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FEATURED Q&A

Can the U.S. Curb Chinese Production of EVs in Mexico?

Mexico is under pressure from the United States to curb Chinese electric vehicle manufacturing within its borders. // File Photo: U.S. Department of Energy.

Q **Mexico is holding back on some incentives to Chinese electric vehicle manufacturers under pressure from the United States, which is concerned about Chinese automakers seeking to avoid U.S. tariffs by producing cheap electric vehicles in Mexico for the U.S. market, Reuters reported in mid-April. How significant is investment from Chinese electric vehicle makers in Mexico? How likely is Mexico to ramp-up incentives for Chinese automakers to invest in Mexico? How can Mexico continue to attract foreign investment from China while maintaining good relations with the United States?**

A **Larry B. Pascal and Carlos Alva, members of the International Practice Group at Haynes and Boone:** "In recent years, the importation of Chinese vehicles to Mexico has increased considerably, primarily due to their competitive prices. For example, according to the Mexican Association of Automotive Distributors, in 2023, up to approximately 20 percent of the total new vehicles sold in Mexico were vehicles fabricated and imported from China. However, no Chinese automaker to date has opened a plant in Mexico, although Chinese automakers are reportedly scouting for manufacturing sites in Mexico. Although the increase in the popularity of Chinese vehicles in Mexico is evident, it is unclear if Mexico would grant incentives to Chinese manufacturers to establish automobile production plants in Mexico in the face of opposition from the United States, its largest trading partner. Putting aside incentives, in theory, a Chinese automaker could

Continued on page 3

TOP NEWS

POWER SECTOR

Costa Rica to Ration Electricity Amid Drought

Reduced rainfall has forced Costa Rica to implement electricity rationing as a drought limits the production capacity of hydroelectric power plants.

Page 2

OIL & GAS

Petroperú's Board Wants State to Sell Majority Stake

Petroperú released a statement Monday revealing the company's board had formally requested that the Peruvian government sell a majority stake in the firm to the private sector.

Page 2

OIL & GAS

Brazil's President Fires Petrobras CEO Prates

Brazil's president has fired Petrobras CEO Jean Paul Prates. The two had clashed over dividends. Lula reportedly plans to tap Magda Chambriard, the former head of Brazil's oil and gas regulatory agency, to replace Prates.

Page 2

Prates // File Photo: Brazilian Government.

OIL & GAS NEWS

Prates Fired as Petrobras' CEO, Chambriard Tapped

Brazilian President Luiz Inácio Lula da Silva on Tuesday fired Jean Paul Prates, the CEO of state-run oil company Petrobras, Bloomberg News reported, citing unnamed sources familiar with the matter. Petrobras confirmed Prates' exit on Wednesday. The development followed months of tension between the Brazilian government and Petrobras' leadership. A major point of disagreement had been the subject of dispersing extraordinary dividends; Prates had been in favor of paying them out to shareholders, but Lula's administration was in favor of withholding them, likely for investment. Government-aligned seats on the board originally voted to withhold the dividends in March, but in April, shareholders voted to disburse half of the dividends. At the core of the disagreement over dividends is whether the company will focus on continuing to provide steady payouts for shareholders or use its funds to invest in job creation and Brazilian industry to benefit the government's policy goals. Rumors had circulated that Lula was planning to replace Prates, but his ministers had made assurances that Prates would stay on. Lula now reportedly intends to nominate the former head of Brazil's oil and gas regulator, Magda Chambriard, to replace Prates as CEO, Bloomberg News reported. Prates told the firm's executive board in a message seen by Bloomberg News that Energy and Mines Minister Alexandre Silveira and Lula's chief of staff Rui Costa were responsible for his mission being "prematurely cut short," the news service reported. Prates' departure marks the fifth chief executive to leave the position in just three years, and news of the shakeup caused the firm's American depositary receipts to fall 6 percent in after-hours trading on Tuesday, the Financial Times reported. The firm this week posted a 38 percent drop in net profit for the first quarter as compared to the same time last year. Analysts polled by LSEG had expected a net recurring profit of 30.2 billion reais, but the figures released Monday in a filling showed only 23.9 billion reais, or $4.63 billion, in profit for the Brazilian oil giant, Reuters reported. Petrobras said lower sales volumes and the devaluation of the real were to blame for the lower-than-expected result, along with a drop in oil prices as compared to the first quarter of 2023. The firm's sales of oil, gas and derivatives fell 4.6 percent during the quarter when compared to last year, falling to 2.92 million barrels of oil equivalent per day. The same LSEG poll predicted that the adjusted earnings before interest, taxes, depreciation and amortization for Petrobras in the first quarter would total 67.92 billion reais—but the firm instead posted 60.04 billion reais, a roughly 17 percent decline as compared to 2023, Reuters reported.

POWER SECTOR NEWS

Costa Rica to Ration Electricity Amid Ongoing Drought

Reduced rainfall, in part due to the El Niño weather phenomenon, has forced Costa Rica to implement electricity rationing as the drought limits the production capacity of hydroelectric power plants, Agence France-Presse reported May 9. Costa Rican households will have to start limiting electricity usage on Monday. Roughly 75 percent of Costa Rica's power comes from hydroelectric plants, but the dams used for generating power are currently sitting at low water levels due to the ongoing drought, which has caused power shortfalls across the region. "This El Niño has really been the most complicated in the history of Costa Rica," Roberto Quiros, director of the Costa Rican Electricity Institute, said at a press conference, AFP reported. Another official from the institute added that the country was facing its worst drought in half a century. The World Meteorological Organization released a report Wednesday saying 2023 was the hottest year recorded in Latin America and the Caribbean. Rising temperatures and reduced rainfall

NEWS BRIEFS

Petroperú's Board Wants Government to Sell Majority Stake

Embattled Peruvian state-run oil firm Petroperú released a statement Monday revealing that the company's board had formally requested the Peruvian government to sell a majority stake in the firm to the private sector, Bloomberg News reported. Petroperú is wholly state-owned, and the board said that without such a sale—amid mounting losses and an outage at its new Talara refinery—it would need a $2.2 billion bailout and funding from the nation's treasury indefinitely to continue.

Enel Generación Sweeps Chile Power Tender

Enel Generación, Chile's largest electric utility, won the entire volume of Chile's power tender last Thursday, Renewables Now reported. The firm secured 20-year power purchase agreements for supplying 3,600 gigawatt hours per year. Enel Generación will begin supplying electricity to distribution companies for the blocks it won in 2027 and 2028. According to a report from Energia Estratégica, the electricity offered by Enel will come from gas-fired power plants, wind farms and hydro, Renewables Now reported.

Ecopetrol Considering Participation in Colombia Wind Power Auction

Colombian state-owned oil firm Ecopetrol is exploring the possibility of directly participating in the nation's first offshore wind auction, the firm told Reuters in a statement published May 6. "Participating in the offshore wind auction will allow us to access reliable renewable energy to leverage the entry of green hydrogen projects and their derivatives," Ecopetrol said. The auction will be managed by the National Hydrocarbons Agency as part of President Gustavo Petro's larger green energy policy goals.

resulting from a combination of climate change and El Niño have led to problems disrupting countries across the region, NPR reported last week. Bogotá is rationing water, and Mexico City may soon be forced to do the same. Lower water levels have limited the traffic that can pass through the Panama Canal and prevented Paraguay from exporting its record soy crop via its rivers. Ecuador declared a national energy emergency and rationed power and Venezuela similarly faced power shortfalls.

Strike at Brazil Agencies Delays Energy Projects

An ongoing strike by workers at Brazil's environmental enforcement agencies is increasingly disrupting Brazil's economy, the Financial Times reported May 11. Workers at the agencies are protesting low wages, insufficient staffing and the absence of bonuses for the potentially dangerous work of intervening against environmental crimes. The strike began at the start of the year and now, in its fifth month, the impact on numerous sectors has become clear: environmental infringement fines are down nearly 90 percent, as workers stop tackling illegal deforestation; oil and gas licenses have stopped bring issued; and infrastructure projects are stalled, unable to receive the permits needed from environmental agencies to legally advance. The power sector has been particularly affected, with dozens of electricity projects—from wind power parks to thermoelectric power stations—stalled waiting for approval from the regulatory bodies, and just three licenses were issued so far this year for gas and oil exploration, according to Ascema, an environmental workers' association, the Financial Times reported. The Brazilian Oil and Gas Institute estimated that just the first 90 days of the strike cost the nation around 20,000 barrels of oil per day, a loss of 3.4 billion reais, or $680 million, in potential revenue, Bloomberg News reported last month. "The delays to start operations could lead to contracts being revised and companies going to court to obtain licenses by judicial means, like an injunction, for instance,"

FEATURED Q&A / Continued from page 1

open a plant in Mexico without the intent to qualify for national origin treatment under the USMCA (and by implication without an immediate intent to export to the United States) and instead focus on the domestic Mexican market or those other foreign markets for which Mexico has a free trade agreement. The USMCA has stricter rules of origin than earlier free trade agreements that Mexico has with other trading partners. Mexico could also later negotiate with the United States and Canada a side agreement on the automotive sector addressing the treatment of electric vehicles, which could threaten manufacturing jobs in North America but could advance the public policy goals of reducing carbon emissions and furthering the energy transition."

A **José Carlos Espinosa, head of sales at LGS International:** "Investment from Chinese electric vehicle makers in Mexico has been growing in recent years, driven by factors such as Mexico's strategic location for export to North American markets, its skilled labor force and its existing automotive manufacturing infrastructure. However, the exact significance of this investment can vary depending on specific companies and projects. The pressure from the United States on Mexico to limit incentives to Chinese automakers reflects broader concerns about trade imbalances, intellectual property rights and competition in the automotive sector. Mexico, being a key trading partner of the United States and a participant in the USMCA, may be inclined to consider U.S. interests in its economic policies. Whether Mexico will ramp up incentives for Chinese automakers depends on a variety of factors, including diplomatic relations between Mexico, China and the United States, as well as Mexico's own economic priorities and trade policies. If Mexico perceives that maintaining good relations with the United States is paramount, it may adjust its incentives and policies accordingly. To continue attracting foreign investment from China while maintaining good relations with the United States, Mexico could pursue several strategies: diplomatic engagement, open communication, diversification of investments, transparency and fair trade practices, emphasis on shared goals, and investment incentives based on criteria. Overall, navigating the complex dynamics between China, Mexico and the United States requires a nuanced approach that balances economic interests, diplomatic relations and strategic considerations. By adopting a proactive and pragmatic approach, Mexico can continue to attract foreign investment while maintaining good relations with its key trading partners."

A **Margaret Myers, director of the Asia & Latin America Program at the Inter-American Dialogue:** "The nearshoring trend has been largely China-led, as it turns out, as Chinese companies seek access to Mexico's well-established industrial base in pursuit of supply chain diversification and access to the North American market. But investment in Mexico has been on the rise since around 2015, consistent with an intensive Chinese focus on investment and trade in sectors that China's leadership has deemed fundamental to China's own economic upgrading. Electric vehicles are an important part of this story, certainly, but so are many other forms of high-end manufacturing and related trade and investment. In general, Chinese automakers and other companies are looking for opportunities wherever they can find them, aiming to offload excess capacity and, simultaneously, establish dominant market positions. Chinese automakers and parts manufacturers in Mexico are interested in leveraging the USMCA, in many cases, but are also interested in Mexico's market. Indeed, BYD aims to produce primarily for the Mexican market, according to its spokespeople. And it is well-positioned to do so, having benefited over the years from Chinese industrial policy, including Beijing's new

Continued on page 6

Claudio Frischtak, a managing partner for infrastructure consultancy Inter.B, told Bloomberg News. Roughly 47,000 foreign-made vehicles are sitting in Brazilian ports, unable to be imported without approval from the Environmental Ministry, according to estimates from the National Association of Motor Vehicle Manufacturers, the Financial Times reported. “For an economy that is no longer [robust], the scenario is very problematic,” Juliana Inhasz, an economics professor at Insper in São Paulo, told the Financial Times.

POLITICAL NEWS

Venezuela Has Moved ‘Substantial’ Military Resources to Border

Venezuela has moved “substantial” military resources to its disputed border with Guyana since February, the Washington-based Center for Strategic and International Studies said in a report released Tuesday. The think tank released satellite images taken in March and April that it said shows “considerable activity” at a military base near the border at Anacoco Island and at the airport and coast guard station at Guiria. Construction and expansion of Venezuela’s military base at Anacoco Island “has proceeded at a sustained pace,” CSIS said, adding that social media and satellite imagery show progress at a bridge construction to the island over the Cuyuni River in addition to new pathways that connect the island to a ferry landing. A narrow-gauge railroad “no trace of which existed in February” is also now being constructed toward an airfield in the area, the report said. “The airfield has been expanded and improved with markings and a small control tower,” CSIS said in the report. “Satellite imagery from March 26 shows an area next to the airfield dotted with over 75 field tents, enough for a battalion-sized unit of several hundred personnel,” the report added. Venezuela has claimed the Essequibo region, which makes up two-thirds of Guyana’s territory, for decades. However, Caracas’ claim to the area has intensified since the discovery of large quantities of oil off the Essequibo’s coast in 2015. Last December, Venezuelans approved a government-pushed referendum to claim sovereignty over the area. In its report, CSIS cited video of two K-8W light attack aircraft patrolling the coastline. The aircraft’s tails display the message, “El Esequibo es Nuestro,” or “The Essequibo is Ours.” CSIS added in the report that, “There is evidence of continuous buildup of military infrastructure and hardware ... as

THE DIALOGUE CONTINUES

What Can Ecuador Do to Address its National Energy Emergency?

Q Ecuadorean President Daniel Noboa declared an energy emergency on April 16 and ordered businesses and government offices to close on April 18 and 19 amid a severe drought which has limited the output of the nation’s hydroelectric power plants. Noboa also replaced the nation’s energy minister, and he said in public remarks that “sabotage,” corruption and inefficiencies were to blame for the energy crisis. What are the root causes of Ecuador’s energy crisis, and how much will Noboa’s latest actions accomplish? What policies should the nation’s new energy minister, Roberto Luque, implement in his emergency response to the crisis? What impact is the country’s energy crisis having on its economy and politics?

A Samuel B. Schlesinger, independent energy consultant: “While Noboa’s government has toned down its histrionics, the only ‘sabotage’ crippling the Ecuadorean electricity sector is that of international financial markets, which have handcuffed public spending. Prior public investment in hydropower-heavy generating capacity provides ample low-cost energy during periods of normal rainfall, making many fossil fuel plants redundant since 2016. Austerity-minded governments have understandably opted to delay renovating now-auxiliary thermal plants, they have slow-walked concessions for private power plant investment that often come with onerous power purchase agreements, and they have nearly halted public spending on new generating capacity. However, non-industrial electricity demand has risen sharply post-pandemic without any policy response, which, coupled with historic drought and disinvestment, brought about the current crisis. Initial executive responses to the latest wave of unpredictable blackouts appear more intended to shore up political support than resolve underlying issues, but these efforts have fallen flat, as voters roundly rejected government economic proposals in April’s plebiscite. As clamor from business groups grows and economic losses mount, Noboa’s neoliberal government may search for additional ways to subsidize commercial interests, risking electoral discontent if such measures unduly affect households. A more sustainable strategy would include public messaging on energy efficiency, increased tariffs on high-consumption users to drive that message home, gradual and transparent public investment in increased generating capacity, and predictable scheduling of current blackouts to limit economic effects. Noboa’s government would do well to leave the expensive and ephemeral emergency plans of the prior administration in the dustbin and focus on a response that helps Ecuador avoid its next electricity crisis.”

EDITOR’S NOTE: More commentary on this topic appears in the Q&A of last week’s issue of the Energy Advisor.

NEWS BRIEFS

U.S. Imposes Visa Restrictions on More Than 250 Nicaraguans

The U.S. State Department on Wednesday announced that it had imposed visa restrictions on more than 250 Nicaraguans linked to the Central American nation's government, saying they have supported political repression, attacks on human rights and exploitation of migrants. Among those targeted are judges, prosecutors, police, government officials and paramilitary personnel. The statement said that since 2021, the United States has imposed restrictions on over 1,400 Nicaraguan officials over corruption and human rights issues.

Poll Shows Sheinbaum With Wide Lead Ahead of Mexico Presidential Vote

Mexico's ruling party presidential candidate Claudia Sheinbaum held a wide lead over her closest rival, Xóchitl Gálvez, in a poll released Tuesday, Reuters reported. The poll, conducted for newspaper El Economista by consulting firm Mitofsky, showed Sheinbaum holding roughly 49 percent of the vote, while Gálvez came in at 28 percent; 12.7 percent were undecided or abstaining. Mexicans will go to the polls in less than three weeks to select the nation's next president.

Ecuador Seeking to Plan for Long-Term Stability: Production Minister

Ecuador's government is seeking to create a new plan for long-term stability in order to bring more foreign investment to the country, Production and Trade Minister Sonsoles García told Bloomberg Television Wednesday in an interview. The International Monetary Fund and World Bank are advising the government on designing a policy "that can stay and it doesn't matter what government is in office," said García.

well as troop planning, rotation of personnel, and training exercises for increased operational readiness—all undertaken under the constant refrain that 'the Essequibo belongs to Venezuela' and similar patriotic slogans." The report said the military buildup is "a concerted effort to intimidate, threaten, and coerce Guyana, attempting to transmit one message: Venezuela is prepared to use military force to take the Essequibo from Guyana." [Editor's note: See related **Q&A** in the Jan. 25 issue of the daily Latin America Advisor.]

U.S. Removes Cuba From Uncooperative on Anti-Terror List

The U.S. State Department on Wednesday removed Cuba from its short list of countries that it deems uncooperative on counterterrorism efforts, though it kept the country on its list of state sponsors of terrorism, Agence France-Presse reported. In a report to Congress, U.S. Secretary of State Antony Blinken said four countries remain on the list as uncooperative on fighting terrorism—Iran, North Korea, Syria and Venezuela, the wire service reported. Cuba was on the list last year but has been removed. The State Department said its previous placement of Cuba on the list was based on the Cuban government's refusal to extradite militants from Colombia's National Liberation Army, or ELN, rebel group to the South American country. A State Department spokesperson said Cuba had refused to "engage" with Colombia's government on extradition requests for ELN members who were in Havana for peace talks, supporting Cuba's placement on the list in 2022, the Miami Herald reported. However, in August 2022, Colombian President Gustavo Petro ordered his attorney general to suspend the warrants to arrest 17 commanders of the rebel group, including the ones in Cuba. "Moreover, the United States and Cuba resumed law enforcement cooperation in 2023, including on counterterrorism," said the State Department spokesperson, the newspaper reported. "Therefore, the department determined that Cuba's continued certification as a 'not fully cooperating country' was no longer appropriate," the spokesperson added. Cuba remains on the State Department's list of state sponsors of terrorism since it was added in 2021 during the administration of former President Donald Trump. In its message to Congress on Wednesday, the State Department said the state sponsors of terrorism list "is wholly separate," the Miami Herald reported.

ECONOMIC NEWS

Argentina's Monthly Rate of Inflation Falls to Single Digits

Argentina's monthly rate of inflation fell in April into the single digits for the first time since Javier Milei became president late last year, Bloomberg News reported Tuesday. Last month, consumer prices rose 8.8 percent as compared to March, in line with analysts' estimates, according to newly released government data. The largest increases were in utilities, communications and clothing. As compared to April of last year, prices accelerated slightly to 289.4 percent. "Inflation is being pulverized," Manuel Adorni, Milei's spokesman, said Tuesday in a posting on social media site X. It's death certificate is being signed," he added. The monthly inflation reading for April was down from 11 percent in March and a peak of 25 percent in December, the month Milei took office, the Associated Press reported. The International Monetary Fund has praised Milei's austerity measures, but his budget cuts have led to protests. Milei has slashed government spending and devalued the peso by 54 percent, the AP reported. At the same time, wages have remained stagnant, with the monthly minimum wage for regulated workers at $264 as of this month and informal-sector workers frequently paid less, the AP reported. Approximately 60 percent of Argentines live in poverty, Argentina's Catholic University said in a study released in January. Despite discontent over Milei's policies, his approval ratings have remained relatively high, at about 50 percent, according to a survey released this month by consulting firm Circuitos, the AP reported.

FEATURED Q&A / Continued from page 3

emphasis on 'high quality productive forces,' with a focus on EVs, renewable energy and other frontier industry competitiveness. For the United States, the problem is bigger than Chinese efforts to take advantage of USMCA provisions. Whether Mexico provides incentives for Chinese companies or not, Chinese companies are well-positioned to carve out increasingly dominant positions in all sorts of high-end industries. Mexico is an important destination for many, as is much of the rest of the Latin American region."

A **Lucinda Vargas, associate director of the Center for Border Economic Development at New Mexico State University:** "Mexico is currently under a tidal wave of Chinese direct investment. The Chinese presence in the country spans infrastructure projects, mega-size industrial parks and manufacturing plants in various industries, principally automotive. It has no presence yet in electric vehicle production. China's BYD, which has surpassed Tesla as the world's top-selling electric carmaker, has set its sights on Mexico with a stated purpose of servicing the Mexican market. Could its Mexican production platform eventually contemplate generating an electric vehicle for the U.S. market under the USMCA? Yes, but the rules may change. USMCA rules stipulate a 75 percent North American content on automotive products for duty-free U.S. entry. In the USMCA's review in 2026, stricter rules could be entertained to stipulate that of the remaining 25 percent of content in an automotive product, zero percent can be associated with a 'foreign entity of concern,' that is, China as labeled by the U.S. government. Even if Mexican federal authorities have become cautious about stimulating Chinese investment to assuage U.S. concerns, individual states in Mexico seem eager to be the beneficiaries of such investment with incentives in hand. Yet, Mexico does not need to court China with incentives. Its key draw for Chinese investors, indeed for investors from any country, is its next-door proximity to the United States, combined with its USMCA partner status, two anchors that enable tapping one of the world's largest markets. No one can strip the first, but the United States may force Mexico's hand on the second: choose between it and China to continue in the USMCA partnership."

A **Diana Avalos Morales, executive director of the Mexican Association for Electric Vehicle Promotion:** "Investments from Chinese electric vehicle makers in Mexico have been significant, with more than 15 companies present in the market. Some of them have announced their intention of establishing production facilities in the country. However, Mexico is likely to be careful of ramping up incentives for Chinese automakers, balancing its economic interests with its relationship with the United States. To continue attracting investment from China while maintaining a fair trade relationship within the USMCA, Mexico should pursue a transparent regulatory framework to ensure unfair practices are avoided. This approach could mitigate concerns about tariff evasions while fostering economic partnerships that are beneficial for all countries involved. Mexico is keen on further developing its national supply chain to transform the country from a very vehicle assembly-oriented manpower to a country that supplies complete products to the market. The country should invest enough in science and technology to deliver the goal of having automotive national brands competing in the international markets. Regarding incentives facilitated by the Mexican government for EV imports, we understand these benefit all brands from all countries, so we can't identify any that only target Chinese companies."

[Editor's note: The commentaries in this issue were submitted to the Energy Advisor before U.S. President Joe Biden's announcement on Tuesday of higher tariffs on Chinese imports, including electric vehicles.]

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Gene Kuleta
Editor

Carl David Goette-Luciak
Reporter

Nili Blanck
Reporter

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1155 15th Street NW, Suite 800
Washington, DC 20005
www.thedialogue.org

