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FEATURED Q&A

Is It Boom Time Again For Brazil's Oil and Gas Sector?

BP, Royal Dutch Shell ad Germany-based Wintershall were among the winners in Brazil's auction for oil blocks last month. Décio Oddone, head of Brazil's National Petroleum Agency, said the diversity of operators was among the auction's success. // File Photo: Nat'l Petroleum Agency.

Q **Brazil's government raked in $2.4 billion in its March 29 auction of deepwater oil blocks, nearly double the amount that it had expected. It was the third auction since September to draw significant interest, as companies including ExxonMobil, Repsol and Royal Dutch Shell snapped up oil blocks. What factors drove companies' interest in the concessions? Does Brazil's auction reveal a larger trend of companies investing more heavily in deepwater drilling? How much confidence do investors in Brazil's energy industry have ahead of the country's October presidential election, and to what extent could political uncertainty rattle the industry?**

A **Isabella Alcañiz, associate professor in the Department of Government and Politics at the University of Maryland:** "Several energy-rich Latin American countries are holding oil and gas auctions this year. So far, in a crowded market, Brazil has garnered the greatest attention from would-be investors. The reasons are twofold. On the one hand, undoubtedly, the promise of securing access to Brazil's massive offshore oil reserves is a powerful driver of interest. On the other, the government of Michel Temer is seen as more business-friendly than his predecessor and former running mate—whom he helped impeach—Dilma Rousseff of the Workers' Party (PT). It seems investors are not too worried about this October's presidential election. Popular former President Lula's recent incarceration on corruption charges, which virtually ended his short run as the PT's presidential candidate, will probably increase investors' confidence. However, this confidence may be misplaced, given the many serious corruption charges

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Peruvian prosecutors are planning to indict former President Alberto Fujimori in connection with the forced sterilizations of women during his term in office.

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Members of a cabin crew members union sought to end a 17-day strike that affected LATAM Airlines flights, mainly in Chile.

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If elected, Mexican presidential hopeful Andrés Manuel López Obrador would not seek to reopen negotiations on the North American Free Trade Agreement if negotiators reach a deal before Mexico's July 1 election, said López Obrador's pick for economy minister.

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López Obrador // File Photo: López Obrador Campaign.

POLITICAL NEWS

Prosecutors to Indict Fujimori in Forced Sterilizations Case

Peruvian prosecutors are planning to indict former President Alberto Fujimori and three former health ministers in connection with the forced sterilizations of five women while Fujimori was in office, Agence France-Presse reported today. More than 2,000 people have filed lawsuits related to forced sterilizations that occurred during Fujimori's 1990-2000 administration, Milton Campos of Peruvian women's rights group DEMUS, told the wire service. At the beginning of Fujimori's second term, in 1996, his government started a family-planning program that included tubal ligation. Some 300,000 women underwent the procedure, which was originally supposed to have been voluntary. However, thousands of women reported being harassed or threatened to undergo the procedure, BBC News reported. Most of the victims involved were poor, indigenous Quechua-speaking women from rural areas. Fujimori reportedly believed the program would reduce the birth rate and aid economic development. Fujimori was cleared of wrongdoing in relation to the program in a 2014 investigation. Fujimori was serving a 25-year prison sentence on human rights violations until then-President Pedro Pablo Kuczynski controversially pardoned him in December.

ECONOMIC NEWS

Mexico's AMLO Would Respect a NAFTA Deal: Aide

Front-running Mexican presidential candidate Andrés Manuel López Obrador would respect a renegotiated North American Free Trade Agreement if the United States, Mexico and Canada reach a deal before the July 1 election, the leftist candidate's pick for economy minister told The Wall Street Journal in an interview Wednesday. "We can't be renegotiating NAFTA [permanently]," Graciela Márquez told the newspaper, noting that an efficient implementation of an agreement would reduce economic uncertainty. With a 22 percent lead over his nearest rival in recent polls, López Obrador has insisted that a new NAFTA agreement should include measures to lift Mexican workers' wages, putting him at odds with many in the private sector and investor community. Meanwhile, Mexican officials in Washington for ministerial-level talks on NAFTA said Thursday that a deal is close at hand but talks to arrive at a finishing point are not easy, Reuters reported. "I think we are reasonably close. Certainly this has been a very good week," Mexico's foreign minister, Luis Videgaray, told reporters. Mexican Economy Minister Ildefonso Guajardo gave a more tempered view, saying there was movement in the right direction but "we're still in the process." Major sticking points have been disagreements over dispute resolution practices and auto-sector rules of origin, according to media reports.

BUSINESS NEWS

LATAM Airlines Union Moves to End Strike in Chile

Members of a cabin crew members union for LATAM airlines in Chile moved to end a 17-day strike on Thursday after unilaterally deciding to accept the company's last offer in March, La Tercera reported. The workers had called for a strike after complaining of low wages, long days and schedules that had them working up to 10 consecutive days. The Cabin Crew Union of LAN Express, LATAM's Chilean subsidiary, declared the strike over and said its members would get back to scheduled shifts. However, LATAM said that the strike could not be declared over until the country's labor authorities sign off on it, Reuters reported. "Unfortunately, the way in which the union would have ended the strike does not comply with the law," the

NEWS BRIEFS

Death Toll Rises to 63 in Nicaragua Protests: Human Rights Group

A Nicaraguan non-governmental human rights group said on Thursday it has confirmed that 63 people were killed during protests over changes to the country's pension laws over the last week. The Permanent Commission on Human Rights added that at least 15 people are still missing and that 160 Nicaraguans were injured by gunfire during the protests. Marcos Carmona, the group's director, said the casualties were a result of "a massacre" of Nicaraguan protesters, many of whom were students.

Court Orders Reopening of Chilean Cryptocurrency Exchange Accounts

A Chilean court has ordered Banco del Estado de Chile and Itaú Corpbanca to reopen the accounts of cryptocurrency trading platform Buda, Bloomberg News reported Wednesday. The court said the two banks must reopen the accounts while Buda's lawsuit continues against eight other banks. Several banks had closed the accounts of Buda and other exchanges, saying more regulation was needed.

Brazilian Central Bank Sets Rules for Fintechs' Peer-to-Peer Lending

Brazil's central bank authorized peer-to-peer lending for credit and fintech startups in a new set of regulations released Thursday, Reuters reported. The move is part of an effort to reduce interest rates in the country, where consumers are forced to borrow at high rates despite renewed financial activity. Fintech firms reacted positively to the new rules on peer-to-peer lending, which involves direct lending between individuals through a banking platform, saying it would help increase access to capital.

Santiago-based company said in a statement Thursday. LATAM, which had to cancel more than 2,000 flights as a result of the work stoppage, has previously said that the strike was costing it between $1 million and $1.5 million per day. On Thursday, LATAM Airlines President Ignacio Cueto said "nobody has won in this, we have only lost." Though the company operates in Argentina, Peru, Colombia, and other Latin American nations, nearly all of the canceled flights were domestic ones within Chile.

MercadoLibre to Invest $275 Million in Mexico

Argentina-based online retailer MercadoLibre said Thursday that it will invest $275 million to expand its market share in Mexico, Reuters reported. The investment includes its February opening of two Mexico distribution centers employing 3,000 people, worth $100 million. An established player in Latin America for more than a decade, MercadoLibre is facing increased competition from U.S.-based Amazon, which has been making larger investments to expand in Mexico after formally launching operations there in 2015. "Mexico is one of the countries with the biggest e-commerce industry growth of the region," Marcos Galperín, MercadoLibre's chief executive and founder, said in a statement. "We want to accelerate the pace of this advance." In February, 38 percent of Mexican consumers who made an online purchase shopped at MercadoLibre, while 21 percent visited Amazon, according to data compiled by comScore.

Galperín // File Photo: MercadoLibre.

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against the unpopular Temer, the deep political polarization of the country, and the growing perception by many Brazilians that the judiciary is becoming increasingly politicized. The presidential election is just a few months away, and there is enormous uncertainty."

A **Francisco Ebeling Barros, independent Berlin-based energy consultant:** "In the petroleum economics literature, it is very common to assess the overall attractiveness of a given country's exploration and production industry by analyzing at least four of its 'determinants of investment': reserves, technology, markets, regulation and institutions and politics. The very positive results of Brazil's 15th concession contract bidding round show that investors' appraisal of the reserves, technology, markets and regulation are all very positive. Brazil's oil reserves, especially those in the pre-salt layer, are amply regarded as being first-class, especially for the needs of international oil companies. In that vein, some years ago, some executives of Brazil's private oil sector even called the pre-salt the 'blue fillet steak.' Regarding the determinant 'technology,' it is an established fact that Brazil—in association with international services companies—has managed to master deepwater offshore drilling technology and has conquered the most pressing technological challenges. Further, the determinant 'markets' is also under control, as the oil produced in Brazil, at least for the decades to come, will be easily placed in the international market. Finally, from the point of view of investors, the determinant 'regulation' no longer poses a relevant threat, as the current Brazilian administration has signaled that its interpretation of the rules of the game is much more market-friendly than that of the previous administration. A much more pressing issue is the determinant 'institutions and politics.' It cannot be circumvented that former President Lula's arrest is a big question mark. My view is that his arrest, which is neither politically nor legally justifiable and only has the practical effect of staining Brazil's democracy in the eyes of the political community, doesn't matter very much from the point of view of the international investor. President Lula has always been a class conciliator, and even if he won the 2018 election, he wouldn't much alter the current petroleum policy path."

> **"Brazil's oil reserves, especially those in the pre-salt layer, are amply regarded as being first-class..."**
> **— Francisco Ebeling Barros**

A **Kirk Sherr, president of Clearview Strategy Group in Tysons Corner, Va.:** "In the shadow of the long-running three-ring circus of Brazilian politics, the energy sector, specifically offshore, is booming again. At least four major factors have coincided to allow Brazil to enjoy a financial bonanza in its most recent deepwater auction: international oil companies' confidence in Brazil's geology, declining offshore costs due to technology and other factors, a stable-to-positive outlook for oil prices, and relative confidence in the overall fiscal and regulatory environment in Brazil. With more than 13 billion barrels of proven reserves, Brazil, at 15th on the world oil reserve list, is a big destination for oil majors. Plus, pre-salt crude production now exceeds one million barrels per day, up from negligible amounts just a decade ago. Clearly for major oil companies, the scale of the resource now allows for ever larger long-term investments. Equally important, a host of technologies (such as sensors, data

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and completion techniques) have lowered costs and stimulated offshore efforts worldwide, thus improving the outlook for financial returns. Most important, though, is the confidence that investors now have in the broad Brazilian fiscal and regulatory environment. As the grip of Petrobras on Brazilian reserves has loosened due to fall-out from the Car Wash scandal, the National Petroleum Agency (ANP) has responded effectively. The ANP developed an expanded auction process (March 29 was the 15th auction for exploration blocks) that builds on its significant established regulatory experience, contract awards and the nitty-gritty of regulatory enforcement. The 'jeitinho brasileiro' sure seems to be working for the Brazilian offshore."

> **"Brazil's upcoming bidding round for pre-salt blocks will likely also shatter records..."**
>
> **— Cleveland Jones**

A Cleveland Jones, professor and researcher at the National Institute of Oil and Gas at the State University of Rio de Janeiro: "Brazil's upcoming bidding round for pre-salt blocks will likely also shatter records, since the two highly rated blocks removed from the March 29 round will likely be included. Furthermore, the round includes blocks that are estimated to contain in-place resources of 16.8 billion barrels. Even with conservative estimates for the recoverable potential, at least five billion barrels are being offered to the market. Nowhere else in the world are such highly prospective areas available. They typically exhibit highly productive wells and low costs, despite the deepwater setting. Companies that plan on securing resources for strategic baseline production at competitive costs and in secure regions cannot overlook Brazil and the opportunities being offered. There is still more to come, since new concessions and bidding rounds are planned for 2019, which will include blocks in prime areas, such as the Campos and Santos basins. Then there is the huge auction of the excess oil in the transfer-of-rights areas, which involves offering between six and 15 billion barrels of recoverable (not in place) resources. The opportunities to establish a large and long-term production base will not allow Brazil's political turmoil to detract from the interest shown by oil players. In fact, it will likely grow even stronger, as new, highly prospective areas are offered, in a world with much investment capital but few palatable destinations and even fewer world-class plays. Strategic investment decisions are made with a long-term view, and recent political events (even former President Lula's imprisonment) have shown that Brazil has strong democratic institutions and rule of law. The upcoming elections are unlikely to change the policies that have ensured the success of past bidding rounds, attracted large investments to the country, and point to Brazil as a leading oil and gas player in coming years."

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

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