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FEATURED Q&A

Will Privatization Boost Brazil's Eletrobras?



Brazilian President Michel Temer's administration is looking to privatize the electricity utility in order to help increase revenue for the economy as it emerges from a crippling recession. // File Photo: Brazilian Government.

Q The Brazilian government is seeking to privatize electricity utility Eletrobras in a bid to increase revenue and attract investment. What will the utility's privatization mean for Eletrobras' customers? Is it a good idea for the government to privatize the utility? Are there potential drawbacks to the Temer administration's plan to privatize the power provider?

A Pietro Erber, director of the National Institute of Energy Efficiency (INEE): "The announcement of the government's intention to privatize Eletrobras has been a surprise and a question mark, considering its institutional and financial situation and that presently a new power sector framework is being discussed. Eletrobras is a federal utilities holding company. About one-third of its shares are owned by private investors. Its utilities generate about 30 percent of Brazil's total electricity supply. It owns 50 percent of the Itaipú Binacional dam, which supplies 16 percent of Brazil's total electricity demand. This binational company cannot be privatized unless its founding treaty, which was signed by Paraguay and Brazil, is modified. The privatization of the country's large generation and transmission federal utilities may improve their efficiency, since it may remove institutional managerial hindrances, regarding procurement procedures and investment choices, as well as political meddling into their decision making and personnel nomination. The present Eletrobras administration is reducing its staff and privatizing its deficitary distribution utilities. Although private and governmental controllers' priorities may at least partly differ, in both cases the reliability and adequacy of services provided by utilities operating in such a funda-

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TOP NEWS

RENEWABLES

Chile's Bachelet Calls on World Leaders to Fight Climate Change

Chilean President Michelle Bachelet at the United Nations General Assembly called on world leaders to take responsibility for the effects of climate change.

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OIL & GAS

Indigenous Group Halts Oil Operations in Peru's Amazon

Members of the indigenous Achuar communities in the Peruvian Amazon have shut down at least 50 oil wells operated by Canada's Frontera Energy in protest of negotiations for a new oil contract.

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POWER SECTOR

Hurricane Pounds Puerto Rico, Island Without Electricity

Puerto Rico Governor Ricardo Rosselló said the damage was "very extensive."

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Rosselló // File Photo: Commonwealth of Puerto Rico.

POWER SECTOR NEWS

Hurricane Pounds Puerto Rico, Island Without Electricity

Puerto Rico was completely without power on Wednesday as Hurricane Maria pummeled the island, tearing roofs off buildings and filling homes with water, The Washington Post reported. The hurricane is the most powerful storm to hit the island in more than 80 years. "Definitely, Puerto Rico—when we can get outside—we will

“Definitely, Puerto Rico—when we can get outside—we will find our island destroyed.”

— Abner Gómez

find our island destroyed,” said the U.S. commonwealth’s emergency management director, Abner Gómez. He added that electricity was down for the entire island. “The information we have received is not encouraging. It’s a system that has destroyed everything it has had in its path.” Officials said they would have clearer details of the extent of the damage caused by the storm once conditions improve. The storm is blamed for at least 18 deaths—15 in Dominica, two in Guadeloupe and one in Puerto Rico, ABC News reported Thursday. Recovery efforts in Puerto Rico and the nearby U.S. Virgin Islands will also include attempts to restore power as quickly as possible, but in a way that makes the electricity grids less vulnerable to similar natural disasters, FEMA Administrator William Long said. The power grid “is a fragile system in both territories. It’s going to be a long and frustrating process to get the power grid up.” Early this morning, the storm had regained “major hurricane status,” said the U.S. National Hurricane Center, which upgraded Maria to a Category 3 hurricane, The New York Times reported. As of 2 a.m. Eastern Time, the storm

had maximum sustained winds of nearly 115 miles an hour, and Maria was expected to strengthen over the next day or so, the National Hurricane Center added. Puerto Rico Governor Ricardo Rosselló announced a curfew from between 6 p.m. and 6 a.m. until Saturday. “The damage is very extensive,” Rosselló told CNN late Wednesday. “It is nothing short of a major disaster.” The hurricane was located along the northern coastline of the Dominican Republic Thursday and is forecast to head toward the Turks and Caicos Islands and the southeastern Bahamas Thursday night and Friday, The New York Times reported.

RENEWABLES NEWS

Chile’s Bachelet Calls on U.N. to Fight Climate Change

Chilean President Michelle Bachelet on Wednesday at the United Nations General Assembly called on world leaders to assume responsibility for the effects of climate change and work together to address them, the UN News Centre reported. The earthquakes in Mexico and the recent successive hurricanes



Bachelet // Photo: United Nations.

that have hit the Latin American and Caribbean region as well as the United States “remind us that we are at a key moment in human history in which the notion of development that has prevailed until now has been shaken by the relentless reality of climate change,” she said. “There is no space for denial.” She added that the biggest strength of the United Nations’ 2030 Agenda for Sustainable Development is

NEWS BRIEFS

Nicaragua to Join Paris Climate Accord

Nicaragua is “soon” planning to sign the Paris climate accord, President Daniel Ortega told state media, Bloomberg News reported Wednesday. That would leave Syria and the United States as the only two countries refusing to support the pact to fight global warming. Nicaragua had refused to join the accord, saying its goals were too weak. The United States signed the pact last year under then-President Barack Obama, but current President Donald Trump has begun the process of withdrawing from it, calling it a “bad deal” for the United States.

Enel’s Brazil Unit Begins Operations at Two Brazil Solar Farms

The Brazil unit of Italy’s Enel, Enel Green Power Brasil Participações, has initiated commercial operations at two solar farms in Brazil with a combined capacity of 546 megawatts, ReNews reported Monday. The 254 MW Ituverava project is located in Bahia State, and the 292 MW Nova Olinda farm is in Piauí State. Enel said it had invested some \$300 million in the latter project.

China’s CNOOC Seeks Partners in Gulf of Mexico

China’s largest offshore crude oil and natural gas producer, CNOOC Limited, is looking for partners to help develop two deep-water areas in the Gulf of Mexico, Reuters reported Sept. 15. The company bid alone for exploration rights during Mexico’s first-ever deep-water auction in 2016, and is now looking for deals known as farm-outs, a type of joint venture in which an oil prospect is exchange for assistance in drilling and production. The company has not yet chosen partners. CNOOC is the first foreign producer to see a farm-out since Mexico’s opening of its oil industry.

that the entire world must work together to implement it. She said Chile has already established a green tax on carbon emissions in its energy sector and has increased the amount of renewable energy in its energy matrix from 6.3 percent to 17 percent. Sustainable development is not “an impossible dream to finance,” Bachelet said.

British Billionaire to Create Caribbean Renewables Fund

British billionaire Richard Branson on Tuesday said he is in talks to create a fund that will help the Caribbean countries that have been destroyed by Hurricane Irma to replace damaged fossil fuel-dependent utilities with low carbon-emitting renewable energy sources, Reuters reported. Branson approached the governments of the affected nations and is looking to draw support from financial institutions and philanthropists on the sidelines of the United Nations General Assembly this week. “As part of that fund we want to make sure that the Caribbean moves from dirty energy to clean energy,” he said. Branson has lived in the British Virgin Islands for the past 11 years. He recently said the Caribbean needs a “Disaster Recovery Marshall Plan” that will help the region recover with an eye toward a long-term revitalization of the economy, modeled after the U.S. program that helped rebuild Western Europe after World War II. Branson said renewable energy would make the region more resilient in the face of future hurricanes.

OIL & GAS SECTOR NEWS

Indigenous Group Halts Oil Operations in Peru's Amazon

Members of the indigenous Achuar communities in the Corrientes River basin in the Peruvian Amazon have shut down at least 50

oil wells operated by Canada's Frontera Energy in protest over talks to create a new contract while pollution from past projects by the company remain in the area, the leader of indigenous federation Feconacor said Wednesday, Reuters reported. Carlos Sandi, the president of Feconacor, said some 600 members of the Achuar communities seized the wells on Monday, as well as an electric plant and oil tanks used by Frontera Energy in Block 192, the country's largest. The seizure came after President Pedro Pablo Kuczynski declined to apply an indigenous rights law to negotiations with Frontera over a new contract. The so-called prior consultation law, requires the government to seek input from indigenous leaders before approving plans for development in areas that might affect their communities. Frontera has been negotiating a long-term contract on Block 192 with state energy regulator Perupetro, but indigenous leaders have threatened to forcibly halt oil operations if their demands are not taken into account throughout the negotiation

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mental sector requires, among other things, an efficient and independent regulator, adequately staffed and provided with the

“The privatization of the country's large generation and transmission federal utilities may improve their efficiency.”

—Pietro Erber

necessary funds to perform its activities, as legally prescribed. This may be achieved, but it requires the government's effective recognition of its necessity. Hence, the complexity of the privatization of such a large holding company as Eletrobras, the present uncertainty regarding the future power sector institutional framework—including the role

process. The main concern for communities in the area of Block 192 is that Frontera clean up past oil pollution. The communities also want better access to education and healthcare, San-

Indigenous leaders have threatened to halt oil operations by force if their demands are not met.

di said. The protests may extend to other parts of the block as Quechua villagers prepare plans to seize another 16 oil wells and an airport in the Pastaza River basin, said Aurelio Chino, the president of indigenous federation Fediquep. Neither Frontera nor Peru's Culture Ministry, which is charged with protecting indigenous rights, immediately responded to requests for comment.

to be ascribed to Eletrobras—the country's political definition after next year's elections, and the political and financial cost of implementing this privatization in the coming months would lead me to recommend the privatization's postponement in order to carry it out under more favorable conditions for all parties involved.”

A Francisco Ebeling Barros, Berlin-based independent energy consultant: “In an influential recent book called ‘The Limits of the Market,’ Paul de Grauwe has argued that it is now clear that neither ‘more markets!’ nor ‘more state!’ should be considered as the ultimate answers to economic, social and political problems. He says our task is to find a mix between markets and states, as one needs the other to properly function. President Temer's decision to fully privatize Eletrobras can be understood in this framework, as a radical move from the pendulum from states toward markets is either ideological or serves the pursuit of vested interests;

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POLITICAL NEWS

U.S. Eyes Closing Havana Embassy Over Sonic Attacks

The administration of U.S. President Donald Trump is considering the possibility of closing the country's embassy in Havana after 21 Americans connected to the embassy suffered unexplained health problems while in Cuba, Secretary of State Rex Tillerson said Sunday in a television interview. "It's a very serious issue with respect to the harm that certain individuals have suffered," Tillerson said on CBS' Face the Nation. "We've brought some of these people home. It's under review." Victims of the

“It's a very serious issue with respect to the harm that certain individuals have suffered.”

— Rex Tillerson

attacks, which diplomats started reporting last November, told the Associated Press that they experienced powerful and unexplained sound beams, including high-pitched ringing and grinding noises and in some cases recounted how the sounds were focused only on certain rooms or even parts of rooms. Some Americans suffered permanent hearing loss or brain injuries. Several Canadian diplomats also were affected. The U.S. State Department has said Cuban officials are responsible for protecting the health of diplomats posted in their country, but the State Department has stopped short of directly blaming the Cuban government for the attacks, The New York Times reported. Cuban President Raúl Castro has denied targeting the diplomats, and his government has even offered to allow the U.S. Federal Bureau of Investigation to travel to Cuba and investigate. That level of openness has led some U.S. officials to believe that Cuba is equally

ADVISOR Q&A

Will Venezuela's Elections Be Legitimate?

Q Venezuelan election authorities set Oct. 15 as the date of the long-awaited gubernatorial elections. The country's opposition forces are favored to win in many races, though concerns over fraud could cast doubt on the legitimacy of the elections. Elections scheduled for last year were scrapped as the country's economic crisis mounted and polls indicated Venezuelans highly favored removing President Nicolás Maduro from office. Why has the Venezuelan government decided to press on with scheduling elections now? Will the results be legitimate? What are the expected outcomes of the vote, and what will they mean for Maduro's government?

A David Smilde, Favrot Professor of Human Relations at Tulane University and senior fellow at the Washington Office on Latin

America: "Scheduling regional elections helps the Maduro government in a couple of ways. First, they give the international community a sign that democracy still exists. It is hard to call a country a dictatorship when it has elections on the docket. More importantly, these elections served to demobilize the opposition protest movement. On the one hand, elections are a classic means to move political conflict from the streets to institutions. On the other hand, whether or not to go to elections has predictably caused

turmoil within the opposition. While the electoralists dominated the opposition coalition from 2006 to 2015, the entire opposition agreed with abstaining from the constituent assembly election because they considered it illegitimate. The opposition was also unified in denouncing the CNE for committing fraud in that election. This has strengthened the abstentionists, especially among the base, and made going to elections a tough sell. However, the opposition is right about calling the government's bluff and going to elections, as voting is the most effective way to confront an authoritarian project. The government cannot possibly win a vote, and under fair conditions the opposition will sweep the elections, simply due to the unpopularity of Chavismo and the people's exhaustion. The Maduro government will likely nibble away at electoral conditions, disqualify candidates, not recognize their attributions when they win, or simply suspend the elections like it did a year ago. But it is better to make the government suffer the political costs of carrying out obnoxious, authoritarian actions than quietly conceding power to them by abstention."

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

as perplexed about the cause, The New York Times reported. U.S. officials have speculated that the health problems may have stemmed from type of surveillance operation that had gone wrong or that it may have been the work of a different government, such as Russia. On Sept. 15, five Republican U.S. senators sent a letter to Tillerson asking him to expel all Cuban diplomats in the United States and also close the U.S. Embassy in Havana if Cuba does not

take action relating to the matter. U.S. and Cuban officials met Friday in Washington as part of ongoing talks about law enforcement, and the State Department said the sonic attacks were part of the discussion. "It is an aggressive investigation that continues, and we will continue doing this until we find out who or what is responsible for this," State Department spokeswoman Heather Nauert said Thursday. The United States and Cuba reopened their

NEWS BRIEFS

Death Toll Rises to 250 in Mexico Earthquake

The death toll from the powerful 7.1-magnitude earthquake that rocked central Mexico on Tuesday rose to at least 250, The Guardian reported Thursday. Rescue crews worked Wednesday night amid reports that at least one girl and perhaps other children were trapped beneath the rubble of the collapsed Enrique Rebsamen school, south of Mexico City. In Mexico City alone, rescue crews have pulled 52 people alive from damaged buildings, according to city officials, ABC News reported.

Ruling Party Lawmakers Ask Court to Allow Fourth Term for Bolivia's Morales

Lawmakers from Bolivia's ruling Movement Toward Socialism, or MAS, party have asked the country's Constitutional Court to allow President Evo Morales to run for a fourth term as president, despite the Constitution barring him from doing so, BBC News reported Tuesday. The request came a year and a half after Bolivians in a referendum voted against ending constitutional term limits. At the time, Morales had said he would respect the outcome of the referendum.

Ecuador's Moreno Accuses Predecessor of Planting Hidden Camera in Office

Ecuadorian President Lenín Moreno on Sept. 15 said his predecessor, Rafael Correa, had planted a hidden video camera in the presidential office before leaving office so that he could spy on his successor from afar, the Associated Press reported. Moreno said in a post on Twitter that he was "shocked and furious" to have discovered the device, which he said violated his privacy. Moreno did not present evidence for the allegations. Correa later took to Twitter to mock Moreno's accusations.

embassies in each other's capitals in 2015 amid the thaw in relations between the two countries.

Brazilian High Court Approves Charges Against Temer

Brazil's Supreme Court voted Wednesday to send new corruption charges against President Michel Temer to the lower house of Congress,



Temer // File Photo: Brazilian Government.

the Financial Times reported. The lower house would have to vote with a two-thirds majority in order for Temer to be put on trial. Last week, Temer was charged with graft-related offenses for the second time in three months. He was accused of receiving some \$190 million in bribes in exchange for influence and political favors, charges he denies.

ECONOMIC NEWS

Argentina Expects 3.5% Economic Growth in 2018

Argentine President Mauricio Macri's government on Sept. 15 presented its 2018 budget to Congress, saying that it expects economic growth of 3.5 percent next year and inflation of 15.7 percent, The Wall Street Journal reported. The government is also expecting the peso to depreciate to 19.3 per dollar on average and investment to rise 12 percent. This year, the peso is expected to average 16.7 per dollar, with investment rising 10 percent from last year. "The

economy is already running on all cylinders, and the same thing will happen in 2018," the Treasury Ministry said in a statement.

Mexican Gov't Eyes New Regulations for Financial Technology

Mexican President Enrique Peña Nieto's administration is planning to present a proposal to regulate the country's fast-growing financial technology sector, Reuters reported. The measure is aimed at ensuring financial stability and preventing money laundering and the financing of extremists, affecting firms including those that use crypto-currencies such as Bitcoin. If passed, Mexico would join the ranks of a small number of countries, including the United States and Britain, that have sought to regulate fintech firms. "This [legislation] recognizes the need that a sector as dynamic as that of technological innovation needs a regulatory framework that allows authorities to mitigate

The bill aims to lower consumer costs.

risks and allow for growth in a competitive environment," the legislation says. The bill aims to lower costs for users and would regulate companies operating with virtual currencies.

Chilean Central Bank Revokes Credit Line With Venezuela

Chile's central bank announced Wednesday that it had revoked a reciprocal credit line with Venezuela's central bank, saying the Andean nation's government has failed to repay its debts, Reuters reported. The Chilean monetary authority said the line would be canceled within 10 days, adding that Venezuela's central bank owed it \$2.1 million. Venezuela had made "intensive use" of the credit line in recent years, Chile's central bank added.

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in short, it is not 'scientific,' so to speak. The international comparison shows that most successful developed countries have not fully privatized their energy companies. However, in times of mismanagement in Brazil's electricity sector by the public hand, there is no doubt that the pendulum should slowly move from 'states' toward 'markets,' but this has to be done smoothly, preferably by auctioning installed capacity of renewable energy, and not in a radical sellout that later on will clearly be regretted."

A **Bernardo Bezerra, Technical Director at PSR:** "It is important to mention that Brazil has a planning company (EPE), an independent system operator (ONS) and a wholesale chamber (CCEE). Since Eletrobras does not perform these activities anymore, its privatization does not harm the security of supply of the system. In our opinion, the privation will be carried out jointly with the possibility of selling the energy of its hydro plant in the market, according to the governmental proposal of legal market reform of Public Consultation 33. Currently, this energy is being remunerated through a quota system, where the consumer pays only operation and maintenance costs, sector charges and the hydrological risk. The difference between

the energy price in market and the currently revenues will be divided equally between the consumer, the government and Eletrobras. This extra revenue is important to solve the

“Our task is to find a mix between markets and states, as one needs the other to properly function.”

— Francisco Ebeling Barros

current cash flow problems of Eletrobras and to enable the company to invest in the power market. The potential drawbacks to privatizing are: 1) the extra revenue resulting from the privation not being reverted to the Power Sector; 2) the concentration of the market in another big player, if the shares are concentrated in only one player; and 3) increase in the energy tariff of the regulated market."

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

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