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FEATURED Q&A

Will Ecuador Attract Oil & Gas Investors This Year?



Ecuador's Petroamazonas, headed by General Manager Álex Galárraga, launched a new bidding round last month. // File Photo: Petroamazonas

Q **Ecuadorean state-run oil company Petroamazonas on March 13 launched a bidding round hoping to attract \$800 million from foreign companies to help develop oil and gas reserves. Winners will operate four oil fields in Ecuador's eastern Amazon region and one natural gas field in the Gulf of Guayaquil under 10-year shared profit and service contracts. The government expects the auction process to be completed in June. How strong is investor interest in Ecuador's latest oil auction? What factors will determine its success? How well as the government handled relations with local communities that might oppose the projects?**

A **Jose L. Valera, partner at Mayer Brown, LLP:** "The contract to be awarded under the 'Campos Oil & Gas 2018' bidding round is one under the 'service' model, under which the contractor bears the financial costs of carrying out operations in the contact area in exchange for pre-set compensation. Petroamazonas received a number of expressions of interest for each field on March 27 from a discrete segment of the industry interested in receiving a fee in exchange for low-risk investments. Petroamazonas is in arrears paying suppliers, but this auction should be successful if Petroamazonas can give assurances that it will pay the amounts due in a timely manner. All production obtained must be delivered to Petroamazonas, and the contractor receives a fee per unit of production. Assuming a WTI price of \$50, for example, under this contract, the contractor would receive a fee of \$20 per barrel of oil produced. The fee must cover costs and profits. The Amistad gas field was surrendered by its private sector operator in

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TOP NEWS

OIL & GAS

Brazil Sells Rights to 22 Blocks in Oil Auction

The government sold the rights to the deepwater blocks, netting more than \$2 billion in an auction that drew interest from several international oil firms.

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RENEWABLES

Nordex Plans Wind Tower Factory in Brazil

The German wind turbine manufacturer is planning to build a factory that can produce 80 wind towers per year. The facility is planned for Piauí State and will cost \$9 million to construct.

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OIL & GAS

Colombia's Attorney General Investigating Oil Spill

The office of Colombian Attorney General Néstor Humberto Martínez is opening an investigation into an oil spill involving state oil company Ecopetrol that spread to 40 bodies of water.

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Martínez // File Photo: Colombian Government.

OIL AND GAS NEWS

Colombia's Attorney General Investigating Ecopetrol Oil Spill

The Colombian attorney general's office on Monday opened an investigation into Ecopetrol's role in an oil spill last month in the north of the country, *El Tiempo* reported. The spill, which began on March 2, was caused by a leak from an old well that was thought to be sealed off. The oil has reached 40 bodies of water and killed 2,437 animals, mostly fish, in the area surrounding the town of Barrancabermeja. In a separate report Monday, Ecopetrol CEO Felipe Bayón Pardo told the newspaper that two-thirds of the oil had been cleaned up and that his firm is conducting an internal investigation that will be complete by the end of April. But Luis Gilberto Murillo, Colombia's minister of the environment and sustainable development, says the firm "underestimated" the extent of the spill and responded late. According to Reuters, the Colombian inspector general and environmental licensing agency are also conducting investigations. "The investigation will seek to establish if individual officials from Ecopetrol were responsible and could be penalized," an official from the attorney general's office told the wire service. Bayón told reporters on Monday that his company is cooperating with the investigation.

Brazilian Gov't Sells Rights to 22 Blocks in Oil Auction

Brazil sold the rights to 22 blocks at a deep-water oil block auction on March 29, netting more than \$2 billion for the government, *O Globo* reported. The auction drew large interest from major international oil firms despite slower investments in offshore drilling for oil and gas, which declined from \$335 billion in 2014 to just \$160 billion in 2017, *The New York Times* reported. BP, Wintershall, ExxonMobil

and Royal Dutch Shell were among the winners Thursday. Décio Oddone, director general of the National Petroleum Agency, called the auction a "success," pointing out that "not just American companies but practically all of the major countries in Europe were represented." Investments in offshore blocks have declined over the last few years due to falling oil prices and several high-profile spills. However, oil prices have recovered and Brazil has recently reformed its regulation of the energy sector.

Frontera Energy to Invest \$500 Million in Peru, Colombia

Canada's Frontera Energy announced on Monday that it will invest as much as \$500 million this year in Colombia and Peru, Reuters reported. The new investment, which is more than double the figure for last year, will commit between \$225 million and \$240 million to maintenance and development drilling, Colombian

The firm expects to produce between 65,000 and 70,000 barrels per day and turn a profit this year.

newspaper *El Tiempo* reported. "The board is very excited about the company's direction in 2018 as it looks to continue creating value for our shareholders," Gabriel Alba, Frontera's board chairman, said in a statement on March 28. An additional \$120 million of the investment will go to exploration in the two countries. The firm expects to produce between 65,000 and 70,000 barrels per day and turn a profit this year, having posted significant losses in 2017. Frontera posted a net loss of \$217 million last year after bringing in \$2.4 billion in profits in 2016, according to Reuters. The announcement of new investments accompanied news that Richard Herbert will become Frontera's next CEO. Herbert, who previously

NEWS BRIEFS

Peruvian Lawmakers Seek Repeal of Oil Contracts PPK Signed in Final Hours

Opposition lawmakers in Peru said they will try to repeal five contracts granting London-based Tullow Oil rights to explore and drill for oil, which President Pedro Pablo Kuczynski signed just hours before leaving office last month over a corruption scandal, Reuters reported. "It's not normal for a president, just before resigning, to sign five decrees giving away our resources," said Karla Schaefer of the conservative Popular Force party.

Peru Sees Decline in Hydrocarbons Output

Peru's hydrocarbons output was 24.61 percent lower in February than in the same month last year, according to data from the National Institute of Statistics and Information, or INEI, Reuters reported on Sunday. The precipitous drop was caused by a reduction in the amount of natural gas produced. At the same time, Peru reported year-on-year growth of 1.42 percent in the mining of metals, 5.10 percent in fishing, and 1.76 percent in electricity. On April 15, INEI is set to release overall data on Peru's February economic performance.

Deal Could Save Argentina From Paying \$3.4 Billion to Oil, Gas Companies

Argentina's government will soon announce an agreement that will allow the country to avoid paying \$3.4 billion owed to oil and gas companies, Argentine daily newspaper *La Nación* reported Tuesday. The companies are reportedly canceling Argentina's obligations in exchange for the energy reforms that have raised gas prices in the country. The outstanding payments stemmed from rulings by the World Bank's International Centre for the Settlement of Investment Disputes over Argentina's actions following its 2001-2002 financial crisis.

oversaw development and exploration projects at British Petroleum, replaces Barry Larson as head of the Canada-based firm.

POWER SECTOR NEWS

Engie Shuttters Two Coal-Fired Power Plants in Chile

Engie Chile has become the first firm to shutter active coal-fired power plants in Chile's phase-out of coal power, El Mercurio reported Tuesday. The company announced plans to close two coal-powered units, which each produce 85 megawatts of power, at the Tocopilla Central Power Plant in the Antofagasta region in



De Cnudde // File Photo: Engie.

northern Chile. The announcement of closures represents just the first step in Engie Chile's plan, announced on March 27, to close all of its coal-fired power plants instead of selling them, Bloomberg News reported. "Selling coal plants in the current circumstances is not good," Philip De Cnudde, Engie's CEO for Latin America, told the news service. "We can't get good value." Engie Energía Chile, a subsidiary of the French firm Engie, is working with Chile's government and the country's other leading power producers to finalize a plan to phase out all coal-fired plants by 2050. El Mercurio reported that the company plans to install approximately 1,000 megawatts of capacity in wind and solar power to replace the coal plants. Although coal currently contributes 21 percent of Chile's total installed power capacity, renewables have tripled from just 7 percent of capacity in 2014 to 22 percent this year.

RENEWABLES NEWS

Nordex Plans to Build Wind Tower Factory in Brazil

German wind turbine maker Nordex plans to build a wind tower factory in Brazil that will have capacity to construct 80 towers per year, Bloomberg News reported March 29. Located in the state of Piauí, the plant will cost \$9

million to construct. Nordex has set a goal of capturing a 25 percent share of Brazil's wind turbine market. The company currently has about 15 percent market share, according to company executives. Brazil's government organized two power auctions in December—its first in two years—and developers won contracts to sell power from 51 planned wind farms that should add a total of 1.45 gigawatts of capacity to the country's grid. Last year, Brazil led Latin America in the rate of wind power growth, adding 2 gigawatts for the second year in a row, reaching a total of 12.76 gigawatts

FEATURED Q&A / Continued from page 1

2011 during the arm-twisting days of former President Correa. Production has been declining significantly since 2014. In this case, Petroamazonas is seeking a contractor to further develop the field to increase production. The contractor is to be paid on the basis of units of work performed; not on the basis of production obtained. Clearly, 'Campos Oil & Gas 2018' is not meant to incentivize exploration, but rather to simply obtain or increase production from known resources. Under the administration of President Moreno, nevertheless, Ecuador will implement a hydrocarbons policy that will actually incentivize much needed exploration through production sharing contracts and hopefully lift the country from production stagnation and past unproductive investments."

A **Isabella Alcañiz, associate professor in the Department of Government and Politics at the University of Maryland:** "The most recent oil and gas auction carried out by Petroamazonas in Ecuador was met with initial interest by major foreign companies. The auction process will be finalized in a few months, so it remains to be seen if the Ecuadorean government will succeed in raising a projected \$800 million in investments for the sector. The country faces steep competition from the oil giants of the region. Brazil and

Mexico have several oil auctions planned this year, as do Argentina and Uruguay. More recently, Colombia announced its own offshore oil bid for April. Ecuador might not

“The country faces steep competition from the oil giants of the region.”

— Isabella Alcañiz

be able to attract enough foreign investment, given the number and size of the other offerings. President Lenín Moreno has tried to improve relations with indigenous and environmental groups by holding a nationwide referendum on (among other issues) increasing protections against oil extraction in the highly contested Yasuní National Park. The electorate overwhelmingly voted in favor of expanding extraction bans in the park. This result emboldens opponents of the government's oil and gas policies, not just in Yasuní, but in other areas of the Amazon as well. Just three days after Petroamazonas' oil bid, a large group of Amazonian indigenous women marched to Quito and demanded to meet with President Moreno in order to seek a halt to all oil extraction in the Amazon."

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of installed capacity, according to data from the Global Wind Energy Council. While a leader in Latin America, Brazil lags behind Asian countries like China and India in wind capacity. By comparison, China added 19.5 gigawatts of new wind energy in 2017 alone.

Atlas Renewable Energy Acquires Mexico Solar Project

Mexico-based Atlas Renewable Energy said Monday that it acquired the Guajiro solar project in Mexico from SunPower for an undisclosed sum. With a planned capacity of 126.5 megawatts peak (MWp), the project is expected to be commissioned in the second quarter of 2019 and will generate close to 300 gigawatt hours of energy per year, the company said. Guajiro is contracted under a long-term power-purchase agreement with the CFE, Mexico's state-owned electric utility. The project, initially developed by SunPower, was awarded in the country's first electricity power auction. Last August, SunPower said delays with two solar farms in Mexico had cut its 2017 sales to between \$2.1 billion and \$2.3 billion, down from an earlier estimate of as much as \$2.6 billion, Bloomberg News reported. In 2016, SunPower won power purchase agreements with CFE to deliver approximately 500 megawatts of power over the term of the agreements in the country's first electricity auction. Atlas, established in 2017 by former SunEdison executives, now has about 750 megawatts in contracted projects in operation or advanced development stages across Latin America.

POLITICAL NEWS

Brazil's Supreme Court Rules Lula Can Be Sent to Jail

Following nearly 11 hours of heated debate, Brazil's Supreme Court in Thursday's early

ADVISOR Q&A

Will Automation Create or Kill Jobs in Latin America?

Q Within Latin America and the Caribbean, Mexico and Brazil are leading the way in the use of automation, the IDB said in research released last year, with two robots per thousand workers on average. However, the two countries lag far behind more developed nations. Switzerland, Germany, Japan and South Korea, the countries with the highest numbers of robots per industrial worker, boast more than 20 per thousand workers, and China is automating quickly. Is automation a good thing for Latin America and the Caribbean, at this stage of the region's economic development? What policies would bring productivity gains and economic vitality while creating secure jobs? How are elections in key countries this year likely to alter the outlook for the ways countries invest in technology and automation?

A Amy Glover, CEO for Mexico at Speyside Corporate Relations: "As in many other markets, automation is both a challenge and an opportunity for Mexico. A 2017 report by McKinsey Global Institute shows that 52 percent of the jobs in Mexico could eventually be replaced by robots, and there is general agreement that further education reform is needed in order to prepare the workforce for this eventual shift. Automation in the country is also linked to the integration of North America, particularly to the maquiladora and

automotive sectors, and the success of the NAFTA renegotiation process will be key to determining the future of this industry. In the context of Mexico's 2018 presidential election, there are different views on how to promote the country's economic development and how much of a role technology will play. Ricardo Anaya, the candidate of the For Mexico to the Front coalition, has emphasized technology as a key driver of growth and a tool for ensuring that the country's youth enjoys economic opportunity. Anaya envisions technology playing a wider role in the Mexican economy by developing a strategy to confront the global 4.0 revolution and by promoting specialized human capital and attracting R&D to Mexico. As Jack Ma, the founder of Alibaba, pointed out in his discussion of education at the World Economic Forum this year, we need to be teaching kids to do things that robots cannot do, putting an emphasis on creativity and the arts. At present, Mexico is a long way from an optimal public education system, but the question is whether the country will be able to leapfrog toward designing a system for the future. No doubt at present, the bar seems quite high."

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

morning hours narrowly rejected former President Luiz Inácio Lula da Silva's effort to remain out of jail as he appeals his corruption conviction, O Estado de S.Paulo reported. The 6-5 ruling means that Lula, a leftist icon in the South American country, could be jailed as early as next week, the Associated Press reported.

The decision upends the country's presidential race, in which Lula been the front-runner. The Supreme Court's decision makes it all but impossible for Lula to remain on the ballot as Brazil's Clean Slate law prohibits convicted criminals who have lost an appeal from running for office. Thursday's decision does not tech-

NEWS BRIEFS

Guatemalan Judge Sentences Businessmen to Build Roads, School

A judge in Guatemala has sentenced nine businessmen involved in a corruption scheme to build roads and a school in the country, according to the U.N.-backed anti-corruption commission in the country. On Wednesday, the International Commission Against Impunity in Guatemala, or CICIG, announced the sentences, which also include fines and prison time. The businessmen were convicted of corruption in a case involving construction company Odebrecht and former Infrastructure Minister Alejandro Sinibaldi, who remains at large, Reuters reported.

U.S. Senator Arrives in Venezuela in Attempt to Secure American's Release

U.S. Senator Richard Durbin (D-Ill.) arrived in Venezuela on Wednesday, seeking to secure the release of a Utah man jailed in the country, the Associated Press reported. Durbin is seeking the release of Joshua Holt, who has been in prison for two years on weapons charges that the U.S. government says are politically motivated. Durbin is reportedly scheduled to meet with Venezuelan President Nicolás Maduro as well as opposition leaders.

Mexico Imposes Tariffs on Steel Pipes From Four Countries

Mexico's economy ministry announced Tuesday that it was slapping tariffs on imports of carbon steel pipes from South Korea, Spain, India and Ukraine, Reuters reported. The ministry said the imposition of the anti-dumping duties followed an investigation into what it called "unfair" trade practices. The investigation covered the period between April 2013 and March 2016 and came at the request of a company, the wire service reported.

nically strike Lula's name from the ballot, but the country's top electoral court is expected to do so under the Clean Slate law. In January, an appeals court upheld Lula's 2017 conviction and lengthened his prison sentence from nine and a half to 12 years. Within minutes of the Supreme Court's decision Thursday morning, Lula's Workers' Party posted a tweet saying it will continue to back the former president. "The Brazilian people have the right to vote for Lula, the candidate of hope," the party said. "The Workers' Party will defend this candidacy on the streets and in every court until the last consequences." The court's close vote underscored the polarization in Brazil that surrounds Lula. "The constitution secures individual rights, which are fundamental to democracy, but it also assures the exercise of criminal law," said Chief Justice Cármen Lúcia, who cast the deciding vote, ending the session at about 12:30 a.m. local time. However, Justice Gilmar Mendes, often a critic of Lula, voted to allow the former president to remain out of jail and said the court should not be pressured to jail him. "If a court bows [to pressure], it might as well not exist," said Mendes. Millions of Brazilians watched the televised Supreme Court session. When it ended, fireworks were shot into the sky and yells could be heard in Rio de Janeiro and São Paulo, the AP reported. Last July, Lula was convicted of helping a construction company receive contracts in exchange for the promise of a beachfront apartment. Lula has consistently denied wrongdoing and has said the case is a ploy to keep him from returning to the country's presidency.

Trump Signs Order to Deploy National Guard to Border

U.S. President Donald Trump on Wednesday signed an order to deploy the National Guard to the country's border with Mexico in order to crack down on illegal immigration, the Associated Press reported. "The lawlessness that continues at our southern border is fundamentally incompatible with the safety, security, and sovereignty of the American people," Trump wrote in a memo, saying that his administration

had "no choice but to act." U.S. law bars the use of active-duty military members for law enforcement within the United States, but U.S. presidents over the past 12 years have twice sent National Guard troops to the border to assist with security and provide other support. Mexico's foreign ministry said late Wednesday that U.S. Homeland Security Secretary Kirstjen Nielsen has informed it that the National Guard troops will not be armed. Meantime, a caravan of more than 1,000 Central American migrants that is headed toward the United States said it would disband into smaller groups after reaching Mexico City, CNN reported.

ECONOMIC NEWS

Colombia Won't Give Immediate Aid to Coffee Growers

Colombia's government will not provide any immediate support or subsidies to struggling coffee growers in the country, the CEO of the coffee farmers' association said Wednesday, Reuters reported. Roberto Vélez, chief executive of the National Federation of Coffee Growers, or FNC, made the statement after a meeting with Finance Minister Mauricio Cárdenas. In the meeting, the government rejected Vélez's appeal for immediate relief, saying it did not have sufficient money. Colombian coffee farmers have struggled in the first quarter as domestic prices have fallen 13 percent as compared to last year, according to the FNC. Producers and exporters have struggled as the Colombian peso has risen against the dollar and heavy rains in the country have led to lower output. However, the government did outline a plan to commit 27 billion Colombian pesos (\$9.7 million) to the renovation of coffee farms, El Colombiano reported. "The coffee growing sector needs support right now," said Vélez. Vélez had called for an urgent meeting after the United States pulled out of the International Coffee Agreement. Cárdenas called upon other major coffee-growing nations to meet and find a way to "regulate demand and avoid a bigger fall in the international price," Reuters reported.

FEATURED Q&A / Continued from page 3

A **Paola Carvajal, principal in the energy practice of Arthur D. Little:** “President Moreno’s government has been promoting the return of international investment in Ecuador’s upstream oil and gas sector. In addition to Petroamazonas’ current bidding round, ‘Campos Oil & Gas 2018,’ the government is expected to announce another bidding round, ‘Ronda Intracampos,’ this year. That round may include a new contract model of profit sharing with private companies. In this sense, there are initial positive signals of a friendlier environment for private investment in the hydrocarbon sector. Petroamazonas’ current auction has so far attracted the interest of international companies. In the last week of March, the company announced that it had received expressions of interest from 25 companies in the offered blocks. The advantage of these fields is that most of them have been producing for several years; therefore, there is significant information about production performance and geology. In addition, the service contract model with financing implies that the contractor will assume the investment risk in drilling new wells, activating old ones and building new facilities in exchange for a variable fee per produced barrel indexed to the WTI price. The fee would allow the repayment of the investments and allow profit for the contractor. This contract model is usually

more attractive for oil service companies than upstream ones due to limitations on the booking and production commercialization of hydrocarbon reserves. However, there are critical conditions that Petroamazonas still needs to address to ensure the success

“There are initial positive signals of a friendlier environment for private investment in the hydrocarbon sector.”

– Paola Carvajal

of the bidding round. They include: bidders’ identification of potential upside of production in the blocks being offered; the contractor’s definition of an efficient mechanism to agree on development activities; setting a mechanism that guarantees timely payment of the fee per barrel in compliance with contracts; and having favorable social and environmental conditions to conduct the operations. In sum, although there are positive initial signs regarding the interest in the bidding round, private companies’ commitment of investments will depend on the ongoing technical assessment and negotiations of the contract conditions.”

LATIN AMERICA ENERGY ADVISOR is published weekly by the Inter-American Dialogue
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Latin America Energy Advisor is published weekly, with the exception of some major U.S. holidays, by the Inter-American Dialogue
1155 15th Street NW, Suite 800
Washington, DC 20005 **Phone:** 202-822-9002
www.thedialogue.org
ISSN 2163-7962

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