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FEATURED Q&A

What Will Mexico's Election Mean for its Oil Sector?



Front-runner Andrés Manuel López Obrador has vowed to reassess the opening of Mexico's oil industry if elected president in July. // File Photo: López Obrador Campaign.

Q Mexican state-run oil company Pemex announced on April 30 that it plans to auction just seven onshore blocks in October, down from a 2017 plan to auction 160 areas onshore and offshore. Mexico's most recent oil auction resulted in the sale of 16 of 35 available blocks, and earlier farm-out auctions failed to attract bidders. Meanwhile, presidential candidate Andrés Manuel López Obrador, who is leading the polls, has said he will cancel all further auctions if elected. Is Mexico struggling with its oil and gas auctions? What do recent auction results say about Mexico's broader energy sector reforms, which took effect in 2015 and opened parts of the industry to foreign investors for the first time in decades? How might the country's July 1 election change the outlook for Mexico's oil and gas sector?

A Doris Rodríguez, partner at Hunton Andrews Kurth, and Jaime A. Treviño, managing partner at JATA – J.A. Treviño Abogados: "Although the success of prior oil auctions was not replicated in March's auction, this does not mean that Mexico will struggle to entice international players to invest in its energy industry. No doubt the political uncertainty of presidential elections tends to drive a more bearish approach to government-related investment, but this year's auctions will likely also be affected by the results of other oil auctions in Latin America, the quality of blocks being tendered and oil prices. The regulator's redesigning of upcoming auctions is a positive sign that Mexico's objective will be to tender oil blocks based on quality and potential and not just quantity. If oil prices continue rising or even stabilize around current prices, Mexico's upcoming onshore auctions

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TOP NEWS

OIL & GAS

Brazilian Oil Workers Begin 72-Hour Strike

The work stoppage involved several plants, refineries and at least 20 oil rigs. Workers are demanding the resignation of Petrobras CEO Pedro Parente and are calling for the end of the government's market-based fuel pricing policy.

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RENEWABLES

Pattern Energy Selling Chile Operations

U.S.-based Pattern Energy is selling its operations in Chile to affiliates of Arroyo Energy Investors. The sale includes an owned interest in the El Arrayán wind project.

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RENEWABLES

Chile's Piñera Outlines Energy Plans

Chilean President Sebastián Piñera launched his government's energy plan, which identifies topics including energy modernization and sustainable transportation as areas for improvement.

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Piñera // File Photo: Chilean Government.

OIL AND GAS NEWS

Brazilian Oil Workers Begin 72-Hour Strike

Oil workers in Brazil began a 72-hour strike on Wednesday despite the country's top court declaring it illegal the day before, Reuters reported. The work stoppage has spread across several plants and refineries throughout the South American nation, including at least 20 oil rigs of 46 run by state oil giant Petrobras in the lucrative Campos basin. Union leader José Maria Rangel, who heads FSU, Brazil's largest oil workers' union, said Tuesday that the union was demanding the resignation of Petrobras CEO Pedro Parente and calling for the end of the market-based fuel pricing policy introduced by President Michel Temer, according to Reuters. Parente said the protests were merely "vindictive politics" rather than actual labor concerns, O Globo reported. Petrobras said disruptions would not have any major impact on its immediate production, in large part because roadblocks caused by a separate 10-day strike by truck drivers have not allowed fuel to leave refineries across the country. The state company's shares have plummeted by almost 30 percent in two weeks as investors fear increased political intervention and protests against Petrobras intensify.

RENEWABLES NEWS

Enel Green Power Inaugurates Mexico Photovoltaic Project

Enel Green Power inaugurated its Don José solar project in Mexico on May 23, five months ahead of schedule, Mexican daily newspaper El Financiero reported. The plant, which is located in the central state of Guanajuato, has a 238 megawatt production capacity, which will be expanded by 10 percent, or 22 megawatts, by the end of 2018, the company announced in a statement. The photovoltaic project, which will

consist of 850,000 solar panels once expansion is completed, is expected to generate more than 625 gigawatt hours of electricity power per year. "Enel is strengthening its presence in Mexico and its commitment to boost the development of the country's renewable energy sector," Antonio Cammisecra, head of Enel's Global Renewable Energies division, said in a statement. The Italian company invested almost \$220 million in building the Don José solar project and pledged \$21 million more as part of its extension plan in the second half of this year. Enel also plans to expand two other projects that it won in Mexico's first auction after its energy reform by 10 percent.

Pattern Energy to Sell Chile Operations to Arroyo Affiliates

Pattern Energy is planning to sell its operations in Chile to affiliates of Arroyo Energy Investors, the energy investment firm announced May 24. The \$67 million sale consists of 81 megawatts that Pattern owns in the 115-megawatt El Arrayán wind project. "The primary reason for the sale was strategic," Pattern Energy

Pattern Energy expects to reduce its costs by \$1 million after shuttering operations in Chile.

said in a statement, noting that the distance between the Chile plant and the company's other operations, as well as the different legal, tax and regulatory environments that pushed up the cost of business in the South American country. The California-based firm expects to reduce its annual overhead costs by \$1 million after closing down operations in Chile, where it has operated since 2014. El Arrayán is located 400 kilometers north of Santiago and generates enough electricity to supply 200,000 local homes a year, making it the largest wind power

NEWS BRIEFS

Subtropical Storm Causes Crude Oil Spill at Cuba's Cienfuegos Refinery

Subtropical storm Alberto's torrential rains and heavy flooding caused a crude oil spill Tuesday at the Cienfuegos oil refinery in Cuba, The Miami Herald reported. An unspecified amount of oil poured into Cienfuegos Bay and at least 12,000 cubic meters of contaminated wastewater have leaked, according to government-run media. The refinery, located 150 miles southeast of Havana, is currently operated solely by the state-run Cupet after Venezuela's PDVSA gave up its stakes last year, Oil Price reported.

Seven Bodies Found Near Refinery in Mexico's Guanajuato State

Mexican officials found seven dead bodies near a refinery operated by state-run oil firm Pemex in the city of Salamanca, in the central state of Guanajuato, the Associated Press reported Saturday. Messages by a criminal organization were found written next to the body bags, suggesting the victims were members of a rival gang, according to the AP. Both groups allegedly sell gasoline stolen from the refinery. The federal police conducted a surprise search of the oil plant on Wednesday, but no arrests have been confirmed.

Venezuela's PDVSA Launches Tenders to Purchase Fuel

Venezuela's PDVSA launched tenders to buy 900,000 barrels of diesel, naphtha and propane for June, Reuters reported Wednesday. The state-run oil giant has been producing at low levels this year, with sales plummeting to a 15-year low last February, as U.S. financial sanctions further strain Venezuelan refineries' hardships, which include faulty maintenance, a lack of available parts and low crude input, according to Reuters.

plant in Chile, Renewable Technology reported. Pattern Energy expects the divestiture to close within 90 days, subject to customary closing conditions, the company said.

Chile's Piñera Outlines Agenda for Energy

Chilean President Sebastián Piñera on May 25 launched his administration's energy plan toward a "cleaner, more competitive, more sustainable" country, digital newspaper Emol reported. The plan, which Piñera presented alongside Energy Minister Susana Jiménez at La Moneda presidential palace, will serve as a guideline for the government on all energy matters going forward, EFE reported. It outlines seven strategic areas for Chile to improve on, including energy modernization, education and training on energy issues, sustainable transportation and improving energy efficiency. The plan, which was drafted through a process in which more than 2,000 people across Chile's 15 regions participated, also calls for energy development with a social focus, aiming to bring electricity and other energy services to every part of the country, EFE reported. In his announcement, Piñera called for Chile to take the lead in renewable energy generation, specifically mentioning nonconventional energy solutions and the country's potential for hydroelectric power production. Piñera also laid out Chile's challenges for the future, stressing the importance of regional energy integration, a topic he said he has already been discussing with Peru's Martín Vizcarra and Argentina's Mauricio Macri, EFE reported.

Advisors for Mexican Presidential Hopefuls Discuss Energy Policy

Advisors on environmental, energy and sustainability matters for Mexican presidential candidates Ricardo Anaya, José Antonio Meade and Andrés Manuel López Obrador appeared at an

FEATURED Q&A / Continued from page 1

will be more attractive to the market, and better results could be expected. Halting the reform, from both an economic and legal viewpoint, would not be an easy task. Mexico's next federal government will inherit a more vibrant and growing energy sector, more intertwined with the country's other industry and development, which will be difficult to turn back. Enacting potential amendments to the energy reform would require ruling-party control of the Mexican Congress. A 75 percent vote in Congress, plus the majority of state legislatures, are required to amend the Mexican Constitution—a high bar, indeed. Finally, previously acquired rights are protected under Mexico's legal system, making it very difficult to reverse previously awarded contracts."

A **David Shields, independent energy consultant based in Mexico City:** "Energy-sector reforms have been enormously successful, given the challenges faced in moving from a government-owned monopoly to a competitive-market system. Oil and gas auctions, in particular, have gone well, with 107 contracts awarded to companies big and small, including major oil companies from every part of the world. No matter who wins the presidency, it is now probably time to take a breather and reassess the progress made. Companies involved don't need to win more blocks for now. They have to get started on the projects they have

already won. The next government must simplify processes and reduce red tape so that the projects can move ahead. Given the levels of corruption in Mexico, it will be healthy for an incoming government to review contracts awarded in all areas of the

“No matter who wins the presidency, it is now probably time to take a breather and reassess the progress made.”

— David Shields

Peña Nieto government. Few irregularities, if any, are likely to be found in the oil auction contracts. It will also be healthy to take a fresh view of energy policy overall. Auctions will likely continue, albeit more slowly, but the upstream oil and gas sector now has a new dynamic of its own which will prevail and evolve. The downstream sector may deservedly get greater attention in an energy security perspective. The three leading candidates have exceptional, qualified people looking at energy policy, especially in the realm of the transition toward clean energy, where potential and prospects are immense. No one seriously wants to cancel recent reforms. On the contrary, the reforms position Mexico for takeoff in coming years."

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event at the Mexico Autonomous Institute of Technology on May 15 to discuss their candidates' policy proposals, Renewable Energy Mexico reported. Josefa González, an advisor to López Obrador, said carbon emissions should be lowered through subsidy incentives, called for a transparent unified carbon trading market and emphasized the importance of a "social development" that always considers communities where projects will take place. Silvia Garza, who advises Anaya, affirmed that her party's coalition will aim to produce 40

percent of Mexico's energy through renewable energy technologies by 2012, 5 percent above the country's present goal. Garza also highlighted the potential of Mexico's solar energy generation. Fernando González, who counsels Meade, stressed the importance of sustainable production of hydrocarbons and renewables in Mexico, while also emphasizing the necessity to transition toward more efficient public transportation. When asked about energy reform, Josefa González said a revision was necessary to reduce corruption. Garza said

Mexico's energy reform should be upheld, while Fernando González highlighted the importance of continuity, but said there is a need for some modifications.

POLITICAL NEWS

Falcón Seeks New Presidential Election in Venezuela

Henri Falcón, who defied an opposition boycott and ran against Venezuelan President Nicolás Maduro in the country's May 20 presidential election, on Wednesday asked the country's Supreme Court to annul the vote and call for a new election, Venezuelan daily newspaper El Universal reported. In a filing with the high court, Falcón blasted "disturbing elements, such as assisted voting and coercion." Falcón also accused Maduro's government of violating campaign rules by using "red spots," tents of

“These elections did not exist.”

— Henri Falcón

the ruling party's color where workers handed out food to voters who presented their identity card. Workers at some of the red spots told The New York Times that they did not pressure voters to cast their ballots for Maduro, however. "These elections did not exist," Falcón said in seeking a new election, the Associated Press reported. "They must be declared null." The Supreme Court, however, is stacked with Maduro loyalists and is unlikely to rule in Falcón's favor. Electoral authorities declared Maduro the winner of the election, handing him a new six-year term. More than a dozen nations have denounced the election in Venezuela, which is suffering from hyperinflation as well as shortages of food medicine and an outmigration crisis. On Wednesday, Canada slapped sanctions



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NEWS BRIEFS

U.S. Judge Overturns Jury Verdict Against Bolivia's Sánchez de Lozada

A federal judge in Florida on Wednesday overturned a jury's \$10 million award and verdict that found former Bolivian President Gonzalo Sánchez de Lozada and his defense minister responsible for killings during street protests in 2003, the Associated Press reported. U.S. Senior District Judge James Cohn in Fort Lauderdale upheld a defense motion that there was insufficient evidence to support a jury's April verdict in favor of Bolivians whose family members were among those killed.

Massive Anti-Government March Ends With Shooting in Nicaragua

An anti-government march that drew thousands to the streets of Managua on Wednesday ended when gunmen opened fire on demonstrators, the Associated Press reported. About a dozen people were reportedly wounded. More than 80 people have been killed amid a government crackdown on demonstrations since mid-April, according to human rights groups.

Venezuela Releases Former U.S. Missionary

Former missionary Joshua Holt, who had been imprisoned in Venezuela for two years facing trial on espionage accusations, was released by President Nicolás Maduro on Saturday, The Wall Street Journal reported. Jorge Rodríguez, Venezuela's information minister, said he sees the move as part of a negotiation process with U.S. President Donald Trump. The release follows a series of new sanctions by the United States in response to Maduro's re-election on May 20 and electoral process widely denounced as a sham. After being released, Holt was flown to Washington and met with Trump at the White House.

on Maduro's government, calling the election illegitimate. However, Cuba's new president, Miguel Díaz-Canel, visited Maduro in Caracas to reaffirm ties between the two countries.

Duque, Petro to Face Off in Colombia's Presidential Runoff

Right-wing former Senator Iván Duque and leftist Gustavo Petro, a former mayor of Bogotá, emerged Sunday as the top vote-getters in the first round of Colombia's presidential election and will face each other in a second round June 17. Duque won the largest share of the votes, 39.1 percent, while Petro finished second, garnering 25.1 percent, El Tiempo reported. A candidate would have had to win 50 percent in order to win the election in the first round. Centrist Sergio Fajardo, a former governor of Antioquia and former mayor of Medellín, narrowly missed winning a spot in the runoff, coming in third with 23.7 percent of the vote. Fajardo said Thursday that he will not endorse a candidate ahead of the second round, according to Colombia Reports. The other presidential candidates in the race received percentages in the single digits, with center-right former Vice President Germán Vargas Lleras receiving 7.3 percent, and former Vice President Humberto de la Calle, who served as President Juan Manuel Santos' chief negotiator with the Revolutionary Armed Forces of Colombia, or FARC, receiving just 2.1 percent. The presidential vote was the first since Santos' government signed its peace accord with the FARC in November 2016. Under the peace deal, the FARC agreed to lay down their weapons, end their more than five-decade conflict against the government and pursue their objectives through politics rather than through violence. Santos won the 2016 Nobel Peace Prize for his efforts, but the peace deal has cost him politically with many Colombians viewing his government as having been too soft on the FARC, which long terrorized Colombia with kidnappings, killings and involvement in drug trafficking. Duque has taken tough stances against the FARC and opposes the peace agreement. On Sunday night after the election results were announced, Duque

addressed his opposition to the accord. "We do not want to tear up agreements," he said, CNN reported. "What we want is to make clear that a peaceful Colombia is a Colombia where peace is found through justice, where there is truth, there are reparations, and punishments are served." Former President Álvaro Uribe, a fierce opponent of the peace deal, has endorsed Duque. Santos has not endorsed a candidate.

ECONOMIC NEWS

Truckers' Strike Continues in Brazil, Will Cut Ag Output

Brazil's truckers' strike, which entered its 10th day Thursday, will curtail agricultural output in the second quarter, Folha de S.Paulo reported, citing disruptions in the sugar cane and meat industries in particular. Agriculture Minister Blairo Maggi said Wednesday that the livestock industry has already lost an estimated \$348 million because of the strike, Reuters reported, and an estimated 64 million birds have been culled. The poultry industry will need to cull 24 million chickens a day if suppliers cannot get food to birds because of the strike. The government will need to bail out the hardest-hit producers, Maggi added. Federal police on Wednesday began dismantling roadblocks set up by truckers demanding lower prices for diesel fuel, which have risen 50 percent over the past year. Forty-six poultry and pork slaughtering plants that had been quiet for days have resumed operations, Bloomberg News reported. For now, the delivery of feed to poultry farms is slowly being restored, according to the report. The strike comes as Brazil's economy continues to recover from its deepest recession in history, with the agricultural sector growing rapidly in the first quarter from the previous three-month period, Brazil's state-run statistics agency said Wednesday, The Wall Street Journal reported. Gross domestic product grew a seasonally adjusted 0.4 percent in the first quarter from the last three months of 2017, rising 1.2 percent from the same period a year earlier.

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A **Paola Carvajal, principal of the energy practice at Arthur D. Little in Washington:** “Several factors have been affecting the bidding rounds in Mexico such as: international oil prices, prospectivity of the opportunities, proposed contract model and competition from international bidding rounds (especially Brazil). The CNH 3.1 auction results, for instance, demonstrated that lower prospectivity areas needed other incentives to gain investment commitments, whereas the industry interest for the blocks in the most prospective basin, ‘Cuencas del Sureste,’ was clear, where CNH received 27 offers for eight blocks. It is true that Pemex farm-outs have not progressed at the expected rate. Part of the problem is that the energy reform does not allow Pemex to select its own partners for the assigned blocks, define the contractual terms or establish a dialogue with the industry for assessing the appetite for particular opportunities. Internal and external bureaucratic approval processes for Pemex farm-outs have slowed down the auctions. Nevertheless, Pemex and the Mexican authorities are developing a learning curve from recent processes that could improve the timing of the approval and offerings. Without a doubt, the Mexican pe-

troleum industry is on hold ahead of the next presidential elections. Although the reform has gained momentum, the implementation could deaccelerate depending on the policies that the new administration adopts.

“**Internal and external bureaucratic approval processes for Pemex farm-outs have slowed down the auctions.”**

– Paola Carvajal

The new farm-out process for onshore areas is offering blocks that are more attractive for upstream companies than the ones auctioned last year, but the auction results on Oct. 31 will be affected by the presidential election. That said, upstream developments are long-term investments, and companies will be inclined to bid for highly attractive opportunities.”

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

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