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FEATURED Q&A

Is Colombia's Ecopetrol Making the Right Moves?

Colombia's Ecopetrol last month made its first foray into Mexico's oil sector by successfully bidding on two shared oil and gas blocks up for auction. An Ecopetrol worker is pictured above. // File Photo: Ecopetrol.

Q Colombian state-owned oil company Ecopetrol, in partnership with Mexican state oil company Pemex, won a stake in two oil and gas blocks up for auction during Mexico's shallow-water oil and gas tender June 19. The move was Ecopetrol's first foray into Mexico's oil sector. To what extent will Ecopetrol pursue investments abroad as opposed to at home? What challenges does the company face amid persistently low oil prices, and is it taking the right steps to adapt to the environment? What is the outlook for Colombia's state-run oil company overall?

A Walter Pesenti, managing director at Berkeley Research Group: "Ecopetrol is addressing the goals set forth in its 2020 business plan, allocating more than 80 percent of investments to profitable exploration and production projects. These projects will largely focus on developing key production assets and identifying Colombian onshore and offshore resources, maintaining their position in foreign assets. More than 95 percent of investments will be made in Colombia, with the remainder made abroad. Ecopetrol had an outstanding first half of 2017. The company's strategy is working and delivering results. It has overcome challenges to achieve profitable and safe operations, as reflected in its financial results. Average production was 712,000 barrels of oil equivalent per day. During the year, public order situations and operational incidents have occurred, such as the temporary closure of the Caño Limón-Coveñas oil pipeline, which negatively affected production. The pipeline returned to normal on April 7. We also note the

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Maduro Vows to Push Constitution Rewrite Despite Trump's Threats

Venezuelan President Nicolás Maduro vowed to push ahead with a plan to elect an assembly to rewrite the country's Constitution despite threats of sanctions from the United States.

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The Brazilian unit of French hypermarket chain Carrefour priced its initial public offering at 15 reais per share.

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Peru Ends Consideration of Cutting VAT

The government of President Pedro Pablo Kuczynski is no longer considering cutting the value-added tax due to slowing government revenues. Flooding and a graft scandal have hampered investment.

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Kuczynski // File Photo: Peruvian Government.

POLITICAL NEWS

Maduro Vows to Push Constitution Plan Despite U.S. Threats

Venezuelan President Nicolás Maduro on Tuesday vowed to push ahead with his plan to elect an assembly to rewrite the country's Constitution, despite threats from U.S. President Donald Trump to impose sanctions on Venezuela if it proceeds with the constitutional rewrite, the Associated Press reported. "No foreign government controls Venezuela," Maduro told his National Defense Council in a televised meeting. "Here in Venezuela, Venezuelans give orders, not Trump." The U.S. president on Monday called Maduro a "bad leader" and an aspiring "dictator" and warned that the United States would take "strong and swift economic actions" if Maduro proceeds with the plan to elect the assembly, which would rewrite the Constitution, in a July 30 vote. On Tuesday, a senior Trump administration official said the White House is prepared to impose sanctions that could include banning Venezuelan crude oil exports to the United States, The Wall Street Journal reported. Venezuela is the third-largest supplier of crude to the United States after Canada and Saudi Arabia.

BUSINESS NEWS

Carrefour Brasil Prices IPO at Bottom of Suggested Range

Carrefour Brasil, a unit of France's Carrefour and Brazil's largest supermarket chain, priced the South American country's largest initial public offering in four years at 15 reais per share, at the bottom of the suggested price range, according to a securities filing on Tuesday, Reuters reported. Fund managers said investors were reluctant to bid at the top of the suggested range of 15 to 19 reais per share for a company that does not have a competitive advantage. Shareholders secured 5.12 billion reais, or approximately $1.6 billion, through the transaction. Carrefour Brasil sold 91.2 million shares in a secondary offering, in which current shareholders sell part of their stakes, and 205.8 million shares in its primary offering, in which the proceeds of the sale go to the company. Carrefour Brasil will trade at a discount against its rival, GPA, in terms of enterprise value over earnings before interest, tax, depreciation and amortization. Carrefour Brasil recently passed GPA as Brazil's top diversified retailer in sales. Carrefour Brasil's IPO is the first of two such IPOs this week in

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positive performance of Hocol and Ecopetrol America, which significantly increased their production by 23 percent as compared to the first quarter of 2016. Reficar completed tests of four additional plants for a total of 25 units, 74 percent of the refinery's 34 units. The Barrancabermeja refinery saw stable operations, establishing itself as an efficient and profitable refinery. Sales strategy helped capture market opportunities for international sales, generating a significant improvement in Ecopetrol's export basket. The transport segment has consolidated its business integration. The reversion of the Bicentenario oil pipeline was completed, allowing it to carry crude from the Caño Limón field and thus mitigate the impact of eventual closures of the Caño Limón-Coveñas pipeline. During the quarter, successful tests were carried out on the transport of heavy crude at 600 centistokes (a measurement of viscosity), and the company will continue with the goal of extending this capacity to other oil pipeline systems. Ecopetrol remains focused on being a profitable company, committed to the country's development and care for the environment. It will continue to follow its strategic plan as a roadmap for delivering results aimed at value creation and sustainability."

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NEWS BRIEFS

Chilean Senate Moves to Allow Abortion in Some Cases

Chile's Senate early today voted to allow abortion in cases of rape, if the mother's life is at risk or if the fetus has a fatal birth defect, Agence France-Presse reported. The measures still face debate in the Chamber of Deputies, and President Michelle Bachelet supports the changes. Abortion has been strictly banned in Chile since 1989 and is punishable by as long as five years in prison.

Peruvian Government Ends Consideration of Cutting Value-Added Tax

The administration of Peruvian President Pedro Pablo Kuczynski has stopped considering a cut to the country's value-added tax (VAT) rate, due to slowing government revenues, Prime Minister Fernando Zavala said Tuesday, Reuters reported. Part of Kuczynski's economic platform when running for office had been to cut the VAT gradually from 18 percent to 15 percent, but heavy flooding and a graft scandal have crimped investment in Peru and lowered the country's growth outlook.

Claro's Q2 Revenues Rise 25 Percent in Argentina, Paraguay, Uruguay

Mexico-based telecommunications company América Móvil reported a 25.3 percent increase in revenue year-on-year for the second quarter in Argentina, Paraguay and Uruguay, with its Claro units in those countries posting combined sales of $690 million, as compared to $550 million in sales the year prior. Service revenues saw a 31.9 percent increase to $540 million, while mobile service revenues for the three countries increased by 38.5 percent to $540 million. The number of mobile customers in the three countries increased by 4.1 percent year-over-year to 23.9 million.

Brazil. The next offering is of Colombia-based pharmaceutical firm Biotoscana, with investors willing to purchase in the range between 24.5 and 28.5 reais per share, according to two people with knowledge of the deal.

ECONOMIC NEWS

Ecuador Planning to Increase Oil Production

Ecuador has announced it will increase its oil production this month, falling out of step with a decision by the Organization of the Petroleum Exporting Countries, or OPEC, to cut oil production in order to stabilize the global oil market, The Wall Street Journal reported Tuesday. In May, OPEC agreed to extend cuts to oil output among members by nine months to March of next year. The decision to cut production was first agreed upon last November. In June, Saudi Arabia said it failed to comply with

Pérez // File Photo: Ecuadorean Government.

its production allotment, as did Iraq. Overall compliance with the OPEC agreement fell to 78 percent in June, from 95 percent in May, when the extension was enacted. Ecuadorean Energy Minister Carlos Pérez said late Monday that the country could no longer afford the production cuts, "because of the needs that the country has." Last year, Ecuador agreed to limit its output by 26,000 barrels per day, but Pérez said Ecuador's oil sector is in fact only limiting its output by about 16,000 bpd. He did not say whether the country's oil output would increase beyond its current level. An Ecuadorean OPEC official could not be reached for comment.

Argentine Mortgage Loans Grow Amid Gov't Subsidies

Argentina's new subsidized mortgage program is leading to a jump in mortgage loans in the South American country, as well as a boost in construction activity, Reuters reported Monday. Argentines took out mortgage loans totaling 3.7 billion pesos ($219.32 million) in June, up from 558 million pesos in the same month last year, according to central bank data. While the overall amount is still low, it is seen as a significant increase in Argentina, where a high rate of inflation discourages would-be borrowers from seeking credit. In March, President Mauricio Macri's government launched a plan to provide 90,000 Argentines subsidized mortgages. Participants must have monthly incomes of between 16,000 and 32,000 pesos ($948-$1,897). About half of the country's economically active population earns less than 10,000 pesos ($593) monthly, according to government data. "For the middle class, which is large, all this spurs the economy and generates activity," Ivan Kerr, the country's national subsecretary of urban development and housing, told Reuters in an interview. Another plan that the government recently launched provides borrowers low-interest mortgage loans that are adjusted for inflation. The programs, put in place ahead of the October legislative elections, primarily benefit the country's urban middle class.

THE DIALOGUE CONTINUES

Is a TPP Without the U.S. a Better Deal for Latin America?

Q Officials from the 11 countries that are still actively participating in the Trans-Pacific Partnership met last week in Japan as they forge ahead without the United States following President Donald Trump's withdrawal from the trade accord. How viable is the TPP without U.S. participation? Without the United States, how good of a deal is the pact for Canada, Chile, Mexico and Peru—the Western Hemisphere countries involved? Do any of the signatories stand to benefit more without the United States as part of the accord?

A Nicolás Mariscal, member of the Advisor board and chairman of Grupo Marhnos in Mexico City: "Entering into the Trans-Pacific Partnership is a question of global competitiveness and market diversification. However, it requires deep analysis. In general, it's agreed that the TPP without the United States would bring benefits to Chile, Peru and Mexico, as they would not compete with North American suppliers. In terms of exports, Mexico would benefit more from a TPP that doesn't include the United States. However, in analyzing imports, according to projections from Carlo Dade and Dan Ciuriak, Mexico would have increased its imports from TPP signatory countries by 19 percent, while exports to the same countries have only grown by about 3 percent. Like the authors say, the signing of this agreement will have a positive effect on GDP. There will be winning sectors and losing sectors. The TPP will be a challenge, but if it is appropriately utilized, it will also generate growth in the region. But more studies are required by industries, including federal entities, in order to have a focused and effective strategy. Because these types of agreements are only worth it if they contribute to raising the standard of living for the population."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the June 28 issue of the Advisor.

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A **Jorge Lara Urbaneja, principal at LaraConsultores:** "Colombia was never an important oil-producing country, even though it is adjacent to Venezuela, with the largest oil reserves in the world. It has been said that Colombian topography impedes formation of large oil deposits that attract exploration activities. This is a wrong explanation. The fact is that more than half of Colombia's territory is flat, where most of the existing oil fields are located. Really, laws and regulations have obstructed the investment and growth of the oil industry, which requires the active and continued participation of innumerous specialized companies and individuals. But, to get the picture, there was a crude price control imposed in Colombia that banned exploration and exploitation during the 1960s, when the oil industry had its major impulse worldwide. There was a short period when Colombia's oil industry grew because of the participation of Venezuelan entrepreneurs and experts fired by Chávez from Venezuela. Then, Colombia was mistakenly labeled as a major oil-producing country. The truth is that Colombia is fast reducing oil production, and its reserves may be exhausted in five years. Moreover, laws and regulations like those on environmental licenses, community participation and popular decisions to ban mining and oil activities in large portions of the territory, may finish the oil industry and legal mining in Colombia in the foreseeable future. The president of Ecopetrol, who has to manage an oil company and not Colombia's energy policies, is doing fine in pursuing this project in Mexico, a country that is back from protective and regressive oil policies."

> **"Colombia is fast reducing oil production, and its reserves may be exhausted in five years."**
> **— Jorge Lara Urbaneja**

A **David Ross, global fund manager at La Financiere de l'Echiquier in Paris:** "With no recent major discoveries in Colombia, companies must look beyond Colombian land for exploration. For Ecopetrol, winning two shared blocks in the desirable Mexican shallow-water Southeastern basin is an encouraging start. However, these wins are not significant enough to arrest Ecopetrol's decline. The giant Rubiales field, which provides 20 percent of Ecopetrol's production, is in rapid decline, with production dropping by one-third over the last four years. The decline is so sharp that it is estimated that water is now 95 percent of what is being pumped, and the field may have an economic life of only five years. New production forecasts are bleak. Ecopetrol's own plan implies that new wells will comprise about 5 percent of its anticipated 2020 production, with enhanced recovery techniques in existing wells being the largest contributor to production. I believe Ecopetrol's long-term plan of using cash flows from its downstream assets to support its upstream exploration and development efforts is the wrong strategy for the company. With an exceptionally low reserve life of just 6.8 years and a poor exploratory track record, Ecopetrol should stop trying to be an integrated major and instead view itself as a midstream/downstream company. Rather than continuing value-destroying exploration investments, it should use current production as a cash cow to support growth in areas of strength. Colombia is a net importer of refined products, such as gasoline and diesel; Ecopetrol should be investing more in its refining and distribution business and leave the exploration and development to more capable companies."

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

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