

INTER-AMERICAN DIALOGUE'S

LATIN AMERICA ADVISOR ► ENERGY

BOARD OF ADVISORS

- | | |
|--|--|
| Mary Rose Brusewitz
Partner,
Strasburger & Price | Larry Pascal
Partner,
Haynes and Boone |
| Jeffrey Davidow
Senior Counselor,
The Cohen Group | R. Kirk Sherr
President,
Clearview Strategy
Group |
| Ramon Espinasa
Consultant,
Inter-American
Development Bank | Charles Shapiro
President,
Institute of the
Americas |
| Luis Giusti
Senior Advisor,
Center for Strategic &
International Studies | Garrett Soden
Director,
Etrion Corporation |
| Jonathan Hamilton
Partner,
White & Case | Mark Thurber
Partner,
Andrews Kurth |
| Raul Herrera
Partner,
Arnold & Porter | Roger Tissot
Independent Energy
Economist |
| James R. Jones
Co-chair,
Manatt Jones
Global Strategies | Alexandra Valderrama
International Gov't
Affairs Manager,
Chevron |
| Jorge Kamine
Counsel,
Skadden Arps | Andrew Vesey
Executive VP and Chief
Operating Officer,
The AES Corporation |
| Craig A. Kelly
Director, Americas
Int'l Gov't Relations,
Exxon Mobil Corp. | Lisa Viscidi
Director, Energy
Program, Inter-
American Dialogue |
| Francesco Olivieri
Washington Office
Head, Enel Green
Power North America | Max Yzaguirre
Chief Executive Officer,
The Yzaguirre Group |

FEATURED Q&A

What Should Be Done About Guatemala's High Energy Costs?

Q A spate of protests have broken out over electricity in Guatemala, beginning in March with one that brought 20,000 people to the capital to protest the high cost of electricity and continuing in April when demonstrators blocked highways in protest of power outages reportedly caused by a suspension of service by energy company Energuate due to unpaid bills and illegal connections. Why are Guatemala's electricity prices so high, and what should be done to bring them down? How should the issues of unpaid bills and illegal connections be addressed?

A Michael L. Dougherty, assistant professor of sociology at Illinois State University: "Guatemala's electricity prices are high for a variety of reasons, and there is no simple or easy solution to the dilemma. In part the problem stems from the 1996 law, Ley General de Electricidad (General Electricity Law), which privatized both energy production and distribution in Guatemala. This law allowed for private companies to install generating stations with virtually no government involvement. The intention was to produce free competition, thus improving service and lowering cost. However, the grid infrastructure lends itself to monopoly control. Therefore, the privatization of electricity produced a proliferation of small private

monopolies, rather than the competition it sought. Today, there are more than 50 different companies—public and private—producing and distributing electricity in Guatemala. Further, the costs of electricity provision to rural areas are much greater because the low population density means that the amount of infrastructure required per household is greater. Where companies control regions that span urban and rural areas they can distribute these costs evenly among households, but where small companies hold

Continued on page 3



Pemex Negotiating with China Over \$4 Billion Fund

Mexico's Pemex, led by CEO Emilio Lozoya Austin, is negotiating with Chinese companies to create a fund valued at as much as \$4 billion to finance new energy projects. The Sino-Mex Energy Fund would be the largest Chinese investment fund in Latin America. See story on page 2.

File Photo: Pemex.

Inside This Issue

FEATURED Q&A: What Should Be Done About Guatemala's High Energy Costs?1	Ecuador Issues Environmental Permit for Drilling in Yasuní Park.....2	Martifer Partners with Citelum in Mexico Solar Power Project.....3
Pemex Negotiating with Chinese Firms Over \$4 Billion Fund2	Puerto Rico Governor Signs Electricity Reform Law2	Subscriber Notice: Mexico's Energy Reform: What's Next for Gas and Electricity?4
Repsol Sells Final Bonds From Argentina's Seizure of YPF2	Brazil Increases Minimum Amount of Biodiesel in Fuels.....3	Political and Economic News: Colombia, Venezuela, Mexico, Cuba and More4-5

ENERGY SECTOR BRIEFS

China's CNPC Plans to Invest \$2 Billion in Peru in Next 10 Years

China National Petroleum Corporation (CNPC) expects to invest at least \$2 billion in Peru over the next 10 years, Reuters reported Wednesday. After having recently bought **Petrobras'** assets in the country, Gong Bencai, head of CNPC's Latin America division, told Reuters his firm was seeking to acquire companies or to participate in the bidding for oil fields. Peru has already approved an environmental permit allowing CNPC to conduct \$1 billion of exploratory work in a natural gas block purchased from Petrobras.

Puerto Rico Governor Signs Electricity Reform Law

Puerto Rico Governor Alejandro Garcia Padilla has signed what he is calling the "most profound transformation" of Puerto Rico's electricity sector since 1941, *Caribbean Journal* reported Tuesday. The law mandates Puerto Rico's state power company to conduct a review of its rates within 180 days, and establishes a period of three years for Puerto Rico to begin to produce 60 percent of its energy from a basis of "highly efficient" fossil fuels such as natural gas, as well as renewable energy sources.

Fitch Ratings Sees New Chilean Energy Plan Raising Regulatory Risks

New York-based **Fitch Ratings** said last Friday it believes the ambitious energy agenda announced by Chile's President Michelle Bachelet earlier this month remains short on specifics, and increases regulatory uncertainty in the Chilean energy sector in the short term. Fitch also said concurrent tax increases (corporate and emission taxes) could, in the end, offset the government's desired energy price savings.

Oil & Gas News

Pemex Negotiating with Chinese Firms Over \$4 Billion Fund

Mexican state oil company **Pemex** is negotiating with Chinese companies to create a fund valued at as much as \$4 billion to finance new energy projects, Bloomberg News reported Wednesday. The proposed arrangement is in a "final stage of negotiations," Pemex said in a statement. The Sino-Mex Energy Fund would be the largest Chinese investment fund in Latin America, according to the report. The money would be used to finance large-scale projects and create jobs, Pemex said in a release. Economy Minister Ildefonso Guajardo said earlier this month that companies from around the world had been expressing interest in making investments in Mexico's energy sector, as reforms to

The Sino-Mex Energy Fund would be the largest Chinese investment fund in Latin America.

open the industry to foreign participation have been working their way through Congress. "Basically, Singaporean companies, Chinese companies, European companies, Norway, the Americas, the U.S. obviously. There is a lot of interest," he told Reuters. Chinese finance to Latin America surged last year from less than \$5 billion in 2012 to \$20.1 billion in 2013, according to the Inter-American Dialogue's [China-Latin America Finance Database](#), making it one of the highest years on record. Chinese finance to Latin American and the Caribbean peaked at \$37 billion in 2010—more than World Bank, Inter-American Development Bank, and U.S. Export-Import Bank finance combined that year. Advocates for energy sector reforms have viewed falling hydrocarbons output as an imperative for opening the sector to foreign participation. While Mexico's overall exports grew by 3.7 in April compared to the same month last year, oil exports declined 15.5 percent year-over-year last month, with crude

exports down 21 percent in that period, driven by the 4.6 percent decline in oil prices and 17.6 percent decline in volume, according to **Goldman Sachs**.

Repsol Sells Final Bonds From Argentina's Seizure of YPF

Spanish oil giant **Repsol** on May 23 disposed of the final \$190 million of bonds it received from Argentina as part of a \$5 billion compensation package for its seized stake in oil producer **YPF**, Bloomberg News reported. Executives had thought it could take as long as two years to sell the bonds, but closing the deal to sell them to **JPMorgan Chase**, which effectively severed all of Repsol's ties to Argentina's government, took two weeks. "The market gave us a good enough offer that we chose to take the first available window," said a Repsol spokesman. Repsol announced May 7 that it was selling most of its 12 percent stake in YPF for 900 million euros (\$1.26 billion), Agence France-Presse reported last week. The sale comes two years after Argentina's government seized control of YPF. After the sale to investors, Repsol had a stake of less than 0.5 percent of YPF. It had owned 51 percent of the company before Argentina seized it, a move that forced YPF to make provisions amounting to 1.28 billion euros in 2013. The Argentine government's action also caused Repsol's profits to plunge 90 percent that year. In March, Repsol's shareholders agreed to a deal in which Argentina would pay \$5 billion in compensation due to the financial losses that the company incurred. The lower house of Argentina's parliament on April 24 approved payment in government bonds for the settlement.

Ecuador Issues Environmental Permit for Drilling in Yasuní Park

Ecuador's government last Thursday issued an environmental permit that will allow oil drilling in the Yasuní National Park after a petition to prevent it was invalidated by the country's electoral court last month, the Associated Press reported. Environment Minister Lorena Tapia said access roads and camps can now be built, with production beginning as soon as

2016. President Rafael Correa last year abandoned a plan that sought international donations to prevent drilling in the park. Ecuador's National Electoral Council then rejected a petition to hold a referendum on opening the Yasuni National Park to further oil exploration saying that activists failed to collect enough signatures to force the referendum, BBC News reported May 7. YasUnidos, a group of Ecuadorean environmentalists and indigenous groups that collected the signatures, accused the council of bias and "fraud." The council validated 359,781 of the 850,000 signatures collected saying many were repeated, incomplete, written by children or used fictitious names. Signatures of five percent of the population, or 583,323 signatures, are required to force a referendum. "Almost seven out of 10 signatures were



Correa

File Photo: Ecuadorean Government.

thrown in the bin," YasUnidos said on Twitter. "The council talks about irregularities, we talk about fraud." The group said it will take its case to the Inter-American Commission on Human Rights. Limited exploration has been conducted in the park since the 1970s, but Ecuadorean President Rafael Correa late last year announced that he was ending a conservation plan that had sought donations of \$3.6 billion to prevent drilling in the park, which covers some 10,000 square kilometers (3,860 miles). Critics expressed concern about the effects drilling would have on one of the world's most biodiverse areas and indigenous groups living there. [Editor's note: See [Q&A](#) on the project's concept in the January 25-29, 2010 issue of the *Energy Advisor*.]

Brazil Increases Minimum Amount of Biodiesel in Fuels

Brazil's government will increase the amount of biodiesel that must be blended into diesel to 6 percent in July and to 7 percent in November from the current 5 percent, Mines and Energy Minister

Featured Q&A

Continued from page 1

quasi-monopolies over small areas, those costs become extremely high. The costs can be brought down through conditional transfers to poor families in the form of reductions in the rate charged per kilowatt hour in exchange for eliminating illegal connections and making back payments, at the reduced rate. The revenue to offset these transfers could come from greater state investment in INDE, Guatemala's National Institute of Electrification, the chief producer of electric energy in Guatemala. Additionally, applying quotas on nationally produced energy exported to Mexico and El Salvador might help take the pressure off mounting energy prices."

A Rodolfo Alegria, partner at Carrillo & Asociados in Guatemala City: "Electricity tariffs in Guatemala are comparable to the tariffs in the rest of Central America. Energuate serves areas of low population density and rugged topography, therefore its costs are relatively high. The tariffs in general in all of Central America are subsidized. In Guatemala, the tariffs for consumers using under 300 kilowatts per hour are heavily subsidized, and that is the segment of consumers to which protesters belong. The protests are motivated by radical NGOs demanding expropriation of the electric sector. Those organizations (FRENA/CODECA/FNL), led by former guerilla operatives, violently take control of distribution lines, disconnecting meters and connecting consumers directly, forcefully preventing Energuate from accessing those areas. The organizations then charge each consumer a small monthly fee, which the organizations keep, never paying Energuate. This is a crime that needs to be prosecuted to the full extent of the law, but the leaders defend themselves, claiming they are persecuted human rights activists. Recently, this sabotage of the lines has resulted in the collapse of the system in some areas, and Energuate has demanded that consumers resume their legal connections and pay the

Continued on page 6

Edison Lobão said on Wednesday, Reuters reported. The increase is aimed at replacing Brazil's diesel fuel imports with more domestically produced biodiesel. "The increase in the biodiesel blend will allow Brazil to substitute the import of 1.2 billion liters (264 million U.S. gallons) of diesel a year," Lobão said at an event in Brasília. The minimum biodiesel requirement to be added to diesel will vary according to economic conditions, like a similar band for blending ethanol into gasoline, according to the report. Some factions in the government have resisted the change in policy, saying it will stoke already high inflation. State oil company **Petrobras** has blamed government policies requiring it to import diesel fuel and sell it at a loss for hurting its ability to invest in more profitable projects. The biodiesel industry in Brazil is producing the fuel at only 60 percent to 65 percent of its potential capacity, according to the report. In related news, neighboring Argentina's Senate on Wednesday voted to

exempt local biodiesel from some taxes to help domestic producers deal with customs barriers imposed by the European Union in a trade dispute, *La Nación* reported. [Editor's note: See [Q&A](#) on Argentina's biodiesel industry in the May 12-16 issue of the *Energy Advisor*.]

Power Sector News

Martifer Partners with Citelum in Mexico Solar Power Project

Portugal-based **Martifer Solar** said Tuesday it has entered into a strategic partnership with **Citelum**, a French public lighting and urban development firm, to provide the municipality of Izamal, in Mexico's Yucatán state, with clean energy through combined solar photovoltaic (PV) energy and LED lighting technology. The project, named Girasol, is part of a 15-year contract. A new PV plant will be assembled with 4,860 polycrystalline

modules in a fixed position. The city has donated land of approximately 10,000 square meters for the project. With a production capacity of 2.1 Gigawatt hours per year, the plant will avoid 955 tons of CO2 emissions each year and provide the equivalent to the energy consumption of 4,595 inhabitants on an annual basis, Martifer said in a press release. Mexico's energy minister, Pedro Joaquín Coldwell, earlier this month announced a target of 33 percent of the country's installed electricity capacity to come from renewable sources by 2018.

Political News

Colombia's FARC Denies Peace Talks Are in Limbo After Election

Representatives of the Revolutionary Armed Forces of Colombia, or FARC, on Tuesday denied that peace talks with the government were put in a state of "limbo" by the country's presidential vote Sunday, Agence France-Presse reported. President



Juan Manuel Santos, who has made peace talks with the FARC the centerpiece of his administration, came in second and faces a tough runoff election June 15 against right-of-center candidate Óscar Iván Zuluaga. "In limbo? That is not our impression," the head

Zuluaga

Photo: Zuluaga Campaign.

negotiator for the FARC, Iván Márquez, said. The peace talks have been halted during Colombia's elections and no date has been set for their resumption, according to the report. [Editor's note: See [Q&A](#) about Colombia's election results in Tuesday's edition of the daily *Advisor*.]

U.S. House Approves Venezuela Sanctions Legislation

The U.S. House of Representatives on Wednesday approved legislation to slap sanctions on Venezuela over its crackdowns on protesters in the country's anti-government demonstrations. The protests began in early February and have left at

Subscriber Notice

An Inter-American Dialogue Discussion on

Mexico's Energy Reform: What's Next for Gas and Electricity?

with

Nicolas Puga

Bates White Economic Consulting

Horacio Cuevas

Inter-American Development Bank

Lisa Viscidi

Inter-American Dialogue

Friday, June 6

9:00 – 10:30 a.m.

Inter-American Dialogue

1211 Connecticut Avenue NW, Suite 510

Washington, DC

RSVP to meetings@thedialogue.org

Please include your name and affiliation.

least 42 people dead. The House approved the measure on a voice vote. It is designed to "hold these human rights violators accountable," said Rep. Ileana Ros-Lehtinen (R-Fla.), a sponsor of the bill, Bloomberg News reported. "The first step in doing so is hitting them in their pocketbooks and denying them entry into the United States." The measure would direct the United States to identify abusers of human rights and impose sanctions, including denying them visas to visit the United States and freezing any assets they hold in the country. The sanctions legislation also would impose penalties against those who provide Venezuela's government with firearms, ammunition, surveillance technology and munitions such as tear gas and rubber bullets. Venezuelan

President Nicolás Maduro angrily responded to the threat of U.S. sanctions. "Any law approved by the U.S. Congress to sanction Venezuela is illegitimate and we won't recognize it," Maduro said on his weekly radio show. "We reject it, and we'll fight it around the world." The White House and State Department have voiced opposition to sanctions. However, Secretary of State John Kerry did say last week that all options for dealing with the crisis in Venezuela "remain on the table at this time." He added, "our hope is that sanctions won't be necessary." Wednesday's vote in the House of Representatives followed action by the U.S. Senate Foreign Relations Committee to advance a similar measure. However, the Senate bill is unlikely to reach the

floor, **Eurasia Group** said Tuesday in a note to clients. "The debate will likely only pick up steam if massive protests do erupt and levels of violence lead to hundreds or even thousands of deaths and Venezuela becomes a permanent fixture in the domestic news media," said **Eurasia Group** analyst Risa Grais-Targow, Bloomberg News reported. Venezuela's opposition said May 13 that it had suspended talks with Maduro's administration because the government was failing to seriously consider its proposals. Two sessions of talks were held between the opposition and the government, with the Vatican and the foreign ministers of Brazil, Colombia and Ecuador mediating. Among the opposition's demands are the release of jailed opposition leaders including Leopoldo López, who was arrested in February on charges of inciting the demonstrations.

Economic News

Mexico's Growth 'Insufficient' This Year But Improving: Finance Min.

Mexico's finance minister on Tuesday said the federal government takes responsibility for "insufficient" economic growth this year, but added that an improvement is likely in the second half of 2014, *El Universal* reported. Speaking at a meeting hosted by **BBVA Bancomer**, Finance Minister Luis Videgaray rejected statements by some analysts that Mexico is in a recession. "The figures we have show a recovery in consumption in the months of March and April, and this is part of what explains a greater dynamism in our economy for the rest of the year," he said. Mexico's trade balance recorded a \$510 million surplus in April, state statistics agency INEGI said Monday. "The April surplus was significantly better than consensus expectations," **Goldman Sachs** analyst Alberto Ramos told clients in a research note circulated Tuesday. "We expect exports to firm in the months ahead, driven chiefly by a competitive currency and stronger U.S. demand," Ramos added. In addition to the improved export outlook, Videgaray also cited increased public spending on infrastructure, rising

formal employment, which was up 3 percent in April, and more remittances flows, up 16 percent in March, as factors driving the economic recovery this year. He identified informality as one of the biggest drags on growth and competitiveness, however. "One of the greatest obstacles to productivity is informality," he said, noting that tax reforms being implemented by the government are meant to bring more people into formal employment. "To date we have already almost 4.2 million taxpayers who have enrolled in the new tax regime" for small contributors, Videgaray said. Under the previous system, administered the states, Mexico had 3.6 million taxpayers in that category.

Argentina Reaches Deal With Paris Club on Debt Repayment

Argentina's government on Wednesday reached a deal with the Paris Club group of creditor nations to pay approximately \$9.7 billion in overdue debts over five years, BBC News reported. The debts stem from Argentina's massive default in late 2001. The Paris Club said Wednesday in a statement that Argentina's first installment of at least \$1.15 billion would be due in May 2015. The second payment would be due a year later.



Kicillof

File Photo: Argentine Government.

Argentine President Cristina Fernández de Kirchner originally promised in 2008 to repay the Paris Club. However, Argentina's dwindling foreign reserves kept her from fulfilling that promise. Fernández's government and the creditor nations re-entered negotiations on the debt repayment in November 2010. Since its default more than a decade ago, Argentina has been unable to borrow on the international credit markets. Officials of the South American country hope the deal with the Paris Club will help it to again borrow from abroad, but the government still faces claims from some bondholders who demand full repayment. Finance Minister Axel Kicillof represented Argentina in negotiations with the Paris Club.

POLITICAL & ECONOMIC BRIEFS

U.S. Chamber of Commerce Delegation Visiting Cuba

For the first time in 15 years, a delegation from the U.S. Chamber of Commerce, including President Thomas Donohue, is visiting Cuba, BBC News reported Wednesday. Donohue said the group is in Cuba to assess the economic changes taking place under President Raúl Castro and look at possibilities for trade if the more than 50-year embargo imposed by the United States were to end. Castro has introduced a series of economic reforms to open the communist economy since his brother Fidel handed him power in 2006.

Brazil's Central Bank Signals Possible Rate Hikes After Election

Brazil may resume raising interest rates following the October presidential election, Bloomberg News reported Wednesday. On Tuesday, the country's central bank decided to keep the benchmark Selic rate at 11 percent "at this moment" amid a slowing economy, ending the world's longest-running tightening cycle.

Interpol Issues Arrest Warrant for Former Ecuadorean President

Ecuadorean Interior Minister José Serrano on Tuesday said that Interpol had issued an international alert for the arrest of former president Jamil Mahuad, *El Comercio* reported. At a press conference, Serrano said Mahuad, currently a lecturer at Harvard University, should face justice in Ecuador over allegations of embezzlement during his time in office in the 1990s. Mahuad, who is credited with forging a still-lasting peace with Peru over a longstanding border conflict, could now be detained and extradited to Ecuador to face the charges.

Featured Q&A*Continued from page 3*

balance of the accounts before reconnecting the service. The government has assisted Energuate in those areas by forming dialogues with the communities to reach agreements and providing security through the police and the army. This has solved the problem in some locations, but there are still more than 80,000 illegal connections."

A Carlos Boj, project manager at the Central American Bank for Economic Integration: "The decentralization of the power sub-sector in Guatemala led to a national urgency for new energy plants in order to cater to the growing demand for energy in the country during the mid-1990s. The generating plants that took a shorter amount of time to install were the thermal plants, which succeeded at selling energy through long-term contracts at uncompetitive prices. About five years later, national laws and energy policies proposed a transformation in the energy matrix to give priority to the installation of plants that generate power through renewable resources at competitive

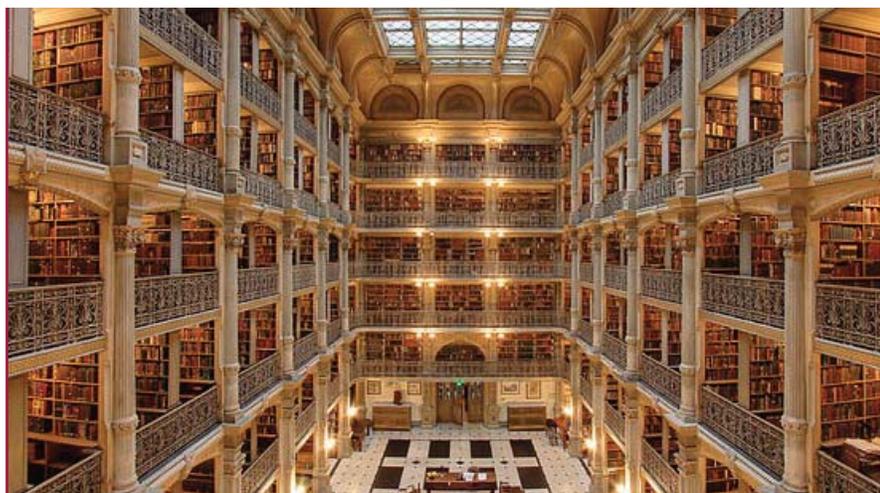
prices. This led to laws for incentives and ultimately open tenders for the sale of energy and capacity, giving priority to clean energy. Despite all this, the price of energy today remains high because of contracts signed nearly 20 years ago that are still in force and do not allow the

“Rural areas suffer from poor energy quality, many power outages and high prices, which have led customers to not pay their electricity bills.”

— Carlos Boj

price of energy to considerably decrease as intended. At the same time, the issue of unpaid bills and illegal connections must be addressed through a strategy that benefits end users, since at present, residents, especially of rural areas, suffer from poor energy quality, many power outages and high prices, which have led customers to not pay their bills."

Tap Into the Archive



Subscribers can now access more than 2,000 archived editions of the **Latin America Advisor** through a new IP-protected, keyword search portal. That's more than 6,000 expert commentaries, all at your fingertips. Send an email to freetrial@thedialogue.org for access.

Photo: Matthew Petroff

Latin America Energy Advisor

is published weekly by the Inter-American Dialogue
Copyright © 2014

Erik Brand

Publisher

ebrand@thedialogue.org

Gene Kuleta

Editor

gkuleta@thedialogue.org

Megan Cook

Reporter, Assistant Editor

mcook@thedialogue.org

Inter-American Dialogue

Michael Shifter, President

Peter Hakim, President Emeritus

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

Maria Darie, Director, Finance & Administration

Ariel Fiszbein, Director, Education Program

Claudio Loser, Senior Fellow

Nora Lustig, Nonresident Senior Fellow

Margaret Myers, Director,
China and Latin America Program

Manuel Orozco, Senior Fellow

Tamara Ortega Goodspeed, Senior
Associate, Education

Jeffrey Puryear, Senior Fellow

Lisa Viscidi, Director, Energy Program

Subscription Inquiries are welcomed at
freetrial@thedialogue.org

Latin America Energy Advisor is published weekly, with the exception of some major US holidays, by the Inter-American Dialogue 1211 Connecticut Avenue NW, Suite 510 Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.