LATIN AMERICA ADVISOR

# ENERGY ADVISOR

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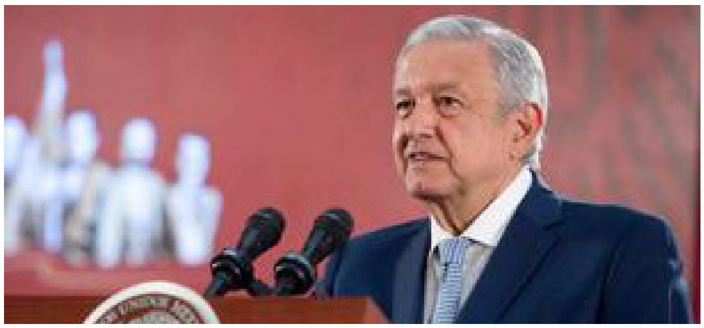
**FEATURED Q&A**

## Will AMLO's Energy Counter-Reforms Be Successful?



Mexican President Andrés Manuel López Obrador is seeking to at least partially reverse the country's 2013-2014 energy reform, which opened the sector to private investment. // File Photo: Mexican Government.

**Q Mexican President Andrés Manuel López Obrador on Sept. 30 sent lawmakers a bill that would guarantee 54 percent of the electricity market to state-owned utility Federal Electricity Commission, or CFE, a move he says would keep prices low for consumers and end special treatment for private power firms. The legislation would also reportedly reserve any future mining of lithium for the state as well as transfer independent energy regulators' functions to the CFE and the Energy Ministry. How likely is Mexico's Congress to approve the reform, and what would its main effects be on the country's power sector and for consumers in particular? Why is López Obrador pushing for the changes, and would the move strengthen the energy sector as he envisions? To what extent are the proposed changes in violation of the United States-Mexico-Canada Agreement, or USMCA, and the country's commitments under the Paris Agreement, and could it lead to international arbitration against Mexico?**

**A Larry B. Pascal, member of the Energy Advisor board, and Natalia Cosio, both attorneys in the international practice of Haynes and Boone, LLP:** "A constitutional amendment requires approval of a two-thirds majority in both houses and a simple majority of all state legislatures. Given the level of the Morena party's participation at the federal and state levels it is feasible that the energy reform passes if President López Obrador obtains the support of other parties, in particular the PRI, at both levels of government. The reform provides that CFE will be the sole authority responsible for the

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The Venezuelan government's decision to pull out of talks with the opposition may make any possibility of U.S. sanctions relief much more remote.

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### Brazil's Renova Receives Permit for New Projects

Renova Energia has received environmental licenses for its 703.5-megawatt wind and solar projects in Bahia state.

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OIL & GAS

### Bolsonaro Eyes Privatizing State Oil Firm Petrobras

Brazilian President Jair Bolsonaro said he now wants to privatize state oil company Petrobras, saying he would bring the issue up with economic advisors. Critics have blamed Bolsonaro for Petrobras' recent increases in gasoline prices.

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Bolsonaro // File Photo: Brazilian Government.

OIL AND GAS NEWS

# Bolsonaro Considers Privatizing State Oil Company Petrobras

Brazilian President Jair Bolsonaro now wants to privatize state oil company Petrobras, saying last week that he will discuss the issue with economic advisors, Reuters reported. Critics have blamed Bolsonaro for Petrobras' recent increases in gasoline prices as the country struggles with double-digit inflation that, according to state statistics agency IBGE, reached 10.25 percent in September. "Now I want to privatize Petrobras ... I will check with the economic team what we can do about it," Bolsonaro said on a radio interview. "Because I cannot control the company, I cannot direct gasoline prices, but when it rises it is my fault," he added. The rise in consumer prices, driven in part by soaring energy costs, has hit Bolsonaro's popularity ahead of next year's presidential election. Energy prices are higher partially because Brazil is experiencing the country's worst drought in almost a century, which has put pressure on hydroelectric output and forced producers to turn to more expensive sources of power. Electricity prices in September were up almost 30 percent as compared to the same month last year, The Wall Street Journal reported. Meanwhile, Petrobras recently hiked prices of gasoline and cooking gas, despite pressure from the president and the public to keep prices artificially low, Reuters reported. The president had previously opposed the privatization of Petrobras, calling the firm "strategic" for the country's national interests. On Oct. 13, Economy Minister Paulo Guedes floated the idea that the government could sell part of its controlling stake in Petrobras in order to fund welfare programs. However, a privatization process for the state oil company would be difficult as it would involve a large range of stakeholders, the wire service reported. "When we talk about privatizing Petrobras, we need to be careful, because it's a broad process that involves a lot of stakeholders," Ilan Arbetman, an analyst at Ativa Investimentos, told Reuters. "Right now timing is weighing on it—even more than the president's inclination," he added. Petrobras' preferred shares rose nearly 2 percent following Bolsonaro's remarks before paring gains to around 1 percent in morning trading on Oct. 15.

# Maduro's Suspension of Talks May Lead to Extended Sanctions

The Venezuelan government's decision to pull out of talks with the opposition may result in extended sanctions on the oil sector, Argus Media reported Monday. Over the weekend, the government of President Nicolás Maduro suspended talks with opposition representatives following Saturday's extradition to the United States of Alex Saab, a close Maduro ally, the Financial Times reported. Saab, who was born in Colombia, was flown out of the West African island nation of Cape Verde on a U.S. Department of Justice jet. He had his first U.S. court appearance in the Southern District of Florida on Monday. Saab was arrested in Cape Verde in June 2020 when his plane stopped there to refuel, Reuters reported. He is accused of funneling more than $350 million from several Venezuelan government contracts and programs, The Wall Street Journal reported. U.S. federal prosecutors in Florida indicted Saab in 2019 on charges of pocketing state funds. He has denied wrongdoing. Venezuela in September named Saab as a member of the negotiating team for its talks with the opposition. In addition to suspending the dialogue with the opposition, the Venezuelan government also retaliated by revoking the house arrest of six U.S. executives of Venezuela's U.S.-based refiner, Citgo, who have been held in Caracas since 2017 and sentenced to long jail sentences on what the U.S. government has characterized as spurious charges, the Financial Times reported. A relative of Tomeu Vadell, one of the executives, said Venezuelan authorities came to their home on Saturday and took Vadell away, and family members do not know where he was taken. The Venezuelan government's moves may result in the extension of U.S. sanc-

NEWS BRIEFS

## Air-E Launches Private Renewable Energy Auction in Colombia

Colombian regional power distributor Air-e last week launched its own renewable energy auction as it seeks to award contracts for at least 300 megawatts of wind and solar capacity, Renewables Now reported. Air-e said it would offer power purchase agreements of between 15 and 20 years, with the aim of supplying competitively priced electricity from nonconventional renewable energy sources to consumers in its service area, which includes the Atlántico, La Guajira and Magdalena coastal departments. The company hopes to cover at least 20 percent of its commercial demand with renewables by 2025.

## Iranian Tank Reportedly Transports Venezuela Oil

An Iran-flagged supertanker on Saturday was to transport two million barrels of Venezuelan state oil company PDVSA's heavy crude, Reuters reported, citing official documents and vessel tracking services. The cargo is part of a deal between PDVSA and its Iranian counterpart, the National Iranian Oil Company, or NIOC, under which the Middle Eastern country exchanges its condensate for Venezuela's Merey crude. The swap agreements aims to ease a sharp shortage of diluents that has hurt Venezuelan's oil production and exports especially in recent weeks.

## Brazil's Renova Receives Environmental Permits for Renewable Projects

Inema, the environment and water resources institute in Brazil's Bahia state, has granted Renova Energia preliminary permits for 703.5 megawatts (MW) of wind and solar projects, Renewables Now reported Monday. The licenses allow Renova to continue developing its 576-MW wind complex and 127.5-MW solar plant.

tions on Venezuela's oil sector, Argus Media reported. The administration of U.S. President Joe Biden has previously signaled that it is willing to ease financial and oil sanctions on the Andean nation in tandem with progress toward restoring democracy. Recent U.S. moves such as exempting LPG sales from sanctions were seen as an initial departure from former U.S. President Donald Trump's tough sanctions regime in response to Venezuela's agreement to engage in talks with opposition representatives. Anticipating further similar action by the Biden administration, some oil companies and investors had started to line up proposals and debt-for-equity deals, according to the report. However, following the suspension of dialogue with the opposition and the detainment of the so-called "Citgo 6," any possibility of sanctions relief seems much more remote, Argus Media reported. Venezuela's opposition and Norway, which had been mediating the talks, on Sunday urged the government to resume dialogue as soon as possible.

# Colombia's ELN Claims Responsibility for Pipeline Attack

The National Liberation Army, or ELN, rebel group has claimed responsibility for an attack in Colombia last week against a pipeline used to transport crude to the Andean nation's main refinery, in the city of Barrancabermeja, Reuters reported. The attack caused an oil spill into surrounding vegetation and soil, said state oil company Ecopetrol, which controls the pipeline and refinery. A spokesman said that fire had also broken out but was later brought under control. Ecopetrol did not specify whether the attack had been an explosion, Forbes reported. "Our guerrilla forces carried out an act of sabotage on the La Cira Infantas pipeline used by Ecopetrol today, October 15, in the Paquistan region on the road between Barrancabermeja and Bucaramanga," the ELN said in a statement posted on one of the group's websites. It also took responsibility for the September attacks on La Cira Infantas oil field, which halted production for some at several wells. The La Cira

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national electricity system and will be the exclusive power supplier for end users, with the ongoing mandate to supply at least 54 percent of the national power demand. Furthermore, the reform contemplates the cancellation of all power generation permits and those that are pending resolution, all power purchase agreements (PPAs) executed by private companies with CFE and all Clean Energy Certificates (CELs). Overall, the reform would limit free-market competition and private investment in the power sector. The reform would also eliminate the Mexican Energy Regulatory Commission (CRE) and would integrate CENACE, the Mexican grid operator, into CFE. Thus, CFE would also become the sector regulator with authority to set the rates for transmission, distribution and end users. The reform would likely result in claims from affected private investors under the USMCA. As to the Paris Agreement, it may prove more difficult for Mexico to meet its emissions reduction goals under the treaty to the extent renewable power generated by private investors is replaced with CFE power, which is more carbon-based."

**A** **Fluvio Ruiz Alarcón, Mexico-based oil and gas analyst:** "It is worth remembering that the electricity sector's new market model, which emerged from the 2013-2014 energy reforms, did not have the approval of the Mexican left, whose arguments were not taken into account in the legislative debates at the time. None of the left's reservations were even considered in Congress' discussions. This is now relevant because the hegemonic bloc now—except the PVEM—was at the time opposed to the energy sector's opening in general, and the electricity sector's opening in particular. As such, it does not seem impossible for Morena and the president's allies to build a sufficient majority to reform the energy sector's institutional design, considering that the PRD and the MC also voted against the 2013-2014 energy reform, and that many members of the PRI voted in favor of it not out of ideological conviction but more because of party discipline. However, according to the first statements of the respective party leaderships, both the PRD and the MC seem to want to prioritize their general political opposition to the current government over their particular ideological affinity. Hence, presidential efforts have focused on seeking the necessary votes for the reform's approval in what remains of the PRI's revolutionary, nationalist wing. However, gaining their support seems difficult without modifications to the initiative, such as giving up the disappearance of the regulatory bodies, for example."

**A** **Pedro Niembro, senior director at Monarch Global Strategies:** "AMLO's energy counter-reform bears the fingerprints of CFE's leadership, specifically CEO Manuel Bartlett, who has opposed the opening of the electricity sector to private investment since the earliest efforts in the 1990s. His ideology envisions the power sector as a 'social development tool' that should be guided by the state. Yet, the current proposal fails to recognize that CFE's finances, unsustainably stressed by an aging infrastructure (in generation, transmission and management) and a huge pension deficit, cannot support the level of investment needed to keep up with the energy needs that a post-pandemic, geographically privileged Mexico requires to take advantage of the U.S.-China economic confrontation and a desire to bring supply chains closer to home. All indications suggest AMLO will use every political tool at his disposal to try to push the legislation through Congress as written. On its face, the chance of him succeeding seems like a long shot given the number of opposition party politicians he would need to sway, but AMLO would not have proposed this initiative if he did not believe there were a road map to approval. The key unanswered

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Infantas oil field produces about 30,000 barrels per day of crude. Ecopetrol said production had not been halted following last Friday's attack. The ELN said it wants to "open a debate" on the use of the country's natural resources, especially oil, adding that it would be willing to stop its attacks against oil infrastructure in return for eliminating road tolls and adjusting fuel costs, the wire service reported. Attacks against pipelines and other infrastructure by rebel groups in Colombia are somewhat common, with about 28 incidents registered so far this year through September. "Ecopetrol rejects the violent actions committed by third parties against the Cira Infantas-Barrabacab-ermeja Refinery pipeline," the company said in a statement, Forbes reported. It also called on the third-party group, which it did not name, to suspend attacks on infrastructure that it said put people's integrity at risk, generated environmental damage and affected communities and the oil industry, Forbes reported.

## Tighter Credit Leads Petroecuador to Modify Sales Terms

Ecuadorean state oil company Petroecuador has modified the terms and conditions of oil transactions in a bid to offset the increasing difficulty for buyers to obtain letters of credit from banks and insurers that are prioritizing climate concerns, Argus Media reported Saturday. According to the changes, counterparties can now present requisite guarantees from domestic banks backed by a triple-A rated foreign bank, Petroecuador said. The company will also accept domestic insurance policies with the backing of international reinsurance entities. The list of international banks that are eligible to issue guarantees has also been nearly doubled, to 750 from 386, according to the report. Likewise, buyers will now also have the option of depositing the value of an export before the actual sale as an alternative to letters of credit. "This measure was taken because of the difficulty in obtaining letters of credit from some international entities as a result of restrictions on the sale of crude extracted from

# ADVISOR Q&A

## Will Evergrande's Crisis Spell Trouble for Latin America?

**Q A liquidity crisis at massive Chinese property developer Evergrande, which is saddled with a staggering $300 billion debt, and the Chinese government's reluctance to bail out the company, sent shockwaves through international financial markets in September and sparked fears of contagion. The crisis has led to concern over potential repercussions in Latin American countries, many of which count China as an important investor and business partner. How concerned should Latin American countries be about a possible financial crisis in China, and how could such a crisis threaten investment in Latin America? To what extent are Latin American countries relying too much on China to fuel their economic recoveries from the Covid-19 pandemic? How has China's lending and foreign direct investment in Latin America evolved in recent years? Do recent trade talks between China and Ecuador and Uruguay offer a good model for expanding commercial ties and trade flows?**

**A Tara Hariharan, director of global macro research at NWI Management LP:** "Global investors are anxiously watching Evergrande for signs of systemic contagion into China's financial markets, but Chinese authorities are less concerned and seem to signal an Evergrande default with losses for its domestic and offshore bondholders, albeit with some government intervention to protect individual Chinese homebuyers and investors. More than Evergrande alone, the world (Latin America included) should fear a looming slowdown in China's growth engineered by recent strict policies to deleverage highly indebted sectors (such as property) and crack down on the activity of Chinese private-sector technology giants. A slowing Chinese economy directly affects Latin America through lower demand for its commodities, and in the medium term, weaker growth and an inward focus may mean China reins in its global Belt and Road investment ambitions, including those in Latin America. The region initially benefited by providing commodity resources for China's growth surge in the 2000s, but since then Chinese investment and trade interests in Latin America have continued to be largely limited to commodity sectors such as mining and energy, and to only a few nations (Brazil, Chile, Peru and Argentina). While Ecuador and Uruguay are taking proactive steps toward free trade and more investment from China, they must heed the double-edged sword of U.S.-China tensions: China and the United States could positively compete to invest and expand supply chains in the region, but there is also the risk of being caught between the dueling powers. Furthermore, Latin America should be wary of China's opaque and sometimes predatory lending practices as a creditor to emerging market countries."

> **"More than Evergrande alone, the world (Latin America included) should fear a looming slowdown in China's growth..."**
> **—Tara Hariharan**

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

NEWS BRIEFS

### Blinken Calls for Accountability During Visit to Colombia

Accountability for human rights abuses during Colombia's decades-long conflict as well as in recent anti-government protests is "critically important" to preventing future abuses, U.S. Secretary of State Antony Blinken said during an official visit to Colombia on Wednesday, Reuters reported. "Ending impunity as we know it is also one of the best ways to prevent more abuses going forward," Blinken said. He met with President Iván Duque ahead of talks with foreign ministers from across the region to discuss migration.

### Petroperú to Return to Oil Production After Two Decades

Peruvian state oil firm Petroperú is preparing to begin extracting oil by the end of the year, the government said Wednesday, signaling the company's return to oil production after more than two decades focused on oil refining, transportation, storage and sales, Reuters reported. Petroperú is slated to begin oil operations on Dec. 27 in a bid to supply the company's Talara refinery. [Editor's note: See related **Q&A** in the Aug. 27 issue of the Energy Advisor.]

### Barbados Elects First President Ahead of Move to Republic Status

Barbados' Parliament on Wednesday elected the country's first president, Governor General Dame Sandra Mason, as it prepares to become a republic and remove Queen Elizabeth II as head of state, BBC News reported. Mason is to take office on Nov. 30, the 55th anniversary of Barbados' independence from Britain. Mason secured the support of all members of the House of Assembly and all but one member of the Senate, the Jamaica Gleaner reported.

the Ecuadorean Amazon," Petroecuador said in the statement, Argus Media reported.

RENEWABLES NEWS

## Mexico's AMLO Vows to Work With U.S. on Climate Change

Mexican President Andrés Manuel López Obrador on Monday vowed to work with the U.S. government to push for stronger action on climate change, the Associated Press reported. At an event with U.S. climate envoy John Kerry, López Obrador said that "we are going to support the plan President [Joe] Biden is promoting" ahead of a U.N. climate conference in Glasgow, Scotland, at the end of the month. Kerry appeared alongside López Obrador at a ceremony for Mexico's tree-planting program, in which the government pays farmers a monthly stipend to plant and care for trees, and which López Obrador says is a solution to both climate change and migration. Kerry lauded the reforestation effort, adding that the U.S. energy transition away from fossil fuels would open an opportunity for Mexico to manufacture electric vehicles, creating jobs in that sector, Reuters reported. "Mexico's industrial base, already deeply integrated with the rest of North America, absolutely stands to benefit from the energy transition," Kerry said. Critics of López Obrador have blasted the president's energy policies, in particular his efforts to favor state utility CFE over private power generators that produce much cleaner electricity.

POLITICAL NEWS

## Brazilian Senate Report Recommends Charging Bolsonaro

After six months of televised hearings, a Brazilian Senate committee on Wednesday released a nearly 1,200-page report recommending that President Jair Bolsonaro face charges of "crimes against humanity" over his handling of the Covid-19 pandemic, the Financial Times reported. The committee dropped recommendations that Bolsonaro be charged with homicide and genocide over what Senator Humberto Costa called "technical" reasons, Reuters reported. "We can't run the risk of the report being thrown out by a judge because the characterization of the crimes was not precise," said Costa. The report accuses Bolsonaro of promoting scientifically baseless remedies, disseminating misinformation about the disease and failing to acquire vaccines on time, the Financial Times reported. Bolsonaro has denied wrongdoing and has called the commission's investigation politically motivated.

ECONOMIC NEWS

## Paris Club Gives Cuba Until Next Year for Debt Payment

Cuba and the so-called Paris Club of creditor nations have reached a deal to delay until next year an annual debt payment that was due this November, Reuters reported Wednesday, citing diplomats from five of the governments involved in the negotiations. A 2015 agreement between the Paris Club and the Cuban government forgave $8.5 billion of $11.1 billion in sovereign debt that the Communist-run country defaulted on in 1986, plus charges. Cuba agreed to repay the rest in annual installments through 2033. However, it only partially met its obligations in 2019 and defaulted on the payment due last year. The two parties reached the latest deal in June, the diplomats said, adding that it stipulates the resumption of payments in 2022 as well as an adjustment of the payment schedule. Neither the Cuban government nor the Paris Club had a comment on the matter, the wire service reported. "Amending the 2015 arrangement is beneficial for both Cuba and the Paris Club," Pavel Vidal, former analyst in the monetary policy division at the Central Bank of Cuba, told the daily Latin America Advisor in a **Q&A** published June 16.

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question is if he will compromise to assure the votes he needs, or if he is willing to risk failure knowing he can use it as a political sledgehammer against his rivals. If AMLO compromises on some of the more extreme elements of the legislation, such as implicit expropriation, there is a strong chance a watered-down version can pass Congress. But even so, the law will face robust legal challenges in Mexico and abroad, where several key provisions of the proposal are in direct contradiction with Mexico's free trade agreements."

A **Greg Ahlgren, partner at Diaz, Reus & Targ:** "Halfway through his presidential term, AMLO continues to exalt the virtues of state-owned enterprises, but the underlying economic rationale, if it exists, is difficult to discern. Rather, his current efforts to consolidate market share and power for the CFE seem purely political, aimed at further solidifying the populist message being pitched to his political base. Currently, Mexican families have no choice as to their electricity provider for their homes, and the state-owned provider has no meaningful accountability to its consumers. Now, if the proposed energy reforms (which are, really, proposed 'counter-reforms,' as they would undo the energy market liberalizations undertaken by the presidential administration of Enrique Peña Nieto) become law, the largest commercial consumers of electricity would also become captive customers of the CFE. The result would, almost certainly, tremendously challenge the productive capacity of the CFE, spook the foreign investment community in Mexico and take the country even farther from the global objectives of reducing carbon emissions. Perhaps no one would be surprised if a swollen and essentially unaccountable state-owned enterprise would find it virtually impossible to improve customer service or lower the price of electricity for domestic consumers. Yet, AMLO, in his admiration of the Cuban economic model, continues to look for ways to take the country away from free markets. The politics of polarization show no signs of slowing during the second half of AMLO´s presidential term, and it may be up to the country's traditional political parties to unite in opposition."

A **Beatriz Olivera, executive director of ENGENERA:** "President López Obrador's electricity reform bill has broad possibilities of being approved in the Chamber of Deputies. The scenario is complex; as it is a constitutional reform, Morena will need to negotiate with the opposition to obtain the 57 votes required to achieve a qualified majority. Meanwhile, the PRI seems hesitant in the face of the PAN and the PRD's request to vote against the bill, which heralds a possible fracture in the 'Va por México' alliance. The proposed legislation would undoubtedly be a watershed in the country's electricity sector, as all the subsidiaries and affiliates of the CFE would disappear into a single body, as would the regulatory agencies. A positive aspect is that the proposal will give the state greater participation and control in the production of electricity, lost during previous administrations that were openly neoliberal. Among the most worrying aspects is that it would keep the Mexican state from complying with its international climate commitments and energy transition goals. The CFE's electrical infrastructure is mainly made up of plants that run on fossil fuels. The president's bill does not propose a shift toward cleaner technologies but will continue to favor the use of fossil technologies. Likewise, it will reduce the possibility of electricity generation from renewable sources in community schemes by limiting the mode of electricity production in decentralized schemes."

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

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