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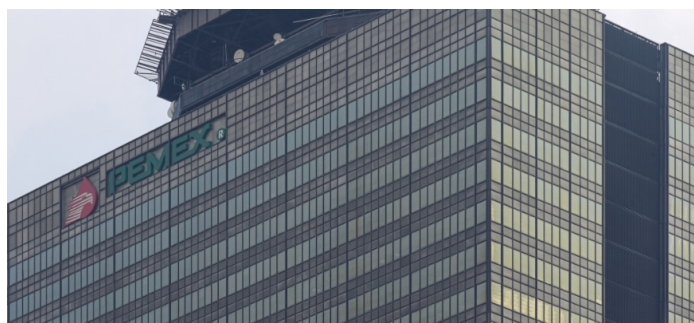
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FEATURED Q&A

What's at Stake for Pemex in Mexico's Presidential Vote?



Mexico is providing state oil company Pemex (whose headquarters in Mexico City are pictured) a capital injection of \$8.25 billion. But next year's presidential election will have a major impact on the company. // File Photo: Carlos Valenzuela via Creative Commons.

Q The Mexican government presented a 2024 budget on Sept. 13 that included a capital injection of \$8.25 billion for state-owned oil company Pemex. The cash infusion is occurring in the midst of the campaigns for Mexico's presidential election, which is scheduled for June. What's at stake for Pemex in next year's election? How do the main presidential candidates' positions on Pemex differ? How would the company fare under one presidential administration over another? How do the candidates plan to address the company's debt?

A Duncan Wood, senior advisor to the Mexico Institute at the Woodrow Wilson International Center for Scholars: "As the world's most indebted oil company, Pemex has been struggling for many years. Whereas the Peña Nieto administration offered joint ventures and competition with the private sector as a solution, the López Obrador government has focused on sinking tens of billions of dollars of new cash into the company. Neither strategy has worked. During this election year, AMLO is set on spending much more across the federal budget to 'prime the pump' of the economy. However, it is far from certain that Mexico's next president will continue to fund Pemex's inefficiencies. Claudia Sheinbaum, although ideologically aligned with AMLO and recognizing the political importance of Pemex, does not share his obsession with the national oil company. Xóchitl Gálvez has spoken at length about the fact that the company is a money pit and that the funds could be better spent on social programs. What is needed at

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TOP NEWS

OIL & GAS

Petrobras Cuts Gasoline Prices, Hikes Diesel

Brazilian state-owned oil company Petrobras announced that it was cutting the price of gasoline sold to distributors and raise prices for diesel. The moves are part of a policy that gives the company more flexibility to deal with price swings.

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RENEWABLES

Colombia Seeking to Launch Tender for Wind Blocks

Colombia is seeking to launch its first tender for offshore wind blocks in December, said Mines and Energy Minister Andrés Camacho.

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OIL & GAS

Chevron Buying Hess, Boosts Guyana Holdings

U.S.-based oil major Chevron, led by CEO Mike Wirth, announced Monday that it is buying Hess Corp. in a \$53 billion all-stock deal. The transaction will boost Chevron's holdings in Guyana.

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Wirth // File Photo: Chevron.

OIL & GAS NEWS

Chevron Buying Hess, Boosts Holdings in Guyana

U.S.-based oil major Chevron announced Monday that it is acquiring Hess Corp. in a \$53 billion all-stock deal, a transaction that will boost its holdings in Guyana. "The Stabroek block in Guyana is an extraordinary asset with industry leading cash margins and low carbon intensity that is expected to deliver production growth into the next decade," Chevron said in a statement. "Hess' Bakken assets add another leading U.S. shale position to Chevron's DJ and Permian basin operations and further strengthen domestic energy security," the company added. The total enterprise value of the transaction, including debt, is \$60 billion, Chevron said. The company, based in San Ramon, Calif., said the combined company is expected to see faster production and free cash flow than it had anticipated under its five-year guidance. "This combination positions Chevron to strengthen our long-term performance and further enhance our advantaged portfolio by adding world-class assets," Chevron CEO Mike Wirth said in a statement. "Importantly, our two companies have similar values and cultures, with a focus on operating safely and with integrity, attracting and developing the best people, making positive contributions to our communities and delivering higher returns and lower carbon," he added.

Brazil's Petrobras Cuts Gasoline Prices, Raises Cost of Diesel

Brazilian state-owned oil company Petrobras announced Oct. 19 that, beginning Oct. 21, it would cut the price of gasoline sold to distributors and raise prices for diesel, Reuters reported. Petrobras is cutting gasoline prices by an average of 0.12 reais (\$0.024) per liter, with diesel prices rising from 0.25 reais per

liter, Petrobras said in a securities filing. The moves are part of a new pricing policy that gives the company more flexibility to deal with price swings. CEO Jean Paul Prates said in a statement that the new strategy has been successful, "especially in terms of making Petrobras competitive in the market and at the same time avoiding passing on volatility to the consumer." Petrobras' decision to raise domestic diesel prices involve concerns over the current conflict in the Middle East, which could put pressure on oil, Bloomberg News reported. "There is sustained global demand, with expectations of a seasonal rise" for diesel, Brazil's most-used fuel, Petrobras said in a statement, the news service reported. Meanwhile, demand for gasoline is expected to decrease, as consumption in the United States wanes after the summer months. Petrobras in August reported net income of \$5.83 billion for the second quarter, or a drop of 36 percent in profit from the same period last year, Reuters reported.

Suriname's Gov't Offers Swap of Bonds Linked to Oil

Suriname has offered to swap \$675 million of dollar bonds, including ones linked to oil royalties, as part of a debt restructuring deal, Bloomberg News reported. The government said in a statement Monday that it is inviting investors of debt that is due 2023 and 2026 to exchange their holdings for new 10-year bonds that have a 7.95 percent interest rate. Suriname will also issue notes that will not pay out until after the government receives at least \$100 million in oil royalties from Block 58, an offshore reserve, Reuters reported. Officials plan to allocate 30 percent of annual royalties to make payments on the instrument until it matures in 2050. Dubbed a value recovery instrument, the new security "is structured to ensure that Suriname will benefit from a significant majority of anticipated oil production proceeds while enabling noteholders to receive adequate repayment of their claims in a timely manner," a committee of bondholders backing

NEWS BRIEFS

Pemex, Workers' Union Agree to 7.83% Hike in Pay, Benefits

Mexican state oil company Pemex and its union agreed to a 7.82 percent combined increase in pay and benefits, the government said in a statement published Oct. 19, Reuters reported. Workers will be awarded salaries that are 4.16 percent higher and 2.28 percent more in benefits over the August 2023 to July 2025 period, with an additional salary increase of 1.38 percent starting in January 2024. Union-represented workers and the company revised a contract with the company, with about 92 percent of the votes in favor of it, according to the Oil Workers Union of the Mexican Republic.

SLB Seeking to Return Quickly to Venezuela's Oil Sector: Chief Executive

Oil service firm SLB wants to quickly restart its operations in Venezuela, its chief executive said Oct. 20 after the U.S. government said it was easing sanctions on the South American country's oil sector, Reuters reported. "We will be responding and, as fast as we can, mobilizing resources and equipment," CEO Olivier Le Peuch said during a call with investors.

Petrobras Bylaws Changes Will Reportedly Allow Political Appointments

Brazil's Petrobras said Monday that its board approved a change to the state oil company's bylaws in a move that two people familiar with the matter told Reuters would allow politicians to occupy top positions there. The change is subject to approval by shareholders and would reverse rules implemented in 2016 following a new law designed to curb political influence at state-run firms. Brazil's Supreme Court has yet to rule on that law's constitutionality, the wire service reported.

the deal wrote in an email statement. The committee's members collectively hold more than the 75 percent required in each of the notes to trigger collective action clauses and apply the restructuring terms to all outstanding notes. Suriname will continue debt talks with China next month.

RENEWABLES NEWS

Colombia Seeking to Launch Tender for Offshore Wind Blocks

Colombia is looking to launch, for the first time, a tender for the purpose of licensing offshore wind blocks in December, Mines and Energy Minister Andrés Camacho said on Tuesday, Reuters reported. Camacho added that his department is still finishing the rules section of the bidding round's tender documents, whose release the ministry has delayed twice already.



Camacho // File Photo: Brazilian Government.

The ministry first announced in August of last year that it would grant permits for offshore wind farms that would enable investors to assess the strength of the projects, saying that permits would be awarded in the second half of 2023, Bloomberg Línea reported. "We hope in December to be able to launch the tender and the process of assigning areas," Camacho told journalists Tuesday on the sidelines of an industry forum in Cartagena organized by the private Colombian Petroleum Association (ACP), Reuters reported. Colombian President Gustavo Petro has sought to transition the country away from fossil fuels and toward renewable energy.

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this point in time is a more comprehensive vision for the company, one that involves right-sizing, specialization and the freedom to partner with the private sector on new projects. What's more, the endemic problem of corruption and inefficiency must be addressed. The failure of Mexico's two most recent administrations to fix Pemex has left the country with a huge financial albatross around its neck, and must be a priority for the next government."

A **Larry B. Pascal and Carlos Alva, partners at Haynes Boone:**

"Next year's election is critical for Pemex, and the results could lead to fundamentally different outcomes and policies for the company. If Morena candidate Claudia Sheinbaum wins, the policy of financial support for Pemex and the emphasis on development of fossil fuels is expected to continue. In contrast, if opposition candidate Xóchitl Gálvez wins, Pemex may change dramatically by devoting more resources to renewable energies and abandoning its historic 100 percent dependence on fossil fuels. If the next administration continues with the current energy policy, government support for Pemex will continue to work to reduce the company's debt and provide financial support to its projects, such as the Dos Bocas Refinery, which is expected to be fully operational by early 2024. However, with a change of direction in Mexico's energy policy, Pemex could open up once again to partnerships with private investors for specific projects and renewable energy projects. In addition, the government could resume the oil rounds for blocks in the Gulf of Mexico or other onshore or offshore areas, which generated interest from private investors in the prior administration. Regardless, Pemex will require significant financial support from the next administration to deal with its current sizable debt (approximately \$110 billion). Therefore, the presidential candidates have discussed several ways to deal with this situation, primarily by reform-

ing Pemex to diversify its business model to include renewable energies (the opposition party approach), or by converting part of Pemex's debt to sovereign debt (Morena's approach)."

A **Pedro Niembro, senior director at Monarch Global Strategies:**

"Despite the strong cash infusions that Pemex has received from the AMLO administration, the company is facing an existential threat. The challenges it faces—from servicing its debt and pension liabilities to modernizing its refineries to developing its underproductive natural gas and oil reserves—seem insurmountable without drastic operational changes. For decades, Pemex (and Mexico) has relied on the Cantarell and Ku-Maloob-Zaap oil fields for virtually all its profit while failing to plan for a future without these depleted cash cows. Instead, it muddled through political will and financial maneuvering, which seem close to reaching its limit. Next year's presidential election may very well be a defining moment for Pemex, with the two leading candidates proposing opposite ideologies for confronting the hard truths ahead of them. It is likely that Claudia Sheinbaum would continue the nationalistic approach implemented by AMLO at least initially, and with it the continued infusion of resources from Mexico's treasury. Pemex's economic reality, however, may force a more pragmatic response to its challenges, including a more collaborative stance with the private sector, which we have already seen some evidence of through Pemex's development of the Trion deepwater project with Australia's Woodside. Sheinbaum's opponent, Xóchitl Gálvez, has indicated she would take a more pragmatic approach from her first day in office. She has already called for a sweeping reform of Pemex and a return to opening the sector to private investment, an opinion that López Obrador has strongly criticized. Hard decisions—such as selling or closing down aging assets and addressing a bloated work

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CLIMATE CHANGE NEWS

Food Production Accounts for 74% of Brazil's Emissions

Food production accounted for 74 percent of Brazil's greenhouse gas emissions in 2021, environmental group Climate Observatory said in a report released Tuesday, Reuters reported. Most of the emissions that enter the atmosphere result from deforestation that is used to create farms and pastures in Brazil, the world's largest exporter of beef and soybeans, according to the report. Almost 78 percent of Brazil's greenhouse gas emissions in 2021 were related to beef production, including emissions tied to deforestation for the farming of livestock, as well as pollution from beef packing plants, according to the study. Abiec, a lobbying group of Brazilian beef producers, did not have an immediate comment to Reuters on the report. In July, Brazil's government announced that deforestation in the country had dropped 34 percent in the first six months of the year, as compared to the same period last year, NPR reported. The decline coincided with the administration of President Luiz Inácio Lula da Silva, who took office Jan. 1 and has vowed to reverse escalating deforestation and protect the rainforest. Lula's predecessor, Jair Bolsonaro, eliminated some environmental protections and encouraged mining and agricultural production in the Amazon.

POLITICAL NEWS

Venezuelan Gov't Launches Probe of Opposition Primary

Venezuela's government on Wednesday launched a criminal investigation into the opposition's primary election, which organizers said attracted more than 2.3 million voters last Sunday and was organized without the gov-

ADVISOR Q&A

Who Has the Edge in Argentina's Race for President?

Q Argentina's ruling Peronist coalition exceeded expectations in Sunday's presidential election in Argentina as Economy

Minister Sergio Massa emerged as the top vote-getter, with far-right libertarian Javier Milei coming in second. With no candidate garnering enough votes to win the election outright, Massa and Milei now head to a runoff on Nov. 19. What are the main reasons behind Sunday's result, and to what can Massa attribute his strong showing? What factors between now and the second round will decide the election? What's at stake for Argentines as they choose next month between Massa and Milei?

A Juan Cruz Díaz, managing director at Cefeidas Group in Buenos Aires: "Given the three-way tie of the primaries, a runoff was likely. However, Sergio Massa's performance was unexpected considering the sharp economic deterioration that took place before the election. After coming third in August, the economy minister successfully mobilized governors, mayors and trade unions to exploit the Peronist movement's historical territorial capillarity and regain control of the provinces lost in the primaries. This was complemented by a solid narrative

in which he filled the existing vacuum at the center of the political spectrum and portrayed himself as a moderate and consensual candidate. His narrative also capitalized on the existing fear in many sectors of society of Milei and his proposals. Facing the runoff, the 33.34 percent of people who voted for neither Massa nor Milei will play a key role, especially the six million who voted for Patricia Bullrich. Although the Juntos por el Cambio (JxC) candidate is ideologically closer to Milei, her votes will not necessarily be automatically transferred to him. Milei has frequently lashed out at JxC, and his antiestablishment rhetoric does not go down well with the coalition's more moderate sectors. The economic situation will also be critical, since if it worsens, it will be more difficult for Massa to defend his administration and easier for Milei to attack him. The next challenge for both candidates will be to consolidate the votes they won in the general election and use the post-election momentum to further expand their vote share."

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

ernment, Reuters reported. The probe, which lawmaker José Brito had requested, centers on accusations of electoral violations, financial crimes and conspiracy, attorney General Tarek William Saab said at a press conference. The accusations of electoral law violations are due to the primary being organized without the National Electoral Council, said Saab. Earlier this month, the opposition declined the electoral council's offer of assistance and its request to delay the balloting until November after

the council waited several months to respond to the opposition's request for help, Reuters reported. Saab also said two million people who neither participated in the primary nor registered were listed on the voter rolls, and the vote's funding has not been made public. "Obviously it is a fraud, who financed this, who is behind it?" said Saab. "The funds are not known. Who provided them?" he added. On Tuesday, National Assembly President Jorge Rodríguez said partial results showing that

NEWS BRIEFS

At Least 27 People Killed as Powerful Hurricane Otis Strikes Acapulco

At least 27 people were killed and four others remain missing after Hurricane Otis slammed into the Mexican resort city of Acapulco on Wednesday, Federal Security Secretary Rosa Ilena Rodríguez said Thursday morning at President Andrés Manuel López Obrador's daily news conference, the Associated Press reported. Tens of thousands of people suffered damage to their homes and still have no electricity after Otis struck Mexico's Pacific coast as a powerful Category 5 hurricane.

Record Number of Cubans Have Entered U.S. Over Past Two Years

A record number of Cubans have entered the United States since last year, according to data released by U.S. Customs and Border Protection, Politico reported Tuesday. Just under 425,000 Cubans arrived at U.S. ports of entry in the 2022 and 2023 fiscal years, with 200,287 arriving in the 2023 fiscal year, which ended Sept. 30, according to the agency. Most were apprehended at the U.S.-Mexico border, which was a change from previous migration waves from Cuba to the United States.

Demonstrators Opposed to Copper Mine Clash With Police in Panama

Demonstrators blocked streets across Panama on Monday objecting to a government contract that would continue copper mining in a biodiverse region, the Associated Press reported. Protesters handed out fliers in some peaceful actions but were tear gassed by police in others. Teachers' unions, construction unions and environmentalists led the demonstrations against the open-pit copper mine operated by Minera Panama, a unit of Canadian mining company, First Quantum, in Colón province.

at least 1.6 million people participated were mathematically impossible given the number of polling stations and the time that it takes to cast a ballot, the Associated Press reported. "What happened this past Sunday was not an election, it was a farce, it was a scam," said Rodríguez. The opposition and the winner of the primary, María Corina Machado, have repeatedly said that the vote was fair and transparent, Reuters reported. "This is the reaction to the monumental challenge to the regime that were the primaries," Machado said in a posting on social media site X, previously known as Twitter. "We Venezuelans participated in an exemplary citizen election, the results of which we all trust," Machado added. The primary was held just days after the United States eased some sanctions on Venezuela's oil industry for six months following a deal between Venezuela's government and the opposition to hold a presidential election next year. The deal includes an agreement for international observers and for each side to choose its own candidate, Reuters reported. U.S. officials have threatened to reimpose sanctions if the government does not lift bans in order to allow some candidates, including Machado, to hold office.

Bullrich Endorses Milei Ahead of Argentina Runoff

Patricia Bullrich, a conservative former security minister who placed third in the first round of Argentina's presidential election, on Wednesday endorsed right-wing populist Javier Milei ahead of the Nov. 19 runoff, the Associated Press reported. Current Economy Minister Sergio Massa placed first in Sunday's first round, garnering 37 percent of the vote. Milei placed second, with 30 percent, and Bullrich received 24 percent of the vote, failing to advance to the runoff. Bullrich said Wednesday that she was endorsing Milei despite their differences. "In the case of Javier Milei, we have differences, and that's why we competed. We don't overlook them. However, we are faced with the dilemma of change or the continuation of a mafia-style governance for Argentina and putting an end to the shame of the present. We have the

obligation not to remain neutral," Bullrich told reporters. The country needs a fundamental change," she said, adding that Argentines risk a "continuation of the worst government in history," the AP reported. Bullrich said that while she

We are faced with the dilemma of change or the continuation of a mafia-style governance for Argentina..."

— Patricia Bullrich

was also speaking for her running mate, Luis Petri, she was not speaking on behalf of their coalition, indicating that neither her center-right PRO party, nor the broader United for Change coalition, supported the endorsement of Milei. Gerardo Morales, the leader of the Radical Civic Union Party, which is part of Bullrich's coalition, called the endorsement "irresponsible," adding that the party would endorse neither Milei nor Massa, Reuters reported. [Editor's note: See related [Q&A](#) in Tuesday's Latin America Advisor.]

ECONOMIC NEWS

China Upgrades Ties With Colombia During Petro's Visit

China elevated its diplomatic relations with Colombia to a strategic partnership, a move that came during President Gustavo Petro's visit to Beijing, Reuters reported. Petro met with President Xi Jinping and other top Chinese officials on Wednesday. The visit marked Petro's first trip to China since he took office last year. With the elevation in ties with Colombia, China now has strategic relations with 10 of the 11 South American countries with which it has formal ties. It still has ordinary bilateral ties with only Guyana. China has imported a growing volume of products from Colombia over the last few years, making it the South American country's second-largest trading partner, after the United States, Reuters reported.

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force—would be on the table as a means to improving operational performance and reforming the company's finances.”

A **Adrian Duhalt, research scholar at Columbia University's Center on Global Energy Policy:** “Over the past five years, AMLO has sought to prop up Pemex's operations and financial standing through a set of measures that include capital injections, tax incentives and regulatory protection. Despite this, production levels, from crude oil to motor fuels and natural gas to petrochemicals, continue to disappoint, and so does the company's ability to fulfill its own debt obligations. The fact that Pemex still requires financial support from the government, as proposed in the 2024 budget, sheds light on how shortsighted AMLO's strategy has been. Next year, Mexico faces presidential elections, and Pemex will be at the center of the political competition. Voters will have to choose between opposing visions that, in short, mean to either continue (and perhaps deepen) the implementation of today's policies or shift toward a model where greater participation of private firms is allowed. In the months leading up to election day, candi-

dates will lay out their plans in greater detail. However, whatever the election outcome, the opportunity cost of keeping Pemex on its current path is too high for the country, and that means that the next administration will

“**Whatever the election outcome, the opportunity cost of keeping Pemex on its current path is too high for the country...**”

— Adrian Duhalt

be under great pressure to turn the company into a profitable and more resilient organization in its own right. Deciding how will surely be a heated debate. For example, should the government absorb part of Pemex's financial debt? Such a scenario could be controversial and divisive, but it is part of a conversation worth having.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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