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FEATURED Q&A

Why Is AMLO Trying to Roll Back Mexico's Energy Reforms?

The Mexican government recently submitted a bill to bolster the role of state companies, including oil firm Pemex, in the energy sector. // File Photo: Mexican Government.

Q **Mexican President Andrés Manuel López Obrador has submitted to Congress a bill that seeks to bolster the state's role in the fuels market, including by possibly taking over operations run by private businesses. The move follows another effort by the president to partially roll back the 2013 energy reforms that opened the country's energy sector to foreign and private investors, through a recently approved law that favors state utility CFE over private electricity generators. What is the reasoning behind López Obrador's efforts to strengthen state entities in the energy sector? To what extent are upcoming midterm elections, in which Mexicans will choose legislators, governors, state lawmakers and mayors, influencing the president's recent and intensified moves to modify the energy reforms? What are the measures' major implications for international and private companies operating in Mexico, and particularly for firms' carbon emissions reduction goals?**

A **Greg Ahlgren, partner at Diaz, Reus & Targ:** "AMLO's policy proposals seek to energize support for his party prior to the midterm elections in June. Consistent with his nationalist approach to economic matters, AMLO is promoting energy independence as a national objective. Not surprisingly from a government that frequently reminds world leaders of Mexico's sovereignty, AMLO has made a point to consolidate a variety of functions under state-controlled institutions, and his current proposals in the energy sector exemplify this. By favoring the CFE, he will also greatly benefit Pemex (and its huge

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TOP NEWS

OIL & GAS

Petrobras Names Interim CEO Amid Internal Dispute

Brazil's state oil company appointed an interim chief executive officer while a legal dispute over President Jair Bolsonaro's pick for CEO, Joaquim Luna e Silva, is sorted out.

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OIL & GAS

Ecuador's Lasso Promises New Oil Contracts

Guillermo Lasso, who was elected president of Ecuador on Sunday, has vowed to seek new risk-sharing contracts in the country's energy sector.

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RENEWABLES

Chilean Lithium Regulator to Cut Red Tape

Chile's top lithium regulator is planning to cut red tape in the industry that investors have said hurts output and new projects, said the agency's director, Jaime Salas. Chile is the second-largest producer of the metal in the world.

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Salas // File Photo: Chilean Government.

OIL AND GAS NEWS

Petrobras Names Interim CEO Amid Internal Controversy

The board of Brazilian state oil company Petrobras on Tuesday named an interim chief executive, delaying the confirmation of Joaquim Silva e Luna, who was President Jair Bolsonaro's pick to lead the firm, Argus Media reported. Carlos Alberto Pereira de Olivera, currently the upstream director, will instead serve as interim CEO. It is unclear how long he will be at the helm. Pereira was one of several company executives who had stepped down following Bolsonaro's controversial nomination of Silva e Luna, a former army general and defense minister. Bolsonaro's move was seen by many as political intervention in the state company. Although Silva e Luna was successfully elected as one of eight members of Petrobras' board this week, his appointment as chief executive was not approved. However, former CEO Roberto Castello Branco was formally removed at Petrobras' boarding meeting on Tuesday. There is reportedly an administrative conflict over the legality of the meeting itself, which threatens to delay the managerial transition process for weeks, Argus Media reported. [Editor's note: See related **Q&A** in the March 5 issue of the Energy Advisor.]

Ecuador's Lasso Vows New Contracts in the Oil Sector

Among his first promises as Ecuador's president-elect, Guillermo Lasso on Monday morning said he would propose new risk-sharing contracts with private companies in the oil sector in a bid to boost production, though ensuring he would respect all contracts with companies that were currently operating in the country, Reuters reported. He also told reporters that he was hesitant about oil drilling in Ecuador's Yasuní National Park, in the country's Amazon region, adding that he backs an audit to determine the costs of environmental remediation to "determine if extraction from those oil wells [in the national park] is really profitable," Reuters reported. Lasso was elected the previous day with 52 percent of the vote, beating out Andrés Arauz, a leftist economist and protégé of former President Rafael Correa who had swept the first-round vote. A former banker, Lasso based his campaign on boosting the free-market economy. Ecuador's bonds surged on Monday morning, with its July 2035 notes reaching their highest level since September, according to traders. Lasso is to take office on May 24.

Argentina Launches Incentives Program to Boost Oil Output

Argentina last week launched an incentives program that aims to boost oil production and exports, S&P Global Platts reported. The 15-year promotion plan allows new investments of more than $100 million to freely use 20 percent of their export proceeds. The proceeds must be used immediately to pay external debts and dividends, the government said in a decree in the country's Official Bulletin. If not, the money must be deposited in Argentine banks or abroad until they are used for those purposes, the government added. "We want to protect those who put their trust in Argentina, invest in Argentina and earn in Argentina, and then need to pay the liabilities that they took on abroad," said President Alberto Fernández, according to the report. The news comes as fracking activity in Argentina's Vaca Muerta, one of the world's largest shale formations, was up 7 percent in March, as compared to the previous month, to 733 frac stages, S&P Global Platts reported. It is the highest level on record as oil and natural gas prices surge and a recovery in demand improves sales prospects. However, "the industry is not optimistic about the recovery of production in 2021," Gerardo Rabinovich, second vice president at Instituto de la Energía "General Mosconi" in Buenos Aires, told the Energy Advisor in a **Q&A** published Feb. 26. Other analysts

NEWS BRIEFS

Italy's Enel Has Started Construction on PV Solar Park in Panama'

Italian power company Enel has started construction on Madre Vieja, a 30.88-megawatt photovoltaic solar park in Panama's Chiriquí province, Renewables Now reported last week. The park is expected to begin commercial operations next February. It will include 68,220 solar panels and generate 48.68 gigawatt hours of electricity per year. Enel Green Power Panama says it has invested a total of $130 million in the country's solar sector.

Petrobras to Assume Control of BP Blocks in the Foz do Amazonas Basin

Brazilian state oil company Petrobras said it will assume control of BP's six deepwater exploration blocks in the environmentally attractive Foz do Amazonas basin offshore northern Brazil, of which Petrobras already has a 70 percent operating stake and BP only 30 percent, Argus Media reported last week. The six blocks included in the agreement, whose total value was not revealed, were originally acquired in 2013 and were part of a strategic effort by the Brazilian government to shift exploration efforts outside of the country's southeast basins. Petrobras has plans to invest around $1 billion in the equatorial margin where the basin is located between 2021-2025.

Equinor to Soon Restart Oil Field in Brazil

Equinor's Peregrino oil field in the Campos basin off the coast of Brazil is set to restart production in the first half of this year after a riser rupture last April shut down operations, a company spokesman said on Monday, Reuters reported. The repairs, which were halted due to the Covid-19 pandemic and are expected to finish in the first quarter of 2021, are estimated to cost around $60 million.

are not quite as pessimistic. "There now seems to be reason for optimism in … [Argentina's] oil and gas sector as [state oil company] YPF sidesteps default and production in the Vaca Muerta shale formation has staged a roaring comeback from coronavirus-related lows observed in the second and third quarters of 2020," Schreiner Parker, vice president for Latin America at Rystad Energy, wrote in the same edition of the Energy Advisor.

Venezuela Offloads Crude Oil Stuck on Vessel for Two Years

The Nabarima floating storage facility off the coast of Venezuela last week finished offloading crude oil that had been stored in it for the past two years as a result of sanctions that the United States placed on Venezuelan state oil company PDVSA in 2019, Reuters reported. The offloading process for the storage vessel, which is located in the eastern Gulf of Paria and is part of the Petrosucre joint project between PDVSA and Italian energy company Eni, began last December. The move is expected to pave the way for output to resume in a traditional oilfield, an official of the facility's operator said April 8, Reuters reported. "@Petrosucre1 successfully completed FSO Nabarima's total crude offload operations to advance oil production in the offshore field in the Gulf of Paria," Petrosucre President Joe Romero said in a tweet. Venezuela's oil sector continues to struggle under tough U.S. sanctions as well as years of mismanagement and lack of funding. In March, PDVSA began rationing diesel fuel due to low domestic refining output and a lack of access to diesel imports. The company has also struggled to carry out maintenance and repairs at its refining facilities because of chronic cash shortages, worsened in part by U.S. sanctions. "Many crops will be lost this year due to a lack of diesel, which is also expected to affect the transportation of medicines, food, cooking gas and gasoline," Antero Alvarado, managing partner and Venezuela director at Gas Energy Latin America, told the Energy Advisor in a **Q&A** published March 26. "This

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and unionized work force), which supplies fuel oil for electric generation plants. While other hydrocarbon-rich nations are looking to a future beyond fossil fuels, it seems that Mexico is now seeking to return the country to an energy model that prospered 50 years ago, without seeking creative private-sector solutions to the looming environmental and energy-grid crises. The air contamination in major Mexican cities cannot be prudently ignored, and the random power blackouts must also be addressed on a priority basis. My overarching concern is that AMLO's short-term objectives of consolidating power within the national government may bring unwanted consequences that will be difficult to remediate. First, competition will be hurt, damaging the foreign investment climate in general and possibly exposing the country to significant unfavorable arbitral awards. Second, by favoring CFE in its present configuration, the country is only deepening its fossil fuel dependence, and procrastinating on the task of reducing carbon emissions."

A **Fluvio Ruíz Alarcón, Mexico-based oil and gas analyst:** "After the energy reform, the previous government wanted to accelerate Pemex's displacement from the domestic fuel market. In this effort, it reformed the Hydrocarbons Law and granted hundreds of import permits. However, Pemex continued to produce or import almost all of the fuels consumed in Mexico. In the current administration, the penetration of the private sector in the fuel market has grown steadily. Representing a marginal portion (0.1 percent) of fuel sales in November 2018, it now is close to 20 percent of the total volume sold. Its initial growth can be explained by the help received to mitigate the shortage that the government's measures against theft and illegal fuel trade caused. However, its subsequent expansion is due to the difficulties Pemex Transformación Industrial is facing. In 2020, this subsidiary had the lowest percentage of crude process in relation to its installed capacity (37 percent) since the closure of the Azcapotzalco refinery in 1992. Meanwhile, there was a 13.1 percent decrease in the number of gas stations within the 'Pemex franchise.' In this context, the government's reform initiative seeks to serve a valve that, on the one hand, modulates the export potential of private oil producers, based on the needs of Pemex refineries; and on the other hand, regulates petroleum imports, in accordance with Pemex's ability to satisfy domestic demand, thus protecting its participation in the local fuel market."

A **David Shields, director general of Energía a Debate:** "AMLO is pushing a protectionist, statist agenda that touts energy security and self-sufficiency. He seeks market advantage for state-run Pemex and CFE, rather than competition on a level playing field. These entities suffered under recent open-market policies, he argues, so they should get a special deal. He says Mexico should soon no longer export crude oil nor import gasoline. Crude oil output would be just enough to meet the needs of Pemex's refineries, which, in turn, should greatly increase production of gasoline to fully meet domestic demand. In electricity, he would give priority to dispatching inefficient CFE power plants, not to the cheaper, cleaner energy of private solar and wind farms. AMLO is unconcerned that private and foreign companies will lose market share and cease to invest. He says they received too many privileges under the previous open-market rules, so they must accept the changes. He wants to get his new, anti-competitive energy rules through Congress quickly, before midterm elections in June. He is running up against a wall of opposition, as industry players take legal action to scrap the reforms, which are likely to face lawsuits and arbitration abroad, as they breach trade agreements such as USMCA and TPP. The irony is that Pemex's collapsing refineries and CFE's obsolete gen-

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could make daily life much more complex for those of us living in Venezuela." The shortage of diesel has sparked humanitarian concerns and has been a key point of debate in the United States since U.S. President Joe Biden took office in January. However, the Biden administration has signaled it is not likely to loosen sanctions on Venezuela any time soon.

Pemex Planning to Keep Debt Steady Through 2025

Mexican state oil firm Pemex announced last week that it plans to keep its $105 billion in financial debt steady between 2021 and 2025, Reuters reported. Pemex's decision, announced as part of its business plan, comes after the Mexican government said in late March that it will absorb the company's more than $6 billion in regular debt payments this year as President Andrés Manuel López Obrador seeks to intensify his efforts to prop up the indebted company. Credit ratings agencies stripped Pemex of its investment grade rating last year due to its dire financial scenario. "It is clear that high indebtedness represents a structural problem, attention to which should not be delayed," said the report, which was published on April 6, Reuters reported. "In the medium term, we do not rule out restructuring," the report added. Despite the company's debt, which stood at $113.2 billion at the end of last year, Pemex said that one of its priorities is to free up funds and begin to pay back some of its debt without taking on new obligations.

RENEWABLES NEWS

Chile's Top Lithium Regulator to Cut Red Tape in Industry

Chile's main lithium regulator is planning to cut red tape that investors in the sector have long said hurts output and new projects, Jaime Salas, the director of Chilean nuclear agency CCHEN, told Reuters in an interview published last week. Chile is the world's number-two producer of lithium, a key component of the batteries that clean technologies including electric transportation and whose demand is expected to soar in coming years as the world shifts toward less fossil-fuel-dependent energy

ADVISOR Q&A

What Are the Most Urgent Tasks Facing Ecuador's Lasso?

Q Voters in Ecuador elected conservative pro-business candidate Guillermo Lasso as the country's president on Sunday. Lasso, who received more than 52 percent of the vote, defeated Andrés Arauz, a leftist economist and protégé of former President Rafael Correa. What are the most difficult tasks facing Ecuador's new president? To what extent will Lasso continue the policies of current President Lenín Moreno, and what will be the most significant changes? How difficult will it be for Lasso to get his initiatives through the National Assembly, and what will he need to do to get support from leftist and centrist legislators?

A César Coronel Jones, founding partner at Coronel & Pérez in Guayaquil, Ecuador: "Ecuador's next president faces several tasks. First is the implementation of a quick and efficient vaccination plan to combat the Covid-19 pandemic. Second is improving the physical security of citizens, who are threatened by a wave of violent crime linked to drug trafficking. Third, he needs to restore confidence in public institutions and fight corruption radically, effectively and systematically. Fourth, the new government must earn the trust of local and foreign investors with respect to the rule of law and the protection of property and contractual rights. It is necessary for Ecuador to achieve a level of stability in public policies so as to attract investment. Fifth, the incoming government needs to put public finances in order, balancing the budget and making the economy more flexible and competitive by making labor regulations more flexible and eliminating other inefficiencies. The Moreno administration has been respectful of freedom of expression and judicial independence, and this will continue. However, apart from the success in renegotiating the public debt, there has been almost no progress with respect to health, public safety and labor policy. Lasso has pledged to change this and be more efficient. Judging from his management style when he has held public office before, it seems likely that this will occur. The severity of the health and economic crises is also an opportunity. If the next president adopts a pragmatic approach and begins to generate tangible results, it will be difficult for legislators from the left and center to block initiatives that are perceived as solutions for the great majorities. Lasso could earn the support of those in the Indigenous movements and the moderate left who agree on respect for pluralism and reject the authoritarian and violent style of the Correa era. Even Andrés Arauz and the legislators of his bloc have given an encouraging signal by recognizing Lasso's triumph and indicating that they will only oppose him if he governs in favor of privileged groups. The first 100 days will be decisive."

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

NEWS BRIEFS

Argentina Tightens Restrictions as Cases Surge in Buenos Aires

The Argentine government has tightened restrictions in Buenos Aires, among them shuttering schools and imposing a curfew starting at 8 p.m., as Covid-19 cases surge in the capital city, Reuters reported Wednesday. President Alberto Fernández said the country needed to "gain time" in fighting the spread of the novel coronavirus. "The virus is attacking us and is far from giving in," he said in a televised address. Daily cases hit a new record this week, according to the report.

Guatemala's Congress Refuses to Seat Crusading High Court Justice

Guatemala's Congress on Tuesday refused to appoint a graft-fighting judge as president of the country's Constitutional Court, a move critics say could hinder Guatemala's combat against corruption, Reuters reported. Magistrate Gloria Porras is recognized as one of Central America's leading figures in the fight for the rule of law and efforts to end impunity. She was to take her seat today following re-election, but she was unable to do so due to open legal challenges against her, according to Congress President Allan Rodríguez. She has described the lawsuits as unfounded attacks.

Peru's Fujimori Says Runoff is Between 'Markets and Marxism'

Right-wing Peruvian presidential candidate Keiko Fujimori, who secured a place in the June 6 runoff against unexpected front-runner and radical leftist Pedro Castillo, said on Wednesday that the second round will be a vote between "markets and Marxism." It was her first statement since Sunday's first-round election. [Editor's note: See related **Q&A** in Wednesday's issue of the daily Advisor.]

sources. Salas said that the watchdog agency is preparing to unveil modified guidelines that make clear to newcomers how the country determines lithium quotas, as well as an outline of how those rules will be enforced. "The interest of the entire state is to improve transparency, so that companies … have full understanding of what is required of them," Salas told the wire service. The Andean nation in recent years has lost ground to other lithium producers, a trend that investors blame on unclear rules in the sector, Reuters reported. No new lithium projects have come online in Chile despite huge reserves of the metal and increasing global demand. The so-called Lithium Triangle of South America, which encompasses Chile, Argentina and Bolivia, is in "a unique position to take advantage of the expected boom in the electrification of vehicles operated by lithium-ion batteries," Patricia I. Vásquez, research associate at the Center of Conflict, Development and Peacebuilding of the Graduate Institute of Geneva, told the daily Latin America Advisor in a **Q&A** published Nov. 10. "The focus should be on building a strong regional comparative advantage based on ensuring the highest possible baseline environmental, social and governance standards for the lithium industry," she added.

POLITICAL NEWS

Ecuador Arrests Comptroller, Former Oil Minister in Probe

Ecuadorean authorities on Tuesday arrested the country's comptroller and a former energy minister as part of a probe in connection with a corruption case at three state institutions, including oil firm Petroecuador, said the national's prosecutor's office, Reuters reported. The detainment follows the recent guilty plea of an employee of Switzerland-based trading house Gunvor Group, Raymond Kohut, who said he was engaged in a bribery scheme that involved securing business with Petroecuador from 2012 to August of last year, Bloomberg News reported. Ecuadorean prosecutors said they arrested a total of eight people in connection with the case, including Ecuador's comptroller and a former presidential secretary whom they identified as Pablo C. and José A.B., respectively, the wire service reported. The current comptroller is Pablo Celi, and José Augusto Briones was secretary for President Lenín Moreno before taking over the energy ministry in November 2019. Briones resigned from that post in March of last year. An attorney for Celi said the authorities' actions were "excessive," adding that "prosecutors have not yet indicated the reasons for which he was arrested." Reuters could not reach Briones for comment. "We're finally seeing a prosecution that is acting according to the information int its possession," Mauricio Alarcón, a lawyer and head of transparency watchdog Fundación Ciudadanía y Desarrollo, told Bloomberg News.

ECONOMIC NEWS

Lower House of Mexico's Congress Passes Fuels Bill

Mexico's lower house of Congress on Wednesday passed a controversial bill submitted by the government to boost the state's role in the country's fuel market, another move toward President Andrés Manuel López Obrador's goal of reinstating the state's monopoly in the energy sector, Bloomberg News reported. The chamber approved the proposal, which gives state oil company Pemex greater control over the fuels market, with 292 votes in favor, 153 opposed and 11 abstentions. The bill will go to the Senate after debate on certain articles in the lower house. López Obrador's Morena party has a majority in both chambers of Congress. If approved, as expected, the legislation would reform Mexico's hydrocarbon law and give a greater role to state entities in the distribution, import and marketing of fuel. It would also allow for the suspension of permits based on national or energy security, and Pemex would be able to take control of facilities whose permits have been suspended, Bloomberg News reported.

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erators have, in practice, no way of making energy self-sufficiency a reality. Canceling oil exports would eliminate vital revenues for Pemex's operations, upgrading its refineries and paying its enormous debt. Coherency is in short supply."

A **Christian Wagner, Americas analyst at global risk analytics firm Verisk Maplecroft:** "AMLO believes in the state having a leading role, with energy self-sufficiency and sovereignty as priorities. Mexico's historic oil and gas state monopoly strengthens nationalist pride, which AMLO has relied on to advance his 'protection of the country' from foreign exploitation. For AMLO's voter base, the strengthening of state-owned enterprises—and particularly Pemex—are in defense of the country. For AMLO, it is politically profitable to pursue this stance, despite downsides. Without a guaranteed outcome at the polls in June, AMLO has assured simple majorities in both chambers until then, which explains the timing of reform initiatives. If his party fails to secure a majority in the lower house, he will have already delivered on his main legislative reform pledges. Indeed, the reform debate acts as apparent evidence of his fulfillment of 2018 campaign promises, attracting voters. The recent regulatory changes deter investment; they increase uncertainty over the sanctity of existing contracts and whether the government will allow companies to operate, or compete freely, which jeopardizes profits. Legal recourse via constitutional injunctions is possible, but it is unclear if companies will be able to rely on the Mexican judiciary and get fair rulings in the second half of AMLO's term. The Hydrocarbon Law reform would enable authorities to carry out de facto expropriations, without clarity as to the requirements and without having to apply the provisions in the expropriation law. In terms of energy transition and emissions reduction, the changes are substantial. The government fully intends to favor energy security over emissions reduction, and that entails using the resources more readily available to SOEs: coal and fuel oil. Companies will actively be prevented, either through direct barring or market tampering, from accessing and investing in clean energy. This will delay Mexico's energy transition and hinder its compliance with international climate change commitments."

A **Lourdes Melgar, nonresident senior fellow at the Baker Institute:** "President López Obrador is redefining Mexico's energy sector through the ideological lens of resource nationalism and an idealized interpretation of the past. Anew, oil is likened to national sovereignty, and energy sovereignty rests on Pemex's self-sufficient production and processing. State-owned enterprises must be the main actors, with limited private participants. Redefining rules is the name of the game. Ending oil contracts and power auctions, renegotiating natural gas contracts and undermining the Energy Regulatory Commission were the first steps. Rhetoric turned to action last year, with decrees hindering the dispatch of private plants. Injunctions granted to generators blocked their application. In February, López Obrador presented a fast-track initiative to reform the Electricity Industry Law. More than 30 injunctions to the law forced the government to step back. A reform to the Hydrocarbon Law is expected to be voted on in April. Unless the Supreme Court overturns the laws, legal fights and arbitration will follow. The laws are in violation of trade deals, and of the Paris Agreement. They affect billions of investments in power generation, and in the mid- and downstream. Their application will stall Mexico's transition to a low-carbon economy and the availability of cleaner fuels. The dispute over energy is underway. The president has heightened the stakes, with a post-truth narrative defending SOEs. He has announced a constitutional reform, for which he needs to win a two-third majority in Congress and in 16 state legislatures in June. The stakes are high."

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