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FEATURED Q&A

Will AMLO Bring Sweeping Change to the Energy Sector?



Mexican President Andrés Manuel López Obrador, also known as AMLO, bashed his predecessor's energy reforms in his inauguration speech earlier this month. // Photo: Mexican Government.

Q In his inauguration speech on Dec. 1, Mexican President Andrés Manuel López Obrador vowed to end the previous government's "neoliberal policies," including the energy reform he said has "only meant a drop in oil production and a rise in gasoline prices." His government has suspended oil auctions until 2021 and an electricity tender planned for this month. What are López Obrador's priorities for Mexico's energy sector? Are big changes in store, and how will they affect international investment? What is the outlook for the country's oil and gas production in the years ahead?

A Larry B. Pascal and Nicolás Borda, partners at Haynes and Boone: "Mexican President Andrés Manuel López Obrador has vowed to change the country's energy policy during his mandate. Although much of his policy or coalition members remains to be defined in more detail, the direction of his policy is becoming more evident. Mexico will look to decrease energy dependence from the United States by importing less fuel, adding crude processing capacity between 300,000 and 600,000 barrels of oil per day (bpd) and upgrading existing refineries, and building a new refinery in Dos Bocas, in Tabasco State. Some energy infrastructure projects and auctions will also be delayed, including the construction of new power transmission lines (in Oaxaca and Baja), National Hydrocarbons Commission (CNH) upstream auctions and the long-term power auction by Cenace. Moreover, the right to select farmouts is likely to revert to Pemex, instead of CNH, when selecting the farmee on Pemex blocks. Notably, the Zama oil field, operated by Talos Energy, is estimated to hold 400-800 million barrels of

Continued on page 3

TOP NEWS

OIL & GAS

López Obrador to Boost Pemex Budget to \$23 Bn

In the 2019 budget released last Saturday, Mexican President Andrés Manuel López Obrador assigned \$23 billion for Pemex with the aim of boosting the state oil company's output next year. It's a 14 percent increase from this year.

Page 2

ENVIRONMENT

Chile Selected to Host Next Year's U.N. Climate Conference

Chile was tapped to host the gathering after Brazil, the original host, withdrew.

Page 2

OIL & GAS

Brazil's CNPE OKs Sixth Pre-Salt Oil Auction Round

Brazil's energy council, or CNPE, approved the country's sixth round of auctions for pre-salt oil blocks amid uncertainty regarding President-elect Jair Bolsonaro's choice for future contract models.

Page 2



Bolsonaro // File Photo: @jairbolsonaro via Twitter.

OIL AND GAS NEWS

Brazil's CNPE OKs Sixth Round of Pre-Salt Oil Auctions

Brazil's energy advisory council, CNPE, on Monday approved the sixth round of tenders for the country's pre-salt offshore oil area, the energy ministry said, Valor Econômico reported. Two new blocks, Southwest Sagittarius and Brava Norte, will be up for bidding in the auction round, the ministry said. The tender will also include the previously considered Aram, Southern Cross and Boomerang blocks. The auction is scheduled for next November, Reuters reported, citing an unnamed person familiar with the matter. The energy council is reviewing two more pre-salt rounds for 2020 and 2021. The announcement comes amid uncertainty regarding the future of the pre-salt oil auctions' contract model. Brazilian President-elect Jair Bolsonaro, who takes office Jan. 1, is reportedly considering changing the current production-sharing agreements to concession contracts instead, Reuters reported last month, citing an unnamed senior transition official. "That's a clear preference of ours, we will change to concessions instead of production-sharing," the source said. The incoming head of state oil company Petrobras, Roberto Castello Branco, later said a final decision on the types of contracts that the next government will offer had not yet been made. Major global oil companies, including ExxonMobil, Chevron and Royal Dutch Shell, have spent billions of dollars to lock down blocks in the pre-salt oil area, Reuters reported. [Editor's note: See related [Q&A](#) in the Nov. 2 issue of the Energy Advisor.]

SUBSCRIBER NOTICE

The Energy Advisor will not be published the week of Dec. 24 in observance of the Christmas and new year's holidays. We wish our readers a happy holiday season and a prosperous new year.

López Obrador to Boost Pemex Budget to \$23 Billion

In his budget released last Saturday, Mexican President Andrés Manuel López Obrador wants to increase annual discretionary spending for state-run oil company Pemex to nearly 465 billion pesos (\$23 billion), Reuters reported. The figure amounts to an increase of 14 percent from this year. The higher level of investment is part of the new government's efforts to boost production at Pemex. López Obrador, who took office Dec. 1, wants Pemex to invest 211 billion pesos (\$10.4 billion) next year on exploration

The figure amounts to an increase of 14 percent from this year.

and production, Bloomberg News reported Tuesday. In 2019, Mexico's oil production is expected to stabilize at 1.84 million barrels per day. López Obrador is seeking to reduce Mexico's consumption of foreign fuel. Mexico's fuel imports have been rising amid growing demand and a lack of investment in the country's refineries. López Obrador is planning to construct a new refinery and also modernize existing ones. Mexico recently began importing light oil from the United States for the first time. "It's an embarrassment that we are buying light oil for our refineries," López Obrador told oil workers at an event Saturday at the port of Ciudad del Carmen in Campeche State. "If we don't have the primary material, we can't do anything." In the coming year, Pemex plans to focus on its current shallow-water assets and refining, rather than prioritizing riskier deep-water assets, Reuters reported. Last Saturday, Pemex's chief executive officer, Octavio Romero said that though the governments of former Presidents Enrique Peña Nieto and Felipe Calderón invested some 41 percent of Pemex's exploration budget, there was little to show for it. "At best we'd have the first drop of oil by 2025," he said.

NEWS BRIEFS

Chile Selected to Host Next Year's U.N. Climate Change Conference

Chile last Friday was named the host of next year's United Nations climate conference, Reuters reported. The announcement was made on the final day of this year's U.N. climate change conference in Poland. Brazil backed out from organizing next year's conference several weeks ago, reportedly amid pressure by President-elect Jair Bolsonaro to withdraw. Costa Rica plans to work with Chile to organize the event and has offered to host a pre-conference earlier in the year. [Editor's note: See related [Q&A](#) in last week's Energy Advisor.]

Colombia Cancels Two Oil Exploration Auctions, Will Relaunch in February

Colombia's National Hydrocarbons Agency on Tuesday announced it had scrapped two exploration auctions, which it said it would relaunch in February, Reuters reported. The Sinu-San Jacinto tender for 15 blocks in the northern area of the Andean country was canceled after interested companies withdrew their bids, and the so-called Permanent Competitive Procedure auction round was canceled due to a judicial ruling.

Chilean Police Examine Iranian Oil Delivery as Source of Noxious Fumes

Police and prosecutors in Chile are examining the delivery of Iranian crude oil to Chile's state-owned ENAP in connection with noxious fumes that sickened hundreds of people in August, Reuters reported. Authorities searched an ENAP oil refinery and a port in Hualpén and Talcahuano, towns 315 miles south of Santiago. A spokesman for the prosecutor's office in the Bío Bío region said officials are examining possible connections between the fumes and ENAP's transfer of the oil to area refineries.

Argentina's Mapuche Suing Oil Giants Over Vaca Muerta Damage

Members of Argentina's Mapuche indigenous group, who live in the country's Patagonia region, are suing several oil giants for "environmental contamination" in the Vaca Muerta oil site, Greenpeace said Monday, Agence France-Presse reported. The Mapuche have filed a lawsuit against ExxonMobil, Total and Pan American Energy, which is partly owned by BP, and two Argentine oil and gas companies, YPF and Pampa Energía, for damaging the environment with "dangerous waste" from Vaca Muerta, one of the world's largest shale oil and gas reserves, in the city of Neuquén due to "deficient treatment."

POWER SECTOR NEWS

Chile's Piñera Unveils Chinese-Produced Electric Bus Fleet

Chilean President Sebastián Piñera last week unveiled the country's first 100 electric buses, which began operations last Saturday, CNN Chile reported. The fleet of Chinese-made buses, which have 80 seats each and offer Wi-Fi connections, air conditioning and individual USB ports, are expected to make approximately 240,000 trips weekly and serve 12 municipalities in Santiago. The buses do not emit carbon dioxide or other greenhouse gases. One-hundred more electric buses are scheduled to arrive in January. Italy-based utility Enel provided the financing for the Chilean government to buy the buses from Chinese electric vehicle manufacturer BYD, Reuters reported. The two companies are seeking to spearhead the so-called "green car revolution," an effort to increase the number of electric and hybrid vehicles to account for almost 30 percent of the global market by 2030, in Latin

America. "This is a starting point for us, and we will continue to work as we are doing in Chile and across the region," Alberto Piglia, Enel's global head of e-mobility, told the wire service. "There will be an imitation game. Others will see how good this is and adapt it to their local markets." Piglia said Enel and BYD were also in

FEATURED Q&A / Continued from page 1

oil equivalent of recoverable resources with an estimated peak output of 150,000 barrels of oil equivalent per day. A bill recently submitted by senators from AMLO's 'Movimiento Ciudadano' party proposes to ban fracking in Mexico. The government may look to strengthen state-owned companies Pemex and CFE from a financial and operational perspective by granting them more budget and operating autonomy. Increases to fuel prices will be restricted to the rate of inflation, with the government bearing the risk of market fluctuation. Finally, CRE and CNH will have to coordinate more with the Ministry of Energy, particularly with regard to politically sensitive items such as electricity tariffs."

A **Adrian Duhalt, postdoctoral fellow at the Baker Institute for Public Policy's Center for Energy Studies:** "While the 2013-2014 reform was a step that had to be taken, the previous administration handed President Andrés Manuel López Obrador a reason powerful enough to advance a more nationalist agenda with respect to the country's energy sector: a weak Pemex that, in the eyes of AMLO's base, now needs to be rescued. The evidence in terms of production and corruption leaves little room to disagree with the current standing of Pemex and the urge to turn things around. The priority of President López Obrador is to build an energy sector with Pemex and the Federal Electricity Commission (CFE) at the heart of it. The intention is, as he has mentioned before, to strengthen the country's energy sovereignty, and that means to increase domestic production while attempting to reduce import dependency. The task will be enormous since it will demand the allocation

talks with the governments of Brazil, Peru and Colombia, as well as private firms across the region, about possibly replicating the Chilean model. The Piñera government's plan includes rolling out electric scooters, cars, taxis and trucks to boost the amount of number of electric vehicles in Chile tenfold by 2022. It also

of greater public resources as well as complex in the sense that private firms, now that oil auctions have been suspended, will have to wait for better times to either enter the industry or expand operations. The pressure will be on those firms that won contracts in

“The priority for López Obrador is to build an energy sector with Pemex and [the CFE] at the heart of it.”

—Adrian Duhalt

past auctions to start oil and gas production as soon as possible. Failing to do so could make the Ministry of Energy cast doubt on the need to host oil auctions going forward."

A **David Mares, distinguished professor of political science at the University of California, San Diego:** "López Obrador has laid out in the past week some very ambitious ideas regarding changes in the energy sector to ostensibly benefit the poor and enhance Mexican sovereignty. No detailed plan yet exists, but work on a new refinery site has begun, contracts for it are to be negotiated by March 2019, and there are plans to repair and upgrade Pemex's existing six refineries. These facts suggest the following priorities: supplying the domestic market with lower-priced gasoline appears to be his number-one priority. A second priority is to become self-sufficient in oil, which would mean increasing production and reducing

Continued on page 6

aims to completely electrify public transport by 2050. Piglia said Enel's "e-solutions" division planned to invest more than 300 million euros, roughly \$340 million, in electromobility in 2019, including extending its \$30 million investment in Chile this year to other parts of Latin America, Reuters reported.

POLITICAL NEWS

Brazil's Temer Indicted on Graft Charges

Brazil's prosecutor general on Wednesday indicted President Michel Temer on charges of corruption and money laundering in connection with an investigation revolving around port concessions, O Estado de S.Paulo reported.



Temer // File Photo: Brazilian Government.

The action by Prosecutor General Raquel Dodge was the third such complaint filed against Temer since he took office in 2016. In addition to the complaint against the president, Dodge also filed charges against João Baptista Lima Filho, a personal friend of the president, Carlos Alberto Costa, an associate of Lima, former legislator Rodrigo Rocha Loures, and businessmen Antônio Grecco and Ricardo Mesquita, the newspaper reported. Temer, who leaves office on Jan. 1, has been under investigation amid allegations that he accepted bribes in exchange for a decree that he issued last year that allowed for the extensions of two port contracts for as long as 70 years, Reuters reported. In a statement, Temer's office said that the president will prove that there were no irregularities surrounding the contracts and that no company benefited illicitly, the wire

ADVISOR Q&A

Have Voters Found a Way To Clean Up Peru's Politics?

Q In a nationwide referendum on Dec. 9, Peruvians overwhelmingly supported measures to bar legislators from seeking immediate re-election, tighten campaign finance rules and give the public the power to choose members of a council that selects judges. Voters defeated a measure to replace the country's unicameral Congress with a two-chamber body. The vote happened the same day that Peruvian prosecutors reached a deal with Brazilian construction firm Odebrecht that could lead to more charges against politicians, including former presidents, suspected of taking bribes. Will the voter-approved measures effectively thwart corruption in Peru? How will the Odebrecht case affect President Martín Vizcarra's government and his agenda? How has the Odebrecht case and the anti-corruption measures changed investment flows and the business climate in the country?

A Julio Carrión, associate professor and associate chair of the Department of Political Science and International Relations at the University of Delaware: "The political process Peru is currently undergoing is quite unsettled, but it has the potential of redefining politics for the better, if everything goes well. President Vizcarra has not wasted any time after his referendum victory. He recently announced that he was appointing a commission to draft ideas about how to implement the National Justice Board to replace the old and corrupt body in charge of appointing judges. He also indicated that

he would appoint a commission to issue a report on how to reform the political system. He faces potential opposition in Congress, but Fuerza Popular, the fujimorista majority, is severely weakened, and Daniel Salaverry, the president of Congress, has not only requested 'a leave of absence' from Fuerza Popular, but is also acting independently from it. Vizcarra, by contrast, has the political momentum and is likely to keep it. His popularity remains quite high (for three months in a row it has been above 60 percent). Reforming the judiciary is perhaps within reach now. Such a reform is a necessary but insufficient for eradicating corruption in Peru. The possibility of regulating the private financing of parties is another step in the right direction. We need to wait to see what this actually means once legislation is enacted. What is clear is that the Odebrecht case is keeping the issue of corruption on the front pages, which benefits not only Vizcarra but also those who are seeking to clean up Peruvian politics. Fundamental problems remain, however, above all the absence of strong parties. Vizcarra is relying almost exclusively on public opinion to keep the momentum and govern effectively. In the wake of the referendum, there is reason for guarded optimism. Much remains to be done before concluding that things have turned out for the best."

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

service reported. Temer could only be put on trial if the lower chamber of Brazil's Congress votes to allow a trial to proceed. Such a move is unlikely before he leaves office in less than

two weeks. However, Temer will likely have to face the charges after he leaves office, Reuters reported. In both of the other cases in which Temer was charged with wrongdoing, the lower

NEWS BRIEFS

Cuba Drops Same-Sex Marriage Provision in Draft Constitution

Cuba's National Assembly said Tuesday it decided for now to drop a provision in the draft of its new constitution that would potentially legalize same-sex marriage, CNN reported. Legislators cited polls taken at community meetings indicating a majority of Cubans opposed same-sex marriage. Last summer, more than 600 legislators approved a draft of the new constitution with language that didn't specify the gender of individuals getting married. The final version of the proposed constitution must pass through a popular vote in 2019. [Editor's note: See related [Q&A](#) in the June 21 issue of the Advisor.]

Brazil Chief Justice Dashes Lula's Hopes for Release From Prison

Former Brazilian President Luiz Inácio Lula da Silva saw his hopes for release from jail dashed on Wednesday after Chief Justice José Antonio Dias Toffoli overturned a sweeping ruling by Justice Marco Aurélio Mello that a convicted criminal with a court appeal pending should be freed until the legal process has been exhausted, BBC News reported. Mello's decision would have applied to 1,500 prisoners, including Lula who has been in prison since April on corruption charges.

More Than 50 São Paulo Police Officers Arrested Amid Bribery Allegations

Brazilian authorities on Tuesday arrested more than 50 police officers in São Paulo, with state prosecutors accusing them of taking bribes from the country's largest drug gangs, Reuters reported. In return, the groups' members were allowed to sell narcotics. Prosecutors said there was proof of collaboration between the officers and a powerful drug gang.

house of Congress refused to lift his immunity from prosecution. He loses that immunity when Jair Bolsonaro succeeds him as president on New Year's Day.

ECONOMIC NEWS

Mexico Says it Has Support for Airport Bond Repurchase

Mexico's finance ministry said on Wednesday that it has received "overwhelming support" for a revised offer to repurchase bonds issued to fund its partly-built and now-abandoned airport project in Mexico City, Reuters reported. President Andrés Manuel López Obrador announced a few weeks before taking office this month that he would discontinue the \$13 billion airport project, citing cost overruns and



López Obrador // File Photo: Mexican Government.

lack of public support. The finance ministry then initiated a buyback offer for \$1.8 billion of \$6 billion in bonds issued to fund the project. But talks grew tense after a group of investors rejected the initial deal, leading the ministry to improve its offer on Dec. 11. In a statement, the ministry said the Mexico City Airport Trust, or MEXCAT, has received tenders and consents "from holders of a substantial majority of the principal amount of notes of each series" and that the new offer "has received overwhelming support from MEXCAT bondholders." The Mexican peso climbed in value on the news as investors grew confident that a standoff with bondholders has been averted, Bloomberg News reported. The peso gained 1.3 percent to 19.86 per U.S. dollar in early trading on Thursday.

Colombia's Congress Approves Watered-Down Tax Reform

Colombian lawmakers on Wednesday approved a weaker tax reform bill that cuts the government's original revenue target for next year nearly in half, Reuters reported. The lower house and the Senate agreed that the revenue goal to fund next year's budget will be 7.8 trillion pesos (\$2.4 billion). In October, the administration of President Iván Duque sent a bill to Congress with a 14 trillion peso revenue target for next year. While legislators passed revenue-generating measures that will increase the income tax on high earners, pressure from opposition leaders sank a proposal to tax basic foodstuffs, a cornerstone of Finance Minister Alberto Carrasquilla's plan to raise the bulk of the reform's revenue. The finance ministry will freeze 6.2 trillion pesos in 2019 spending as a result of the new revenue target, according to the report.

Ecuador Cutting Gasoline Subsidies, Workers' Salaries

Ecuadorian officials said Tuesday that they will cut gasoline subsidies and lower salaries of government workers in an effort to reduce the country's fiscal deficit by \$800 million, local daily newspaper El Comercio reported. Ecuador has grappled with falling prices for its oil exports, and President Lenín Moreno has sought to reduce the deficit since taking office last year. Cutting the gasoline subsidies will lead the fuel to increase in price from \$1.48 per gallon to \$1.85 per gallon, which will put it in line with prices in neighboring countries, Reuters reported. Additionally, the government plans to reduce the salaries of public employees, said Labor Minister Raúl Ledesma. Under the plan, salaries of cabinet ministers will be cut by 10 percent, while other high-ranking officials will see a salary reduction of 5 percent, El Comercio reported.

FEATURED Q&A / Continued from page 3

exports. A third priority is to remake Pemex into an effective national champion through increasing its budget and, given discussions about reducing the independence of the oil sector agencies, perhaps by having federal agencies favor the national oil company.

“Supplying the domestic market with lower-priced gasoline appears to be his number one priority.”

— David Mares

These are radical changes in the context of Mexico's recent energy reform, though they are similar to ideas in the 2008 reform. Increasing Pemex's budget without improving its efficiency and effectiveness (which requires dealing with the union, domestic contractors and fuel theft) means that the budget increase won't translate into the expected production increase. Though López Obrador denounces the oil reform, he is betting on its initial successes in exploration and production. But foreign investment in oil, as well as in natural gas, renewables and the power sector where nationalism and lower consumer prices are also emphasized, will

be discouraged by López Obrador's revealed priorities. Mexico's oil sector will thus take longer to recover, and its transition to a cleaner and lower-cost energy matrix will be sidelined.”

A Samantha Gross, fellow in the Cross-Brookings Initiative on Energy and Climate: “During his inauguration speech on Dec.

1, López Obrador railed against the energy reforms that his predecessor enacted, saying that current crude oil production is much lower than promised. However, the opening of the Mexican upstream has not had enough time to bring about greater crude production. CNH has conducted three upstream bid rounds since July 2015—it's not reasonable to expect production from the newly leased areas so soon. Additionally, López Obrador has canceled bid rounds scheduled for February 2019 that included acreage adjacent to the very productive Eagle Ford play in the United States. Mexico's new president says he wants to bring greater oil and gas production and lower fuel prices to Mexico, but his actions are pushing in the other direction.”

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
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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

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