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FEATURED Q&A

Is Argentina's Oil & Gas Sector Ready to Compete Globally?



Since taking office in 2015, Macri has pushed to make Argentina's energy sector more internationally competitive. // File Photo: Argentine Government.

Q Oil and gas companies on Jan. 10 verbally pledged to invest at least \$5 billion in Argentina this year and to more than double that amount annually in coming years after unions agreed to cut labor costs, President Mauricio Macri announced. Industry executives said the agreement will cut down on drilling costs and will make the country's oil and gas sector more internationally competitive. Will the move indeed make Argentina a more competitive energy market on a global scale? Will Argentina see a marked increase in drilling as a result of the deal? Has the bargaining power of Argentina's oil and gas unions diminished, and will their concessions lead to more investments in Argentina's oil and gas sector in the future, as the government hopes?

A Juan Cruz Díaz, managing director at Cefeidas Group: "The agreement struck between national and local governments, energy companies and labor unions (that cover unconventional oil and gas resources) will see the federal government subsidize natural gas production from the Vaca Muerta shale formation to 2020. The government hopes that the deal will spur investment and increase productivity by lowering labor costs and creating price and tax stability. While there is still a lack of clarity on many of the specifics, when fully implemented, the cost-cutting measures could be a positive step toward increasing productivity at unconventional wells at Vaca Muerta. However, productivity is just one of the factors that determines Argentina's competitiveness vis-à-vis other energy markets. Domestically, improving infrastructure, especially around shale fields, will also be

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OIL & GAS

Peru Terminating Pipeline Contract With Odebrecht

The government's move was the latest setback for the company, which has been at the center of a massive corruption scandal.

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POWER SECTOR

China's State Grid Buys Majority Stake in Brazil's CPFL

Chinese electric utility company State Grid expanded its presence in Brazil, on Tuesday signing a deal to buy a 54.64 percent stake in Brazilian electricity giant CPFL for \$4.5 billion.

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OIL & GAS

Trump Signs Order to Resume Keystone XL

Trump's order for the pipeline "invites" TransCanada, the Calgary-based owner of the project, to "re-submit its application." Trump also said the government would have to "renegotiate some of the terms" of the project.

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Trump // File Photo: www.donald-jtrump.com.

OIL & GAS SECTOR NEWS

Peru Terminating Pipeline Contract With Odebrecht

The Peruvian government has decided to terminate a contract with a consortium led by Brazilian construction giant Odebrecht to build a \$7 billion natural gas pipeline, Mines and Energy Minister Gonzalo Tamayo said Monday, The Wall Street Journal reported. The



Tamayo // File Photo: Peruvian Government.

government's move was the latest setback for the company, which has been at the center of a massive corruption scandal. The Southern Peruvian Gas Pipeline consortium, of which Odebrecht owns a 55 percent stake, failed to meet Monday's deadline to "obtain this financing from the international financial community as a sign of their capacity to bring this project forward," Tamayo said. Spain's Enagas owns a 25 percent stake in the consortium, and Peru's Graña y Montero owns 20 percent. Tamayo said the consortium would also face a \$262 million penalty for not being able to complete the construction of the 700 mile-long pipeline, which was intended to transport natural gas from the Amazon to towns across the southern highlands and on the Pacific. Tamayo said the government is studying options to decide who should finish the pipeline, and it may ultimately decide to auction off the project to new bidders. In separate statements, Enagas and Graña y Montero said that according to their contract, Peru must use the funds from a new auction to compensate them for their investments, adding that they expected to receive

back a significant portion of their investments within the next three years. Odebrecht declined to comment. In related news, Peruvian President Pedro Pablo Kuczynski said Tuesday that Odebrecht will have to sell all its projects in Peru and leave the country, after the company admitted to paying millions of dollars in bribes in order to win public works contracts, The Wall Street Journal reported. "Unfortunately, they are tainted by corruption. They have to go," Kuczynski said. Peru is the second country to order Odebrecht's departure due to its involvement in a massive corruption scandal. Last month, the company signed the largest anti-corruption settlement in history and acknowledged to U.S. authorities that it had paid almost \$800 million in bribes in connection to more than 100 projects spread across 12 countries, mostly in Latin America. Last week, the Colombian government said it was in the process of ousting Odebrecht after it admitted to paying \$11 million in bribes in order to win road and other public works projects.

Trump Signs Order to Resume Keystone XL Pipeline Project

U.S. President Donald Trump on Tuesday signed an executive order to revive the Keystone XL oil pipeline as part of his effort to roll back former President Barack Obama's environmental legacy, The Washington Post reported. Trump's order for the pipeline "invites" TransCanada, the Calgary-based owner of the project, to "re-submit its application." Trump also said the government would have to "renegotiate some of the terms" of the project. Obama had halted the construction of the Keystone XL pipeline in 2015, arguing that the project would significantly contribute to climate change because the it would carry tar sands crude oil from Canada to Texas, which would lead to the emission of a particularly large amount of greenhouse gas, due to the energy required to extract the crude. Trump signed the measure, saying the project would create a "lot of jobs, 28,000 jobs, great construction jobs," BBC News reported. Canadian Natural Resources

NEWS BRIEFS

Gamesa to Supply 325MW of Turbines to Mexico Wind Farms

Mexican wind turbine manufacturing company Gamesa will supply 325 megawatts of wind turbines to Mexico, ReNews reported Jan. 20. Gamesa secured the order from Spanish multinational electric utility Iberdola. Gamesa will install 84 of its G114-2.625MW turbines for the Pier 4 wind farm in Puebla state and 50 G114-2.1MW machines for the Santiago Eólico project in Guanajuato state. The turbines for the Pier 4 facility are expected to be delivered early next year and will begin operating in March 2019, the Mexican company said. Turbines for the Santiago Eólico wind farm will be installed during the second half of 2018.

Argentine Province Confirms Funding for Six Solar Projects

Argentina's Mendoza province has confirmed that six solar projects in there will receive financing from the national bank under the framework developed by the Ministry of Production, PV Magazine reported Jan. 20. The financing will be provided by the Fund for Argentine Economic Development (Fondear).

UAE Launches \$50 Mn Caribbean Clean Energy Project Fund

The United Arab Emirates has launched a \$50 million renewable energy fund to support the development of projects in the Caribbean, Clean Technica reported on Jan. 20. The fund is one of the single-largest investments in the Caribbean's clean energy sector. The funding will be provided by the Abu Dhabi Fund for Development, and the UAE Ministry of Foreign Affairs and International Cooperation will manage the initiative. Abu Dhabi's renewable energy company, Madsar, will lead project implementation.

es Minister Jim Carr said Trump's decision "will result in many, many jobs for Albertans, and it's also a sign that there is a recognition by the new American administration that Canada can be a source of economic development and of job creation on both sides of the border," the Calgary Herald reported. Carr said he did not know exactly what kind of terms Trump wanted to renegotiate, but added he wasn't concerned about new conditions for the project. TransCanada has expressed interest in resuming work on the pipeline, though it is not immediately

“We’re going to put a lot of workers, a lot of skilled workers, back to work.”

— Donald Trump

clear if the company will be able to continue with its old plans for the project, The Washington Post reported. On Tuesday, Trump said that "From now on, we're going to be making pipeline in the United States. We build the pipelines, we want to build the pipe. We're going to put a lot of workers, a lot of skilled workers, back to work. We will build our own pipeline, we will build our own pipes, like we used to in the old days." TransCanada had originally planned to source about 65 percent of the steel pipe from U.S. manufacturers, but the other supplies from Canada.

POWER SECTOR NEWS

Construction Begins for El Salvador's 17.8 MW Solar Plant

U.S. and Spanish company Real Infrastructure has begun constructing a 17.8 megawatt photovoltaic solar plant in El Salvador, PV-Magazine reported Thursday. The Trinidad and Márquez project is expected to be completed in the next

eight months and will require about \$50 million in investment. The plant is located in the Acajutla municipality, and will add to the solar en-

The project is expected to be completed in the next eight months.

ergy infrastructure currently under construction in El Salvador. The largest solar plant currently under construction in the country is the 100 MW Providencia project. The majority of both

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important. More broadly, the overall health of Argentina's economy, macroeconomic policies and the international price of oil will also factor into investment decisions. The national government's push to improve investment conditions and increase labor productivity bodes well, as do steps taken on several other fronts, including significant increases to infrastructure investment. The bargaining power of Argentina's historically strong oil and gas unions has not been diminished. The willingness to participate in a deal reflects their interest in ensuring that Vaca Muerta creates jobs and income for workers. After a difficult 2016, which closed with 40 percent fewer teams actively working at Vaca Muerta in Neuquén province, efforts to boost productivity are in the interests of all parties. The challenge will now be to align other contributing factors."

A **Jeremy M. Martin, member of the Energy Advisor board and vice president for energy and sustainability at the Institute of the Americas:** "When the notorious American bank robber Willie Sutton was asked why he robbed banks, he responded: 'That's where the money is!' Argentina long figured as a potential energy investment destination, given its world-class shale resource, contained largely in Neuquén and the formation known as Vaca Muerta. But the government

projects were awarded during the country's first renewable energy plant tender in 2014.

China's State Grid Buys Majority Stake in Brazil's CPFL

Chinese electric utility company State Grid expanded its presence in Brazil, on Tuesday signing a deal to buy a 54.64 percent stake in Brazilian electricity giant CPFL for \$4.5 billion, providing a boost to the Latin American country as it struggles to pull out of its crippling recess-

struggled for years to combine the geology with the needed above-ground framework that would provide the incentives for major investment and development of Vaca Muerta. The deal announced by President Macri last week is a significant effort aimed at

“The Vaca Muerta accord ... on paper points to the proverbial win-win for unions, the province, investors and the federal treasury.”

— Jeremy M. Martin

putting the regulatory and legal framework in place to match the scope of investment required in one of world's largest shale plays. Indeed, thorny issues with regard to labor agreements with provincial and union authorities, environmental elements and highly-debated subsidies for both natural gas and oil in Argentina have—at least in broad terms—been addressed with timelines and policies. This appears particularly true for drilling costs that are now set to be slashed from roughly \$14 million per well to \$9 million. The framework for the Vaca Muerta deal, and perhaps most importantly the atmosphere of dialogue between the

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sion, Agence France-Presse reported. Chinese companies currently have approximately \$15.2 billion worth of investments in Brazil, according to Bloomberg News. State Grid said the acquisition of CPFL Energy will help the company diversify its international business portfolio and increase its presence in the electricity transmission and distribution sectors in Brazil, as well as generation from renewable sources. CPFL is the largest private power company in Brazil, and the country's third-largest utility provider. CPFL President Andre Dorf said in a statement that the deal is "fundamental" to the company's "path of growth."

POLITICAL NEWS

Trump Signs Orders to Crack Down on Illegal Immigration

U.S. President Donald Trump on Wednesday signed two executive orders in a crackdown on illegal immigration. One of the actions advances Trump's key campaign pledge to build a massive wall along the U.S. border with Mexico, and the other directs government agencies to strip federal grant funding from so-called "sanctuary cities," which protect undocumented immigrants by not prosecuting them for violations of federal immigration laws. "A nation without borders is not a nation," Trump said during a visit to the Department of Homeland Security headquarters in Washington, The Wall Street Journal reported. Trump said his aim in signing the orders is to keep the United States safe and put an end to "one injustice after another" for the families of Americans who have been killed by people in the United States illegally, NBC News reported. "We hear you, we see you and you will never be ignored again," Trump told relatives of victims at the Department of Homeland Security after signing the orders. "Your children will not have lost their lives for no reason." In addition to redirecting existing department funds to build the multi-billion-dollar wall, the first order also calls for the construction of additional detention facilities along the border and for quick processing of

THE DIALOGUE CONTINUES

Will Pushback Derail Mexico's Energy Reform?

Q **Protests erupted across Mexico this month, resulting in the deaths of at least six people and the arrests of hundreds, following the government's decision to allow gasoline prices to rise 20 percent as part of its larger push to deregulate the energy sector. Will popular pushback derail President Enrique Peña Nieto's energy reform agenda? How should the government address the public's concerns over the steep increase in gasoline prices, which are nearly double the current price across the border in the United States? How is Mexico's energy reform faring, on the whole?**

A **Antonio Ortiz-Mena, senior advisor at Albright Stonebridge Group and adjunct professor at the Edmund A. Walsh School of Foreign Service at Georgetown University:** "On Dec. 27, when most Mexicans were enjoying their Christmas vacation, the Finance Ministry announced the details of fuel price hikes that would take effect on Jan. 1. Until that date, there had been a single national price for gasoline and diesel, and now there is a maximum price which varies by region, according to differences in transportation and logistics. By Feb. 18, maximum prices will be set daily. The new price scheme is a transitory measure before a full, competitive market for gasoline and diesel is implemented. The original plan, part of the energy reform, called for the gradual liberalization of fuel prices to start later, but the government decided to start in January, given deteriorating financial conditions: an increase in the price of imported fuel, a depreciation of over 20 percent of the peso against the dollar last year, and the need to cut spending (especially fuel subsidies), for the government to reach its fiscal targets. The reaction

was fast and furious and included street demonstrations, the blocking of highways, and looting. Political parties expressed their opposition to the 'gasolinazo,' given its adverse effect on consumers and producers. Beyond that, the decision served as a lightning rod for a wide array of complaints against the government and an opportunity for politicians to position themselves ahead of the 2018 presidential election. Even some

“ [The price hike] may yet play a significant role in the presidential election.”

— Antonio Ortiz-Mena

PRI politicians, such as Sonora Governor Pavlovich, have criticized the gasolinazo. President Peña Nieto had ill-advisedly sold the energy reform to lower energy price, his Jan. 5 televised address rhetorically asking 'what would you have done?' backfired, and on Jan. 9 Coparmex, a major business association, refused to sign the government's Agreement for Economic Strengthening and Protection of the Family Economy. The measure will have no immediate effect on the energy reform, given all key provisions were included in the Constitution, which requires an onerous process for any amendment. However, the government will find it hard to backtrack from this high-stakes measure, the PRI will pay a heavy political price for the gasolinazo; it may yet play a significant role in the presidential election."

EDITOR'S NOTE: More commentary on this topic appeared in the January 13 issue of the Latin America Energy Advisor.

NEWS BRIEFS

At Least Six Killed in Chile Forest Fires

Six people—four fire fighters and two police officers—were killed while battling forest fires in central Chile, officials said, Agence France-Presse reported Wednesday. The fires have raged through 238,000 hectares, or 588,000 acres, of land in Chile and are not showing signs of slowing, the National Forestry Corporation said in a statement. President Michelle Bachelet on Tuesday called for more funds to help fight what she called the country's worst forest fires ever. At least 4,000 people have been evacuated due to the fires, the National Forestry Corporation said.

Haitian President-Elect Denies Money Laundering Allegations

Haitian President-elect Jovenel Moïse on Wednesday denied allegations that he laundered money as part of his efforts to secure loans years before running for office, the Associated Press reported. Moïse, who is scheduled to take office Feb. 7, answered questions from a judge for four hours in a closed-door session on Wednesday. He said his rivals fabricated the allegations to "create instability" in the country.

Top Brazilian Labor Prosecutor Calls Temer's Proposed Reforms Illegal

Brazilian Prosecutor-General for Labor Ronaldo Fleury said in a report published Tuesday that President Michel Temer's proposals to modernize the country's labor laws were illegal, Reuters reported. Part of Temer's plan to reduce business costs includes updating labor laws to allow outsourcing and more flexibility in contracts and work hours. However, the proposal came under fire even before it was discussed in Congress.

asylum claims, The Wall Street Journal reported. In the companion order, Trump restores the "Secure Communities" program, in which local law enforcement officials are directed to detain undocumented immigrants until they are picked up by federal agents. Trump also expanded the group of undocumented immigrants targeted



Trump signed the directive to build a border wall on Wednesday. // Photo: @realDonaldTrump on Twitter.

for deportation. The order said sanctuary cities "willfully refuse" to assist federal immigration authorities. "These jurisdictions have caused immeasurable harm to the American people and to the very fabric of our Republic," the order reads. Trump has said he will force Mexico to pay for the wall, an assertion repeated earlier on Wednesday by his press secretary, Sean Spicer. In a recorded message released Wednesday, Mexican President Enrique Peña Nieto reiterated his stance that Mexico "will not pay for any wall." Trump and Peña Nieto were scheduled to meet in Washington on Tuesday of next week, but the meeting was canceled on Thursday.

Brazilian Authorities Seek Batista's Arrest

Brazilian police and federal prosecutors on Thursday issued a detention order against former billionaire businessman Eike Batista in connection to the wide-reaching corruption probe at state oil company Petrobras, Reuters reported. Officials issued warrants against eight others as well amid raids related to the probe. A spokesman for the police told the wire service that Batista and others allegedly took part in a \$100 million money laundering ring in connection with the corruption scandal. The warrant for Batista's arrest involved allegations that he had paid bribes during the term of former Rio de Janeiro Governor Sérgio

Cabral from 2007 to 2014 in order to gain an advantage in some government contracts, The Wall Street Journal reported. Unnamed lawyers representing the former billionaire said he is traveling and that he plans to turn himself in upon his return to Brazil. Batista was once Brazil's richest man, worth approximately \$35 billion less than five years ago, but the crash following Brazil's commodities boom caused the collapse of his mining, energy, shipbuilding and logistics conglomerate, Grupo EBX.

ECONOMIC NEWS

Peru Expecting Lower Growth Due to 'Odebrecht Effect'

Peruvian Finance Minister Alfredo Thorne on Wednesday predicted Peru's growth this year would not be as robust as originally projected, as the government works to eliminate corruption, following the "Odebrecht effect," Reuters reported. Brazilian construction conglomerate Odebrecht last month admitted to bribing Peruvian officials over the span of a decade in order to receive preference in the bidding process for public works projects. President Pedro Pablo Kuczynski's government subsequently barred the construction conglomerate and other companies known to have been involved in the corruption from continuing to work on projects. The government had forecast 4.8 percent economic growth this year, but that level now seems unlikely, said Thorne. The government this week took back a \$5 billion natural gas pipeline project from Odebrecht and other companies after the companies failed to secure financing for the project, due to concerns over liability for graft. A new auction for the pipeline will be held within a year, Energy Minister Gonzalo Tamayo said. The government also wants Odebrecht to sell its stake in the \$500 million Chavimochic III irrigation project it was building with Peruvian construction conglomerate Graña y Montero, Thorne said. "We're not going to tolerate corruption," he said. "If that means we have to pay for it with a bit of growth, well, I think we're ready to do that."

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federal government, provincial authorities and unions, was key to creating a road map and path forward. It will also be the lynchpin to filling in the details and fine print, particularly on subsidies. Rather than diminishing the power or ability of any of the parties to reach the deal, the Vaca Muerta accord underscores the upside to working together and on paper points to the proverbial win-win for unions, the province, investors and the federal treasury.”

A Gerardo Rabinovich, vice president of Instituto Argentino de la Energía “General Mosconi”:

“The Argentine government has fixed three very clear strategic lines in the energy sector, while waiting for the new energy long-term plan: 1) to promote investments in non-conventional renewable energy sources (wind, solar, hydroelectric, geothermal, biomass) and achieve greater energy balance diversification; 2) encourage energy saving and efficiency; and 3) encourage the exploitation of non-conventional oil and gas resources in the world-class Vaca Muerta field. The first two goals have a great consensus, while the development of the oil and natural gas in Vaca Muerta is seen as a great opportunity for the country to recover self-sufficiency and obtain an export surplus. The biggest challenge to achieving the development of Vaca Muerta is to increase the productivity of operations and obtain a scale of production that allows the country

to compete in the markets. In this context, it is necessary to understand the agreements reached between the national government and the unions to reduce drilling costs. The

“The development of the oil and natural gas in Vaca Muerta is seen as a great opportunity for the country to recover self-sufficiency and obtain an export surplus.”

— Gerardo Rabinovich

volume of investments estimated to reach a scale of competitiveness exceeds \$25 billion over the next 10 years. Currently, the cost of producing oil in Vaca Muerta is around \$70 per barrel, and the natural gas produced in tight or shale formations varies between \$5 to \$7.50 per million British Thermal Units. As productivity increases in these areas, these costs are expected to fall to be competitive in the domestic and international markets. This requires long-term trust. It’s a task that exceeds the energy sector and depends on the confidence that will generate Argentina’s economic policy to attract the necessary volume of investments, at reasonable interest rates, after being out of international financial markets for more than 12 years.”

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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