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FEATURED Q&A

What Challenges Face the New Leader of Petrobras?



Ivan de Souza Monteiro was selected as the new interim chief executive officer of Brazilian state oil company Petrobras earlier this month. // File Photo: Agência Brasil.

Q Petrobras CEO Pedro Parente resigned on June 1 amid a fallout over a 10-day truckers' strike that left Brazil with shortages of food and other goods. Union leaders had explicitly targeted Parente in their complaints, blaming him for rising fuel costs. Parente, who in 2016 declared the era of political influence of Petrobras to be over, cited President Michel Temer's intervention to freeze prices as one of the reasons for his resignation. What are the implications of the changes in leadership for Petrobras' operation and political independence? What should investors expect from interim CEO Ivan de Souza Monteiro, who had served as CFO and was promoted almost immediately after Parente's departure? What can Petrobras do to boost investor confidence? What do the results of the June 7 pre-salt oil block auction say about the future of Brazil's oil and gas sector?

A Chris Cote, energy markets analyst at ESAI Energy: "Monteiro begins his work at the helm of Petrobras facing the same obstacles as Parente, but with greater scrutiny from all constituencies—the Brazilian public, the federal government and international investors. His goals are similar to Parente's—sell off money-losing assets and increase profits—but he will have to slow the pace of change and show he can listen to the public, which is against high fuel prices and privatization. This will further frustrate investors, who have already sunk the share price. The main problem is the refineries. With fuel prices capped by consumer demands and competitive U.S. imports, refinery profits are low; raise the price and you anger consumers and lose market share. This will require the government, not the company,

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TOP NEWS

OIL & GAS

Venezuela's Crude Exports to China May Hit Eight-Year Low

China is estimating that its imports of crude oil from Venezuela will be half the normal volume in July.

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RENEWABLES

Enel Commissions Peru's Largest Wind Farm

Enel invested some \$165 million in the Wayra 1 wind farm, which is located in the Marcona district of the Andean nation's Ina region. The facility has 42 wind turbines that generate in excess of 132 megawatts.

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OIL & GAS

Iguacel Tapped as Argentina's New Energy Minister

Argentine President Mauricio Macri dismissed Energy Minister Juan José Aranguren and replaced him with Javier Iguacel, who previously headed Argentina's National Highway Authority.

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Iguacel // File Photo: Argentine Government.

OIL AND GAS NEWS

Venezuela's Crude Exports to China May Hit Eight-Year Low

Venezuela's spiraling economic situation may result in the country's lowest crude oil exports to China in almost eight years, Reuters reported on Sunday, citing two Chinese senior officials with knowledge of shipping data. Venezuela's largest creditor and customer anticipates crude oil imports from Venezuela to be half the normal volume in July, according to the officials, as only one supertanker transporting two million barrels of Venezuelan oil is expected next month. The number is well below this year's highest monthly amount of 11 million barrels in March, according to Thomson Reuters Eikon data, and would represent the lowest monthly import volume to China since 2010. Venezuela's state-run PDVSA's production has declined as renewed U.S. sanctions in May continue to squeeze President Nicolás Maduro's budget, reportedly hitting exports to PetroChina as of April, according to the wire service. The state-run Chinese company received an average of 400,000 Venezuelan barrels a day in 2016 and 2017, in exchange for loans. China's financial support to the crisis-stricken South American country has amounted to \$62 billion over the past decade, partly as funding for PDVSA operations, according to a report by the Center for Strategic & International Studies published in April.

Colombia's Ecopetrol to Pay Off \$156 Mn in Loans Early

Colombian state-run oil company Ecopetrol said Wednesday that it will pay off \$156 million in loans early. The loans were made in 2013 with international banks and guaranteed by the U.S. Export-Import Bank, the company said, adding that the loans had been subject to a payment schedule lasting until 2023. The loan

agreements allow Ecopetrol, which is led by CEO Felipe Bayón, to pay off all principal on the loans early, without penalty. "The Ecopetrol Group is able to make this prepayment as a result of its solid cash position of 16.6 billion [Colombian pesos] as of the first quarter



Bayón // File Photo: Ecopetrol.

of 2018," the company said in a statement. "This position is projected to remain robust, allowing the company to address crude price volatility scenarios and be prepared to seize any opportunities that might arise for inorganic growth." In 2016, Ecopetrol also paid off a loan early, paying \$340 million that was not due until 2024, Finance Colombia reported.

Argentina's Macri Dismisses Energy Minister Aranguren

Argentine president Mauricio Macri dismissed his energy minister, Juan José Aranguren, on June 15 as his government deals with the political repercussions of a currency volatility crisis beginning in April, Clarín reported. The surprising dismissal sparked uncertainty on the prospect of tariff adjustments, energy contracts and the liberalization of the oil market, according to analysts at Puente, Bloomberg News reported. At the G20 energy ministers' meetings in Bariloche last week, Aranguren told Clarín that the expected increase to service fees had not yet been defined. Aranguren, who previously served as the president of Shell in Argentina, was replaced by Javier Iguacel, a former director of Argentina's National Highway Authority. Aranguren's dismissal added to a round of removals that shook up the Macri administration in recent weeks. Luis Caputo

NEWS BRIEFS

Odebrecht in Talks With LyondellBasel for Sale of Braskem Stake

Brazilian conglomerate Odebrecht has begun negotiations with Netherlands-based chemical company LyondellBasel to sell Odebrecht's entire stake in Braskem, Latin America's largest petrochemical company, Braskem announced June 15. LyondellBasel valued Braskem at \$11.4 billion, Reuters reported in May. Negotiations remain in the early stages, and the transaction is subject to "due diligence, negotiation of definitive agreements and obtaining corporate approvals," Braskem said.

Britain's Echo Energy Alters Plans for Argentina Oil Exploration Project

Britain-based Echo Energy is substituting its plans in Argentina to drill the fourth and final well at its Los Joaquines project in Fracción C to instead explore the Cso 111-I well in its Fracción D and Laguna de Los Capones assets, the upstream oil and gas company announced June 15. The decision to accelerate gas exploration in Fracción D was made after a successful well test there last week. The company calculates a best-case gross prospective resource of 18.8 bcf of gas, the statement said.

Auction for Eletrobras Distribution Subsidiaries Planned for Late July

Brazil's National Economic and Social Development Bank (BNDES), which is managing the privatization process of six distribution subsidiaries of Brazilian electricity giant Eletrobras, announced June 15 that the auction for the subsidiaries is scheduled for July 26. The government attempted to begin the sale last year, but it was delayed several times, Reuters reported. Eletrobras employees protested the plans for privatizing Eletrobras with a 72-hour strike last week.

was recently appointed to head the central bank, and economist Dante Sica is taking over as minister of production after Francisco Cabrera's dismissal was announced alongside Aranguren's, Clarín reported.

Uruguay to Hold Bidding Process for Offshore Oil Blocks

Uruguay is planning to hold a permanent bidding process for offshore oil blocks, the country's minister of industry, energy and mining, Carolina Cosse, told Reuters June 14 in an interview at the G20 meeting of energy ministers in Bariloche, Argentina. The country will offer available blocks up for bidding on a permanent basis and under established conditions, instead of organizing separate auctions with different rules, Cosse said. The move came after Uruguay's first oil auction in seven years, held in April, was unsuccessful. The country received no offers for 17 open blocks in three offshore basins, Uruguay's El País



Cosse // File Photo: Uruguayan Government.

reported. Cosse told Reuters that the failed bidding round was in large part due to memories of the 2014 crash in oil prices, which in turn deterred investors from bidding in little-explored areas this year. The fact that several companies—including Royal Dutch Shell, BP and ExxonMobil—have not found hydrocarbons during recent exploration in Uruguay was also a factor, Reuters reported. Uruguay is the latest South American country to announce its move toward permanent offshore auctions, following the steps of Colombia and Brazil, who envision similar processes in the future, Colombian newspaper La República reported.

RENEWABLES NEWS

Enel Green Power Commissions Peru's Largest Wind Farm

Italy-based renewables corporation Enel Green Power became Peru's principal renewable energy generator following the commissioning of Wayra I, the South American country's largest wind farm, the company announced

June 14. Enel invested some \$165 million in the wind farm, which is located in the district of Marcona, in the Ina region. The facility consists of 42 wind turbines that generate more than 132 megawatts, adding to Enel's seven hydro plants and bringing the multinational's total installed capacity in Peru to almost 1.1 GW. The newly commissioned plant is expected to yield around 600 GWh per year, the company said. "Enel Green Power has now completed and connected to the grid around 94 percent of the capacity awarded in Peru's fourth public renewables tender," Antonio Cammisecra, head of

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to provide a tax adjustment cushion (similar to what Mexico's finance ministry has done since the January 2017 gasolinazo.) At the same time, Monteiro will have to resume privatization, but potential refinery investors are wary of the fraught political environment. There is no easy path. Offshore, things look better. Investors are willing to let Petrobras' production dip in the near term as it farms out more of its future growth and concentrates on fewer, higher return areas. And politicians are happy because money is pouring in from many successful auction rounds. The June 7 auction shows that ExxonMobil and Equinor (formerly Statoil), among others, are committed to Brazil's offshore sector. In the past year, they have gained significant assets and will drive Brazil's crude oil production growth next decade."

A Francisco Ebeling Barros, independent Berlin-based energy consultant: "One of the most concerning facts concerning Petrobras' crisis that culminated in Parente's resignation is that it made the company lose an impressive \$35 billion in market value in less than half a month. For me, this signals that Parente's wish that Petrobras should be armor-clad against political influence is deeply misplaced. Why so? As it is known, Petrobras is a one-of-a-kind national oil company, since it is a true state/markets hybrid. And this is very difficult to change due to Petrobras' symbol as a landmark of previous

national-developmental administrations in the country. In that context, to protect Petrobras from such violent upswings and downswings in value, the next president must fully embrace Petrobras' contradictory double nature. The next president will have

“The medium path—neither states nor markets—is much more likely to boost investors' long-term confidence.”

— Francisco Ebeling Barros

to sit down with the other ministers and negotiate a pricing formula that it is neither fully market-led—as thoughtlessly defended by the likes of the Brazilian Petroleum Institute (IBP)—nor fully defined by the needs of the Brazilian economy, whose transportation system unfortunately suffers from carbon lock-in. Petrobras and the rest of the government should find a formula akin to Luiz Carlos Bresser-Pereira's exchange rate 'industrial equilibrium' (which he opposes to the market equilibrium), which is suited to adequately remunerate the company, but which also ensures that the country's economy can pay for its fuels bill, without out of control inflationary pressures. In other words, the medium path—neither states nor markets—is much more likely to boost in-

Continued on page 6

Enel's global renewable energies division, said in a statement. Peru seeks to get 5 percent of its energy from unconventional renewables such as wind and solar by 2023, a relatively modest goal in comparison to the target of 20 percent by 2025, which Chile, Colombia and Ecuador have announced, *El Comercio* reported in March. As of 2017, Peru generated just 2.7 percent of its energy from such operations, according to Sociedad Peruana de Energías Renovables, a nonprofit association, *El Comercio* reported.

POLITICAL NEWS

Rule of Law 'Virtually Absent' in Venezuela: U.N. Rights Office

Venezuela has failed to hold accountable the perpetrators of human rights violations, including hundreds of questionable killings, cases of torture and arbitrary detentions, the Office of the United Nations High Commissioner for Human Rights said in a report released Friday. The report documents what it calls "credible, shocking accounts of extrajudicial killings in the course of purported crime-fighting operations carried out since 2015." Between July 2015 and March 2017, the office of Venezuela's attorney general had recorded the killings of 505 people during such operations, known as "Operations for the Liberation of the People," the U.N. rights office said. "Witness accounts suggest a pattern: raids in poor neighborhoods conducted to arrest 'criminals' without a judicial warrant; the killing of young men who fit the profile, in some cases in their homes; and finally security forces tampering with the scene so that the killings would appear to have occurred in an exchange of fire," the rights office said in releasing the report. Accounts by victims raise questions about whether the operations were actually meant to fight criminal groups, or whether they actually served as a way for the government to "showcase alleged results in crime reduction," the office said. "The failure to hold security forces accountable for such serious human rights violations suggests that the rule of law

ADVISOR Q&A

Will Colombia's New President Deliver on His Promises?

Q **Iván Duque, a conservative former senator, on Sunday won Colombia's presidential runoff election, defeating former leftist guerrilla and Bogotá mayor Gustavo Petro. To what can Duque, who is to take office in August, attribute his victory? What does his election mean for the peace accord between Colombia's government and the FARC and for future peace in the country? How much influence will Duque's mentor, former President Álvaro Uribe, have in Duque's government? How will Colombia's economy and businesses fare under Duque? How well will Duque be able to work with Colombia's Congress?**

A **Peter DeShazo, visiting professor of Latin American, Latino and Caribbean Studies at Dartmouth College and former deputy U.S. assistant secretary of state for Western Hemisphere affairs:** "Iván Duque's ample margin of victory on Sunday came as no surprise. Colombian voters saw him as the candidate more likely to promote security and grow the economy. His association with former President Uribe was a net plus that contrasted with concerns on the part of many voters that Petro and the left represented a threat to stability. The specter of Colombia's imploded neighbor, Venezuela,

is virtually absent in Venezuela," U.N. High Commissioner for Human Rights Zeid Ra'ad Al Hussein said in a statement. "For years now, institutional checks and balances and the democratic space in Venezuela have been chiseled away, leaving little room to hold the state to account. The impunity must end." Zeid recommended that the U.N. Human Rights Council create an inquiry commission to further probe the situation in Venezuela. The country's

weighed heavily on the election. In the end, Colombia's conservative political tradition prevailed once more. Duque will assume office with the advantage of what should be solid majority support in Congress. He will need to make good use of it—the challenges facing his government are large. A central objective should be to establish effective state presence throughout the country, especially in areas where coca cultivation is exploding and where civil conflict was in the past most acute. That means quality policing, effective rule of law, access to justice, roads, schools, health clinics and a commitment to reduce the yawning rural/urban divide. Anti-corruption efforts must be more than a slogan. Economic policy should take aim at reducing income and wealth inequality. Scrapping the controversial peace deal with the FARC would be a mistake—and Duque appears to be walking back that idea. On this issue and more generally, if Duque is serious about building national consensus, his vision needs to transcend the constraints of *uribismo*."

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

government has not granted the U.N. Human Rights Office access to the country despite its repeated requests, the office said. Zeid added that there is "a strong case" for the International Criminal Court to get more deeply involved in Venezuela. The report released today by the U.N. Human Rights Office also described dire circumstances with regard to health care and a lack of food in Venezuela. "Families are having to search for food in rubbish bins. By some

NEWS BRIEFS

Another U.S. Embassy Employee in Cuba Contracts Mystery Illness

Doctors at the University of Pennsylvania confirmed that a U.S. Embassy employee in Cuba is sick with a mysterious illness, the Associated Press reported Thursday. The case brings the total number of affected workers there to 25 since 2016. Diplomats in Cuba have reported hearing bizarre noises in so-called "sonic attacks." The most recent confirmation comes after U.S. officials demanded last week that the Cuban government define the source of such health incidents, with symptoms similar to brain trauma, the AP reported. Cuba denies any involvement in the incidents.

Deforestation Accelerates in Brazilian Savannah: Environment Ministry

Deforestation in the Cerrado region, Brazil's savannah, increased to 7,408 square kilometers last year after a 43 percent fall in 2016, the Brazilian environment ministry said on Thursday. The savannah, which covers around 25 percent of the South American country, is almost entirely covered by tree formations. The region's vegetation is a key factor in Brazil's efforts to limit global warming, Reuters reported.

Peru's Congress Grants Vizcarra Special Legislative Powers

The Peruvian Congress on Tuesday granted special legislative powers to President Martín Vizcarra for 60 days on matters relating to Peru's economy, competitiveness, taxes, anti-corruption efforts, the modernization of the state and the protection of people vulnerable to violence, *Semana Económica* reported. The Vizcarra administration requested the special powers with the aim of promoting economic growth and battling tax evasion, EFE reported.

measures, 87 percent of the population of Venezuela is affected by poverty, with extreme poverty at 61.2 per cent and 1.5 million people having fled the country since 2014," said Zeid. The report adds that at least 280 people have been "arbitrarily deprived of their liberty" in Venezuela for expressing political opinions, for exercising their human rights or because they were seen as a threat to the government. The U.N. report was compiled following approximately 150 interviews and meetings with Venezuelans, including with at least 78 victims or witnesses, in addition to information from a variety of sources, the rights office said. The report was released Friday before dawn in Venezuela, and there was no immediate public comment on it from Venezuela's government, the Associated Press reported.

ECONOMIC NEWS

Mexico's Central Bank Increases Interest Rates

The board of Mexico's central bank unanimously decided on Thursday to raise its benchmark interest rate by 25 basis points to 7.75 percent in its last meeting before the country's July 1 presidential election, *El Universal* reported. The Bank of Mexico's move—the first in three meetings—came in response to the depreciation of the peso, which recently hit its lowest level against the U.S. dollar in more than a year, according to *The Wall Street Journal*. The Mexican currency has weakened in part because of the U.S. Federal Reserve's move to raise interest rates earlier this month. Another major reason behind the peso's loss is the widespread uncertainty regarding trade tensions with the United States, *El Universal* reported. However, Banxico noted in a statement that the United States' new tariffs on steel and aluminum would have a "limited" and "short-lived" impact on inflation. Still, "some of the upside risks to inflation identified by the central bank have started to materialize," the statement said. The spike in international energy prices, alongside the weaker currency, may cause

inflation to fall at slower rates than previously expected. Inflation was 4.5 percent in May, and Banxico's target is 3 percent, *The Wall Street Journal* reported.

IMF Approves \$50 Billion Argentina Loan Package

The International Monetary Fund on Wednesday approved a \$50 billion "stand-by arrangement" aid package for Argentina to help the country as it faces inflation, a weakening of the peso and budget deficits, the lender announced in a statement. Argentine officials reached an agreement with IMF officials earlier this month on the aid package. The South American country's government is planning to draw on \$15 billion of the package, half of which it intends to use for budget support. The remaining \$35 billion "will be made available over the duration of the arrangement, subject to quarterly reviews by the Executive Board," the IMF said. The lender's managing director, Christine Lagarde, praised the efforts of President Mauricio Macri's government. "For the past two and a half years, Argentina has been engaged in a systemic transformation of its economy, including deep changes to foreign exchange markets, subsidies, and taxation, as well as improvements to their official statistics," Lagarde said in a statement. "Nonetheless, a recent shift in market sentiment and an ill-fated confluence of factors have placed Argentina under significant balance of payments pressures." Lagarde added that Argentine officials' intended policies "seek to address longstanding vulnerabilities, ensure that debt remains sustainable, reduce inflation, and foster growth and job creation, while reducing poverty." Macri's decision to seek assistance from the IMF has led to controversy and street protests in Argentina, where many see the lender as having worsened the country's 2001-2002 economic crisis. On Wednesday, Lagarde told reporters that the IMF approached the agreement with Argentina's government with "great humility and great attention to the domestic situation of all the people of Argentina," *Agence France-Presse* reported.

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vestors' long-term confidence and to ensure Petrobras' future than Parente's outdated neoliberal adventures."

A **John Albuquerque Forman,** director of J Forman Consultoria in Rio de Janeiro and former ANP director: "The truckers'

strike or lockout by transportation companies revolved around complaints about the price for diesel and the fact that Petrobras was revising prices on a daily basis, making freight calculations very difficult. Parente at first reacted by promising a 15-day freeze on prices. That led to a strong reaction—if you can freeze prices, you can also lower them. The government understood the problem as related to prices and acted on that, promising to lower refinery prices. That is when Parente left. The problem, though, was not diesel prices, but rather the freight rate, as the result of an excess of independent truckers and the reduction of cargo due to the economic slowdown. The large number of independent truckers is the result of easy and very cheap financing provided by previous governments. The government's reaction was to establish minimum prices for different trucks and routes. These proposed solutions did not please truckers, transportation companies or users. Several different tables for the minimum price have been proposed, without success. Now all the government agencies, from the president on down, are declaring and guaranteeing that there will be no meddling with Petrobras'

price policies. What they are looking for is an 'ideal' interval for the announcement of price changes, still based on international prices, to be announced. The ANP regulatory agency has taken the initiative to start a public hearing to create such intervals.

“If you can freeze prices, you can also lower them.”

— John Albuquerque Forman

Public consultation has started, but there is no formal proposal to be discussed. Society, hopefully, will indicate the best way to go forward. Petrobras will not suffer, as the subsidies given by the government will be reimbursed. The problem is that diesel has a 10 percent content of biodiesel, which is not affected by the subsidy. Also, Brazil today imports about 27 percent of its diesel consumption. Importers will also receive a reimbursement for the difference in price. But they are claiming that the reference price given by ANP is lower than the international quotations. This implies that Petrobras will have to import in their place. The subject will remain under discussion for the near future, before a final solution can be found."

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

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