FEATURED Q&A

Will Bolsonaro’s Government Meddle in Petrobras Affairs?

Brazilians President Jair Bolsonaro released a written statement April 16 saying he “cannot” and “will not” interfere with Petrobras. The statement followed Bolsonaro’s call the previous week to the CEO of the state oil company that led Petrobras to call off a sharp increase in diesel prices, reviving investors’ fears about political meddling at the company. Is Bolsonaro’s government committed to the state oil company’s autonomy, or should investors expect government intervention, including on prices, in the future? What will happen if the Bolsonaro government exerts its influence with fuel prices? Will the government’s efforts to appease truckers with $128 million in credit through the Brazilian Development Bank for the purchase of tires and truck maintenance, and $514 million on improving roads succeed in preventing a strike?

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Jeremy Martin, member of the Energy Advisor board and vice president of energy and sustainability at the Institute of the Americas: “We want a fair price for diesel.” With that sentence, President Bolsonaro unleashed a torrent of debate and unkind harkening back to governments past. The dust-up over fuel prices comes just after his first 100 days in office and uneven results, as the polls increasingly reflect. President Bolsonaro has overseen a sputtering economy combined with a debate on pension reform that is sucking the oxygen out of most broader economic discussions and damaging his agenda in Congress. Furthermore, and given his involvement, the impact and disruptiveness of last year’s trucker strikes have been on the minds of President Bolsonaro and certain members of his economic team.

Continued on page 3
Petrobras Seeks to Raise $20 Billion in Refinery Sales

Brazilian state oil company Petrobras is looking to raise roughly $20 billion through the sale of eight refineries, Reuters reported Saturday, citing an unnamed source familiar with the matter. On April 26, Petrobras announced its board had approved a plan to sell the refineries, including the recently built Abreu e Lima unit in the municipality of Ipojuca in Pernambuco State, according to a securities filing. Among others, the Gabriel Passos, Gétulio Vargas and Alberto Pasqualini facilities will also be put up for sale, as well as the Landulpho Alves unit in northern Bahia State, one of the largest refineries in Brazil with capacity to process 323,000 barrels of crude per day, the company said. The sale of the refineries could take as long as one year to complete, according to the source. The oil company also has plans to sell a gas station chain it owns in Uruguay and an additional stake in Brazil’s top fuel distribution company, BR Distribuidora, in which Petrobras owns a 71 percent stake, the firm said. Petrobras could reduce its stake in BR to as low as 40 percent, according to another source with direct knowledge of the matter, Reuters reported. Economy Minister Paulo Guedes said last Friday that the government is not considering the privatization of Petrobras but noted that President Jair Bolsonaro, who took office this year, for the first time showed he was open to the possibility, Reuters reported. In April, Bolsonaro said he had an “initial sympathy” toward the idea of privatizing the state oil company.

Ecuador to Appeal Court Ruling Over Oil Exploration: Gov’t

Ecuador’s government announced on Saturday that it would appeal a ruling that blocks oil companies’ exploration activity in ancestral Amazonian lands, Agence France-Presse reported. The Ministry of Energy and Nonrenewable Resources “will appeal the decision, given that although documents and videos were presented and compliance with all standards was demonstrated, these were not taken into account,” the ministry said in a statement. A day earlier, a criminal court in the city of Puyo in the eastern Pastaza province ruled in favor of the Waorani indigenous community’s request to halt an oil auction process for exploration activities in the area. Nemonte Nenquimo, a leader of the Waorani, previously said the fight is not just about oil but also about different ways of living, “one that protects life, and one that destroys life,” Reuters reported. The government had opened up approximately 180,000 hectares of the Amazonian land for exploration. Ecuador’s Constitution establishes the “inalienable, unseizable and indivisible” rights of indigenous people “to maintain possession of their ancestral lands and obtain their free adjudication,” but the wealth in the subsoil is essentially owned by the state, AFP reported. The local court blocked the plans for an oil auction, saying the government had not adequately consulted with the indigenous tribe, according to the country’s Ombudsman’s Office, which supported the Waorani’s lawsuit. The government has said the Waorani community was indeed consulted on the plans in 2012, but tribe leaders have rejected the process, saying it was filled with “confusion, deception and division,” Reuters reported. “This historic decision protects our territory from oil exploitation unconsulted and projected by the state,” a Waorani organization said in a statement. “This historic ruling protects life, protects our home,” it added. The judges ordered the government to conduct a new consultation that applies the standards established by the Inter-American Court of Human Rights.

Venezuela Crisis Hits OPEC Oil Production in April: Reuters Survey

Oil supply from the Organization of Petroleum Exporting Countries, or OPEC, hit a four-year low in April at 30.23 million barrels per day (bpd), according to a Reuters survey, in part due to involuntary declines in Venezuela, the wire service reported Tuesday. Supply in Venezuela fell by 100,000 bpd in April amid U.S. sanctions targeting its oil sector, according to the survey. The South American country was once among OPEC’s top three producers.

IDB to Lend $600 Million to Colombia to Diversify Country’s Energy Matrix

The Inter-American Development Bank, on April 25 announced it will loan Colombia $600 million with the aim of diversifying and improving the Andean country’s energy matrix by integrating nonconventional renewables such as wind, solar and biogas, Renewables Now reported. The loan, which is to be invested in the implementation of policy reforms to facilitate efficient electricity supply, has a 19-year term with a five and a half-year grace period, the IDB said.

Former Petroperú VP Admits to Bribery Scheme Involvement With García

Miguel Atala Herrera, a former vice president of Peruvian state oil company Petroperú, has confessed to acting as a frontman for late President Alan García in a bribery scheme in connection with Brazilian construction conglomerate Odebrecht, a prosecutor said Tuesday, Agence France-Presse reported. Atala said he received money from the firm and later transferred it to the former president. García committed suicide two weeks ago to avoid being arrested in relation to the corruption case.

Among the facilities that will be put up for sale is the Landulpho Alves unit, one of the largest refineries in the country.
Peru Reapproves Exploration Contract for Tullow Oil

Peru has reapproved a contract for Tullow Oil to explore a shallow-water block nearly a year after the original contract was canceled, Argus Media reported Wednesday. Tullow had won the rights to explore block Z-64, a 54,000-hectare block off the northern department of Tumbes, in March of last year, with the contracts published just one day after former President Pedro Pablo Kuczynski stepped down. Congress then pressured the new government to cancel the contracts based on an energy ministry recommendation to overhaul the citizen participation process, prompting the annulment of the award, according to the report. The ministry approved new participation rules earlier this year, América Economía reported. The U.K.-listed oil company could still face an uphill battle with environmental groups and coastal communities that have called for the designation of Peru’s first maritime protected area, the Grau Tropical Sea National Reserve, which President Martín Vizcarra had reportedly promised, according to the country’s ombudsman’s office. The Peruvian Hydrocarbons Society says the proposed protected area would push investors away, Argus reported. Tullow operates in more than 16 countries, mostly in Africa, and its average production last year totaled more than 90,000 barrels of oil equivalent per day, América Economía reported.

Pemex Reports $1.9 Billion Loss for First Quarter

Mexican state oil company Pemex reported a loss of 36 billion pesos, roughly $1.9 billion, in the first quarter of this year but said it was moving in the right direction, pointing to a sharp drop in fuel theft, the Financial Times reported Tuesday. The company had recorded a profit of 113 billion pesos in the same period a year ago, but the first-quarter loss is much smaller than the 157 billion peso loss recorded in the fourth quarter of last year, which officials said reflected the positive impact of a 121 billion peso foreign exchange profit and Pemex’s new strategies. “We have made improvements, although gradual ones. We have advanced in all areas. The challenges will require time to resolve but the trend is clear,” said Alberto Velázquez, the company’s chief financial officer, the newspaper reported. “Pemex is moving in the right direction.” The company also reduced fuel theft, a major cash impact, Minister Guedes is rumored to be considering measures to reduce federal fuel taxes. This could be seen as the final arrow in their quiver for holding off the looming shadow of disruptive trucker strikes and further deleterious economic impacts. That the truckers have not unleashed strikes similar to last year can be viewed as a win, or at least a break. But, the issue has only stoked broader concerns over the president’s management of the economy and revived questions about his more populist inclinations.”

Cleveland Jones, researcher at the Instituto Nacional de Óleo Gás/CNPq (INOG) in Brazil: “While the matter of fuel prices is critical for Petrobras and the country, it is extremely risky to try to predict President Bolsonaro’s attitudes regarding free markets. There can be no assurances that there will not be further pressure on the company to accommodate political interests, even if in practice the government and the president have limited direct influence. The tradition of government meddling in microeconomic affairs and the private and quasi-private sectors will be hard to break. However, concrete advances are likely in privatizations and liberalization of rules that currently cause significant market uncertainty, and that should provide some comfort and assurance to the market. Economy Minister Paulo Guedes is the great hope for markets—if his views and proposals were to be implemented, the economy and markets would react extremely well. The question is how much freedom he will actually have in moving the economy toward more transparency, free markets and sustainable macroeconomic foundations. If his autonomy were to be seriously impaired, all bets are off, and Brazil would likely succumb to a serious crisis of
billion pesos, and earnings before interest, tax, depreciation and amortization dropped 17 percent to 115.7 billion pesos.

**RENEWABLES NEWS**

**Argentina Signs Last 13 Megawatts of RenovAr 2 Contracts**

Argentina has signed contracts for a nearly 13-megawatt biomass project, the last power purchase agreement in the list of winners in the country’s renewable energy auction program known as RenovAr Round 2, Renewables Now reported Wednesday. The country’s Undersecretariat for Renewable Energy announced the contract had been signed with Argentine electric market management company CAMMESA for the Central Térmica Kuera Santo Tome biomass power plant in Corrientes Province. The plant is expected to generate enough electricity to supply some 27,000 homes using forest residues from cultivated forests and byproducts of the wood industry, according to the report. The auction round successfully contracted 86 out of 88 projects for a total capacity of approximately 2,020 megawatts. Argentina currently has 135 renewable energy plants either installed or under construction, with capacity totaling 4,776 megawatts. The combined investment of these renewable projects amounts to $7.2 billion, according to government estimates.

**POLITICAL NEWS**

**Rival Violent Protests Grip Venezuela, at Least One Killed**

Pro- and anti-government protesters clashed in the streets on Wednesday, May Day, in Venezuela in the second consecutive day of widespread demonstrations following opposition leader Juan Guaidó’s call for the country’s military to overthrow President Nicolás Maduro. “There’s no turning back,” Guaidó told supporters at a rally in Caracas, The New York Times reported. “Despite the repression, we’re still here.” Pro-government forces reportedly used live fire against protesters in Caracas’ Altamira neighborhood. A 27-year-old female protester was killed after being shot in the head, according to local human rights groups. More than 100 people have been injured this week in the violent demonstrations, CNN reported, citing the independent Venezuelan Observatory of Social Conflict. Additionally, 168 people have

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**ADVISOR Q&A**

**Why Is Mexico Cracking Down Now on Migrants?**

**Q** Mexico has sent 15,000 migrants back to their home countries in the past month, the head of the country’s National Migration Institute said April 23. The announcement followed a series of raids in which Mexican authorities detained immigrants in the southern part of the country, halting their trek toward the United States. Are U.S. President Donald Trump's threats to close the U.S.-Mexico border the main reason behind Mexico's detention of migrants? What other reasons are behind the move? What costs and benefits will Mexican President Andrés Manuel López Obrador see from the crackdown? Will Mexico's actions stem the flow of Central Americans heading north?

**A** James R. Jones, chairman of Monarch Global Strategies and former U.S. ambassador to Mexico: “In this instance, President Trump’s bustling threats are not the reason for Mexico assuming a harder stance against immigration at its southern border. I am on the Homeland Security Advisory Council, having been appointed by then-President Obama's Homeland Security secretary, Janet Napolitano, 10 years ago. The current massive flow of immigrants from Central America is unprecedented. Also new is the makeup of immigrants. For the first time, families and children are the majority of those seeking asylum. At first, Mexico was merely a transit country as asylum seekers headed for the United States. Mexico was generous with humanitarian visas and passage for these immigrants. But domestic political and economic backlash has occurred in Mexico, and President López Obrador and his government had to respond. Many of the municipalities in southern Mexico complained that they were being overrun and couldn’t cope. In some northern cities, complaints began that immigrants were taking jobs and resources to the detriment of Mexicans. And when U.S. Customs and Border Protection had to be deployed all along the border to help police the huge influx of immigrants, it meant that many were taken away from their duties to assess and expedite the flow of commerce at ports of entry. Consequently, commerce was significantly slowed, which had a detrimental impact on the economies of both countries. López Obrador’s top priority of growing Mexico’s economy at 4 percent in order to substantially reduce poverty would be jeopardized. So Mexico had to crack down on its migration policy to respond to domestic concerns in addition to the ever-present threats from Trump.”

**EDITOR’S NOTE:** More commentary on this topic appears in Thursday’s issue of the Latin America Advisor.
NEWS BRIEFS

Cubans Take to Streets in Massive Protests Against U.S. Sanctions

In government-organized demonstrations, Cubans took to the streets in massive May Day marches on Wednesday to protest U.S. sanctions and efforts to remove Venezuelan President Nicolás Maduro from power, Reuters reported. Cubans participating in the marches numbered in the millions, the wire service reported. On Tuesday, U.S. President Donald Trump threatened a “full and complete embargo” against Cuba if it continued supporting Maduro.

Mexico’s Senate Rejects Education Reform Bill

Mexico’s Senate late on Tuesday rejected a bill to reverse parts of the 2013 education reforms in the absence of several senators from the ruling Morena party, the Associated Press reported. The measure will now go back to the lower house, which had previously approved the proposal. The bill is seen as one of President Andrés Manuel López Obrador’s key campaign promises. Former President Enrique Peña Nieto’s overhaul imposed mandatory teacher evaluations and stripped unions of their influence over hiring.

Former Security Chief for Colombia’s Uribe Arrested After Return From U.S.

Former Colombian President and current Senator Álvaro Uribe’s ex-security chief was arrested on charges of forced disappearance and murder after the United States sent him back to Colombia on Monday, according to Colombia Reports. Mauricio Santoyo had been extradited to the United States in 2012, where he was convicted on drug trafficking charges. His arrest is part of an ongoing investigation into alleged links between paramilitary death squads and officials in Antioquia.

been detained, according to Human Rights Watch. Guaidó, whom the United States and dozens of other countries recognize as Venezuela’s legitimate interim president, early Tuesday had called for the military uprising, saying the opposition's effort to force Maduro from power was entering its “final phase.” However, Maduro has remained in power. Some Venezuelan troops have switched sides to stand alongside Guaidó, but his call for a military uprising did not lead to any defections of military top brass. “We have to acknowledge that yesterday there were not enough [people], we have to insist that all the armed forces protest together,” Guaidó said Wednesday. “We are not asking for a confrontation among brothers, it’s the opposite. We just want them to be on the side of the people.” Guaidó also called on public-sector employees to go on strike. Maduro has blamed U.S. President Donald Trump for what he has called a “coup d’état attempt.” Maduro urged supporters to show their “utmost loyalty” and called on them to protest in the streets. U.S. Secretary of State Mike Pompeo said Wednesday that the Trump administration wants to see a peaceful transition of power in Venezuela, but he told Fox Business Network in an interview that “military action is possible.” He added, “If that’s what’s required, that’s what the United States will do.” The Trump administration on Wednesday convened a meeting of top national-security officials to discuss the administration’s next steps in the crisis, said White House National Security Advisor John Bolton, The Wall Street Journal reported. No U.S. military action is imminent, a top administration official told the newspaper.

We need a period of transition.”
— Rodrigo Bonato

ECONOMIC NEWS

Ag Machine Makers Raise Concerns Over Brazil Uncertainty

Executives from the world’s largest agricultural machine makers are concerned over the uncertainty regarding Brazil’s new farm credit package, as their sales could take a hit if the definition of the program is delayed, Reuters reported Thursday. Directors for John Deere, Case IH and AGCO are worried that Brazil’s new administration will impose unfavorable financing rules given its promises to cut public funding to the private sector, according to the report. Brazil has for years subsidized interest rates on loans for farmers, with the government paying banks the difference between conditions it sets for farmers in the annual farm credit package and those of the market. However, Economy Minister Paulo Guedes favors a gradual increase on private financing for the agricultural sector, Reuters reported. “I think this liberal vision is important for the country. But we need a period of transition, of accommodation,” Rodrigo Bonato, Brazil sales director for John Deere, told the wire service, adding that the lack of information surrounding the administration’s plans is causing “anxiety among farmers.” Interests are “critical” when farmers calculate return on investments, according to Christian González, vice president of South America for Case IH. While Brazil’s official credit line for agricultural machines has annual interests of 7.5 percent and seven years of repayment, for example, a private line at a commercial bank would cost 11 percent with repayment in five years.

Mexico’s Economy Contracts in the First Quarter: INEGI

Mexico’s economy contracted in the first quarter of the year as compared to the fourth quarter on a seasonally adjusted basis, the national statistics institute, INEGI, announced Tuesday, The Wall Street Journal reported. Gross domestic product shrank 0.2 percent in the January-to-March period as compared to the previous three months. Industrial production declined 0.6 percent from the previous quarter.
confidence. Looking at the big picture, we should keep in mind that while fuel prices are the subject of intense pressure and pushback, oil and gas operators generally recognize that the operating environment in Brazil is still healthy, especially for crude producers. Brazil has a large and growing excess production of crude, which must be exported, and there are no current or foreseen impediments to free-export negotiations. Thus, the prospects for secure returns for crude producers is relatively safe. Given the huge potential for increased production from pre-salt and other fields in Brazil, that is where investments will flow, and rightly so. Exploratory areas in bidding rounds and upstream activities are practically assured of healthy performance and growth.”

Fernanda Delgado, professor and research coordinator at the Center for Energy Studies of Fundação Getúlio Vargas in Brazil: “This movement from President Jair Bolsonaro to intervene in the readjustment of Petrobras’ diesel prices lights up an alert in the market, and now there is great doubt regarding the future of the state’s assets sales program. After the company’s decision to go back on the 5.7 percent readjustment, entrepreneurs will think of how much riskier it is to buy Petrobras assets. It is possible to imagine that no one will buy a refinery in Brazil if a risk exists that, at any moment, the government could force the entrepreneur to sell cheaper fuel. However, this discussion goes beyond just fuel prices in Brazil—It’s also about a government energy plan that should include a discussion about what the role of Petrobras is now. The company’s ability to define fuel prices in the domestic market derives from its monopoly, which leads one to consider that opening the segment to third parties would ensure that market practices are applied domestically and restrict the company’s ability to control prices. The main message should be that disinvestments are crucial to reduce Petrobras’ exposure to risk and to bring competition to the market, either among refineries or even among energy sources, such as with ethanol, electric motors or natural gas. Market competition is key to stabilizing the system.”

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

“Now there is great doubt regarding the future of the state’s assets sales program.” – Fernanda Delgado

Event Notice
Prospects for Energy Resource Development in Latin America

Friday, May 10
9:30 - 11:15 a.m.
Inter-American Dialogue
1155 15th St. NW, Suite 800, Washington, DC

To RSVP or view the agenda, click here

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