement between the two countries that Mexico be notified of the investigation, Bloomberg News reported. [Editor's note: See related **Q&A** in the Nov. 30 issue of the daily Latin America Advisor.]

IDB Directing $1 Bn to Latin America for Covid Vaccines

The Inter-American Development Bank announced Wednesday that it is directing $1 billion to help Latin American and Caribbean countries acquire and distribute vaccines for Covid-19. The IDB said the new allocation will complement $1.2 billion in resources that it has already committed to the region this year, in addition to money committed for next year, to aid the region with testing, contact tracing and better clinical management of patients who have Covid-19. "We are expanding our support to help Latin American and Caribbean countries ensure timely access to safe and effective Covid-19 vaccines," IDB President Mauricio Claver-Carone said in a statement. "The coming months will be critical to altering the course of the pandemic and supporting the recovery of our region, which is why we are being bold and proactive." The funding will be used for buying doses of the vaccines through multilateral efforts, such as the World Health Organization's COVAX facility, the IDB said. It added that money will also be used to strengthen institutions to help countries develop effective mechanisms for deploying the vaccines and investment to build capacity for immunizations, as well as pay for operational costs. The IDB added that it will work closely with other institutions, such as the Pan American Health Organization

ECONOMIC NEWS

Companies Seek End to Soy Sales Linked to Brazil Deforestation

A group including some of the world's largest food companies and grocery providers on Tuesday issued a call for commodity suppliers to stop trading soy linked to deforestation in Brazil's Cerrado, a huge savanna region and a key carbon storehouse, Reuters reported. The 163 companies and signatories of the Cerrado Manifesto Statement of Support included Tesco, Walmart, Unilever, Nestlé and McDonald's, as well as other consumer-goods firms. The letter was addressed to commodity traders including Archer-Daniels-Midland, Bunge, Cargill and Louis Dreyfus Co. None of the traders agreed to the measures, according to the statement. "We source much of our soy from the Cerrado region, so it's vital we play a leading role in protecting this biodiverse region for future generations," Anna Turrell, Tesco's head of environment, said in a statement on Tuesday, Bloomberg News reported. "We're calling on traders to step up their own commitments and implement robust monitoring, verification and reporting systems within the region, and set a 2020 deforestation and conversion-free cut-off date for soy from the Cerrado," she added. The Cerrado, the largest savanna in South America, currently produces about 60 percent of all soybeans in Brazil, which is the world's top exporter of the oilseed, Reuters reported. Soy is used to make animal feed and cooking oil.

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while at the same time helping the regional economic development and diminishing U.S. supply chain dependency on China."

A **Rodolfo Guzmán, Americas managing partner at Arthur D. Little:** "The upcoming change of administration in the United States is expected to bring a shift in tone in the relationships with Latin America, very likely including a new posture on support for the region's energy and environmental programs. A reinsertion of the United States into the global climate accords should lead to stronger support for renewable energy development and electric mobility programs in several Latin American markets. Countries such as Colombia, Chile and Uruguay, which have already set ambitious decarbonization goals and are actively pushing clean energy initiatives, are among the most likely beneficiaries of the new energy collaboration programs with Washington. However, it is still too early to know the potential impact of the new directives, and the extent of the cooperation agreements may evolve as the political landscape also shifts in the region with general elections taking place in Peru, Ecuador and Chile in 2021, and in Brazil and Colombia in 2022. The hydrocarbon sector in Latin America will probably not see much of a change, as the United States has limited influence on the petroleum policies of large producers such as Brazil and Mexico, and it cannot control the pace of fracking developments in Argentina. One of the consequences of Biden's policies could be related to a potential softening of the economic sanctions against Venezuela. In this scenario, we could see a resumption of the critically needed fuel imports into this country."

> **"A reinsertion of the United States into the global climate accords should lead to stronger support for renewable energy developments..."**
>
> **— Rodolfo Guzmán**

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

Advisor Video

Diaz Reus' Jeff Zhao on China's Relations With Latin America

The Latin America Advisor interviewed Jeff Zhao, partner at Diaz, Reus & Targ, LLP, on China's presence in Latin America and the Caribbean.

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