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FEATURED Q&A

Is Brazil Poised to Become a Major Global Oil Exporter?

Brazil offers a strong appeal to oil and gas investors in its pre-salt oil fields, Cleveland Jones writes below. // File Photo: Petrobras.

Q **Brazil's oil production will grow by approximately 360,000 barrels per day this year, as compared to 2018, setting the highest production growth rate for the country in 20 years, according to the International Energy Agency's latest short-term energy outlook report. What are the reasons behind the IEA's production estimates? Which factors could derail the positive outlook, and how likely are they to occur? How strong is the investment climate like for Brazil's oil and gas sector, and how big of a role will the private sector play in boosting crude output? What would increased production in Brazil on that scale mean for global oil supply and price dynamics?**

A **Jorge León, member of the Energy Advisor board and energy economist at BP:** "Since the oil price collapse in late 2014 and Brazil's deep economic recession, a number of important oil projects have been canceled, postponed and/or redesigned. In fact, average crude production in 2018 was marginally lower than in the previous year on the back of heavy maintenance and delayed start-up of several projects. However, 2019 looks like the year when Brazilian production will finally increase significantly, adding almost 400,000 bpd as a number of new production units are anticipated to ramp up. Moreover, after the United States, Brazil will provide the largest contribution to non-OPEC's expansion in 2019. Most of the additional barrels in Brazil are anticipated to come from several pre-salt fields in the transfer-of-rights area that the government granted Petrobras in 2010. Particularly in the Búzios field, Petrobras expects to reach 360,000 bpd by the end of 2019. Growing Brazilian production comes at the time when the oil market

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ELECTRICITY

Venezuela's Power Restored After Outage: Maduro

At least 20 people have died from causes related to massive power outage that left crisis-stricken Venezuela without electricity for nearly a week.

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OIL & GAS

AMLO Denies Delay of Dos Bocas Refinery Project

Mexican President Andrés Manuel López Obrador said the construction of the Dos Bocas refinery in Tabasco State will continue as planned and a tender may be announced as soon as next week.

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OIL & GAS

Incumbent Wins Race for Governor of Neuquén

Omar Gutiérrez, the governor of Argentina's oil-rich Neuquén province, handily won re-election on Sunday with more than 39 percent of the vote. Neuquén is home to the Vaca Muerta formation, one of the world's largest shale oil and gas reserves.

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Gutiérrez // File Photo: Argentine Government.

OIL AND GAS NEWS

Gutiérrez Re-Elected Governor of Oil-Rich Neuquén Province

Omar Gutiérrez, the governor of Argentina's oil-rich Neuquén province, handily won re-election on Sunday with more than 39 percent of the vote, La Nación reported. Neuquén is home to Argentina's Vaca Muerta formation, one of the world's largest shale oil and gas reserves. In defeating a candidate allied with former President Cristina Fernández de Kirchner, Gutiérrez's victory likely helped assure nervous investors that economic recession and high inflation would not upset the business-friendly status quo, according to the report. Argentina is seeking to double oil and gas production in the sparsely populated region, aiming to pump 260 million cubic meters of gas daily within five years. Although not a member of President Mauricio Macri's Cambiemos Party, Gutiérrez is considered to be aligned with the administration. The government is reportedly looking to implement two new measures that seek to boost natural gas production in the upcoming winter months by replacing imports of liquefied natural gas, or LNG, and pushing for the construction of a 1,000-kilometer pipeline to increase Vaca Muerta's transportation capacity, Clarín reported, citing unnamed sources. The measures will not include subsidies, according to the report, in contrast with past policies. Instead, there would be a "special price" for gas generated locally during the winter season in order to increase production to the extent of substituting LNG imports during that period.

Colombia Signs Oil Contracts With Shell

Colombia's government announced Monday that it has signed two exploration and production contracts with Shell in offshore areas of the Caribbean Sea, Reuters reported. The contracts require the U.K.-based company to make initial investments of $100 million, with the potential to grow to $650 million if exploration continues. "The signing of these contracts revalidates the confidence of oil investors in exploration of our offshore resources in the Caribbean," National Hydrocarbons Agency President Luis Miguel Morelli said in a statement. Colombia has observed several years of declining oil and gas production and weak prices. The administration of conservative President Iván Duque, which took office last year, has sought to increase output. The timing could be good, as prices for its crude oil have risen in the face of an ongoing crisis in neighboring Venezuela. U.S. Gulf refiners have been bidding up prices for Colombian crude due to sanctions on Venezuelan imports, Bloomberg News reported last week. Executives at Ecopetrol, Colombia's state-controlled oil company, say the company is benefiting, as it is has been able to reliably supply U.S. customers that formerly purchased Venezuelan oil.

López Obrador Says Refinery Project Will Continue as Planned

Mexican President Andrés Manuel López Obrador said Tuesday that the construction of the Dos Bocas refinery in Tabasco State will continue as planned, hours after a government official said the project had been delayed, Expansión reported. Deputy Finance Minister Arturo Herrera told the Financial Times earlier that day that the $2.5 billion the administration had earmarked for the construction of the refinery would be instead funneled into state oil company Pemex. "We will not authorize [construction] until we have a final figure that is not very different from the original $8 billion," Herrera said, referring to the estimate of the project's total cost, which has been repeatedly revised upwards. Herrera added that the planned investment could go to "exploration and production." Hours later, López Obrador contradicted the minister, saying the project had a budget and that it was "very possible" that a tender would be announced on March 18. "It's going very well, and the refinery will be constructed. It will be done in three years, and

NEWS BRIEFS

ConocoPhillips Wins Award Against Venezuela

The World Bank's arbitration body, the International Centre for Settlement of Investment Disputes, ruled last Friday that Venezuela must pay ConocoPhillips more than $8 billion to compensate for the 2007 expropriation of oil assets, Reuters reported. The ruling makes the Houston-based energy company the largest awardee to date among more than 20 international arbitration claims stemming from nationalizations in the OPEC member country. The award represents about 40 percent of the company's original claim, according to the report.

Bolivia Extends Brazil Gas Contracts Until 2024

Bolivian Minister of Hydrocarbons Luis Alberto Sánchez said Saturday that he is negotiating 10 commercial agreements with private companies in Brazil for the sale of up to 30 million cubic meters per day of Bolivian natural gas, La Razón reported. He also confirmed that the country's export contract with Brazil will be extended until 2024. Bolivia is looking to diversify its export markets, with potential plans for liquefied natural gas exports running through Argentine and Peruvian ports. [Editor's note: See related **Q&A** in the Feb. 8 issue of the Energy Advisor.]

Local Commission OKs Three PV Projects in Chile

The Environmental Assessment Commission of Chile's Antofagasta region last week approved three new solar photovoltaic projects totaling 215 megawatts, El Mercurio reported. In all, the projects will bring $203 million in investment. Antofagasta has 75 renewable energy projects in various stages of development, according to the regional energy ministry. Acciona, Victoria Solar and Mainstream Renewable Power will each develop one of the approved projects.

it will cost approximately $6 million," López Obrador said. Energy Minister Rocío Nahle on Wednesday said the bidding documents for the new refinery could be released as soon as next week. Maintenance contracts to get six aging refineries back up to 70 percent capacity will be issued later this year, she said. Investors may have welcomed the government's decision to delay the Dos Bocas refinery project, as they fear the new facility would be a burden that the indebted state company cannot afford.

POWER SECTOR NEWS

Venezuela's Power Completely Restored After Outage: Maduro

Venezuelan Information Minister Jorge Rodríguez said Wednesday that the country's nearly week-long national power outage has been completely restored, CNN reported. Reporters on the ground said many parts of Caracas indeed had electricity, but power had not been restored everywhere. A failure in a key substation in the center of the country went down last Thursday, damaging the national electricity grid and leaving 22 out of 23 states in sporadic darkness for more than six days. At least 20 people have died from causes related to the massive power outage, as machines in hospitals stopped working for lack of backup generators. Venezuelans started looting over the weekend, with photos posted on social media showing security forces arresting citizens who allegedly had broken into closed stores. Other photos show desperate residents fetching water from polluted rivers and drainage pipes. The power outage also affected state oil company PDVSA's already struggling exports, Reuters reported, citing sources. The firm had been unable to resume crude exports at its primary port by Monday, prompting it to launch a contingency plan to restore power to the José port, where several tankers holding PDVSA oil were stuck since the blackout began, according to Refinitiv Eikon data. Embattled President Nicolás Maduro claims the U.S.

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is filled with uncertainty. From the demand point of view, growing concerns about global economic deceleration have taken a toll on demand growth estimates. From the supply perspective, the recent OPEC+ agreement to cut 1.2 million bpd of supply is partially offset with strong non-OPEC supply growth. At the same time, the supply prospect for Venezuela and Iran remains fragile."

A **Cleveland Jones, researcher at the Instituto Nacional de Óleo e Gás/CNPq (INOG) in Brazil:** "Brazil is poised to finally begin making good on the longstanding expectations of higher oil production. The expected increase is to come from its pre-salt fields, where the P-76 rig began production in Búzios in February, and the P-68 (Berbigão), P-77 (Búzios) and P-70 (Sépia) rigs are to begin production this year. Unfortunately, Brazil's post-salt fields (Marlim, Roncador and others) in the Campos basin, which are declining at double-digit rates, will offset new production. Equinor's recent purchase of a 25 percent interest in the Roncador field raises the hope that its expertise in mature field revitalization may reduce or even reverse the production decline of this important field. Brazil offers a strong appeal to oil and gas investors—given the proven technology that allows very high production with very low costs—in its pre-salt fields, despite the deepwater setting. Santos basin production costs are trending toward $5/barrel, where more than 60 wells produce more than 10,000 barrels per day (bpd), and more than 20 produce more than 30,000 bpd. In the entire United States, only 27 wells produced more than 12,800 bpd in 2017. As Petrobras divests some assets, its share of production is decreasing, while major industry players asserted or reasserted their positions in Brazil at the last few multi-billion-dollar auctions of pre-salt and post-salt blocks, thus guaranteeing that their share will increase significantly in the future. That is good news for market diversification in Brazil and positions it to grow into a major world exporter in the next few years. However, despite huge recoverable resources in the pre-salt formation—estimated between 176 and 273 billion barrels—Brazil still has not embarked on a strategy to produce all those resources within this century, which would require a 10 million bpd target, and risks stranding much of those resources at the end of the oil age, even if 80 years away."

A **Lisa Viscidi, director, and Nate Graham, assistant of the Energy Program at the Inter-American Dialogue:** "The lion's share of production growth will come from the mammoth pre-salt fields in the Santos basin, where project delays contributed to a slight drop in Brazil's oil production in 2018. This decline was moderated by a rebound in the fourth quarter as some large platforms finally began production. In 2019 these projects will continue to ramp up, and four more major platforms are expected to come on line, including two with capacity of at least 150,000 bpd each that started production in February. Petrobras is planning another ten such vessels in the next four years, and the ANP expects Brazil's output to climb to 7.5 million bpd by 2030. Delays could occur. President Bolsonaro has expressed interest in changing pre-salt auctions to concession contracts, which in the long term would represent a more favorable investment framework but in the short term creates uncertainty about potential legal changes that could disrupt scheduled bid rounds. Still, private companies will substantially increase their role in Brazil's oil industry, providing capital and operational capacity to rapidly ramp up production. Petrobras CEO Roberto Castello Branco is planning to sell $26.9 billion worth of assets by 2023 as part of an aggressive divestment plan. The government is also planning the so-called transfer-of-rights auction—whereby Petrobras will sell up to 70 percent of its holdings in fields with an estimated 5-15 billion barrels of oil—later this

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government and the opposition are responsible for the power outages, alleging they sabotaged the Guri hydroelectric plant in southeastern Venezuela. Maduro's chief prosecutor, Tarek Saab, on Tuesday asked the Supreme Court to investigate opposition leader Juan Guaidó, whom more than 50 countries recognize as Venezuela's interim president, for his alleged role in the sabotage. On Wednesday, China offered to help restore power in the South American country, saying reports of the United States' alleged "cyber sabotage" were deeply concerning. Maduro's opponents say the massive failure was a result of more than a decade of corruption and mismanagement. "The power outage and the devastation hurting ordinary Venezuelans is not because of the USA," U.S. Secretary of State Mike Pompeo said in a tweet last week. He added, "No food. No Medicine. Now, no power. Next, no Maduro."

Mexico's CFE to Auction Optical Fiber Contract

Mexican state-owned utility CFE on Monday published the preconditions for an auction that will contract 50,000 kilometers of optical fiber network that will connect 8,535 locations, including schools, hospitals, public parks and federal buildings, to the Internet free of cost, El Universal reported. The auction for the 20-year contract to operate the network is open to international companies. The project is part of President Andrés Manuel López Obrador's goal of free and universal Internet access.

POLITICAL NEWS

Two Brazil School Shooters Kill Eight

Two gunmen on Wednesday morning opened fire at a school in Suzano, near Brazil's largest city of São Paulo, and killed at least eight people, five teenagers among them, Folha de S.Paulo reported. Guilherme Taucci and Luiz Henrique de Castro, aged 17 and 25 respectively, had been pupils at the school, and they apparently killed themselves before police arrived at the scene. Both grew up on the same street. One of them dropped out of the school after being bullied, his mother told the newspaper. Police say they found a revolver, a bow and arrow, and items that appeared to be explosives, BBC News reported. Another ten people, mostly students, were injured in the attack, and some remain in serious condition. Before entering the Raul Brasil school, the two killed the younger assailant's uncle, who owned a car rental agency where they stole a vehicle. The last major school shooting in Brazil happened in 2011, when 12 students were shot dead by a gunman in Rio de Janeiro. Police said the 1999 Columbine massacre in the United States

NEWS BRIEFS

Brazil President to Name New Washington Envoy Next Week: Report

Brazilian President Jair Bolsonaro is expected to name a new envoy to the United States when he visits Washington next week, Folha de S.Paulo reported Monday. The top candidates are diplomat Nestor Forster, a reported favorite of Foreign Minister Ernesto Araújo, and attorney Murillo de Aragão, a consultant and analyst with ties to the military wing of Bolsonaro's far-right administration. Meanwhile, the United States has yet to name its ambassador to Brazil, a post that has been open since P. Michael McKinley left in May last year to become senior advisor to the U.S. Secretary of State.

Haiti's October Elections 'Fictitious': Senator

The speaker of Haiti's Senate, Carl Murat Cantave, on Wednesday cast doubt on holding legislative and municipal elections in October this year, CMC reported. Earlier this week, Prime Minister Jean-Henry Céant announced that the elections would take place on the last Sunday of October. But Cantave told a news conference that talking about elections in October is "something fictitious." Violent protests last month calling for President Jovenel Moïse to step down led to rioting that paralyzed the country for days.

Brazil's Caixa Aims to Raise $3.88 Billion

Brazilian state-owned bank Caixa Econômica Federal is hoping to raise 15 billion reais ($3.88 billion) by listing four of its subsidiaries, chief executive Pedro Guimarães told newspaper O Globo in an interview Saturday. The bank aims to list shares of its insurance, asset management, lottery and credit card subsidiaries in the second half of 2019 or first half of 2020, Reuters reported. Brazilian President Jair Bolsonaro plans to privatize some state firms. inspired the Suzano school shooters, Reuters reported. Wednesday's shooting ignited debate among political leaders, with some saying armed teachers could have prevented the killings, while others said putting more guns on Brazil's streets will only lead to more deaths. [Editor's note: See related **Q&A** on security in Brazil in the Nov. 13 issue of the daily Latin America Advisor.]

U.S. Agrees to Halt TPS Termination for Hondurans

The administration of U.S. President Donald Trump on Wednesday agreed to temporarily halt the termination of humanitarian protections for 86,000 people from Honduras living in the country, the Los Angeles Times reported. The decision comes one month after the American Civil Liberties Union and other immigrant rights advocates filed a class-action lawsuit against the administration over its decision to end temporary protected status, or TPS, for immigrants from the Central American country, along with a smaller number of people from Nepal. In their lawsuit, the plaintiffs alleged that the decision by the Department of Homeland Security to end TPS was "motivated by racial animus." The Trump administration has announced the termination of TPS for 98 percent of those who have it, many from Latin America. A quarter million people from El Salvador have been living under TPS in the United States since 2001. Democratic Presidential Candidate Julián Castro has proposed a Marshall Plan for Central America to help stem the flow of undocumented immigrants, The Guardian reported.

Peru's Vizcarra Picks New Prime Minister

Peruvian President Martín Vizcarra on Monday tapped former culture minister and film actor Salvador del Solar as his new prime minister in a cabinet shuffle, Reuters reported. Del Solar, 48, replaces César Villanueva, who stepped down from the post last week amid falling approval ratings for Vizcarra's government. In addition to a successful career acting in television and movies, del Solar served as former President Pedro Pablo Kuczynski's culture minister for about a year, leaving the post in December 2017. Opposition leader Carlos Tubino, the spokesman for the Fuerza Popular party, said he respected the president's choice in selecting del Solar. "We are willing to dialogue and cease fighting," he said, according to state news agency Andina. Del Solar holds a bachelor's degree in law from the Pontificia Universidad Católica del Perú, as well as a master's degree in international relations from the Maxwell School at Syracuse University in New York. Vizcarra opted to keep Finance Minister Carlos Oliva and Energy and Mines Minister Francisco Ísmodes in their posts, but changed eight other ministers, including the production and agriculture ministers. The new cabinet has parity between women and men, with nine each, something that had only happened in 2013 during the presidency of Ollanta Humala, El Comercio reported.

ECONOMIC NEWS

Brazil, U.S. Reach Deal on Space Base

After almost 20 years of talks, Brazil and the United States have reached an agreement on technological safeguards that will allow the commercial use of the Alcântara Launch Center in Maranhão State, Folha de S.Paulo reported Tuesday. Officials are reviewing the final document, which Brazilian President Jair Bolsonaro is expected to sign during his first visit to Washington next week. In teaming up, Brazil would become a bilateral partner of the United States in the International Space Station project. The new safeguard agreement will protect U.S. technology used in rocket launches from Alcântara. The Brazilian base is attractive to foreign countries and companies because it is located close to the equator, which accounts for savings of 30 percent in fuel costs, while Brazil hopes to get a piece of the $300 billion-a-year space launch business.

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year. Three more pre-salt production-sharing rounds are also planned through 2021. As a result, Brazil will provide a growing source of non-OPEC supply which, along with U.S. shale, undermines the impact of production cuts by OPEC and Russia on global supply and prices."

A **Mark S. Langevin, director of BrazilWorks:** "Production in the ultra-deep offshore pre-salt fields will ramp up this year to surpass 2.5 million bpd behind the deployment of new floating production vessels in the Santos basin. Recently, Petrobras and its consortia partners deployed the P-67 and P-77 platforms, each with a capacity of 150,000 bpd, in the Lula and Búzios fields, and the comparable P-77 platform is scheduled for deployment later this year. More platforms are under construction for the pre-salt fields and benefit from more favorable local content requirements introduced last year. The National Petroleum and Biofuels Agency (ANP) is on track to administer the 16th concessionary round and sixth pre-salt production-sharing auction later this year, and the National Energy Policy Council (CNPE) recently scheduled a special blockbuster auction on Oct. 28 for a set of pre-salt oilfields originally granted to Petrobras under the 2010 transfer-of-rights agreement. The successive bidding rounds have institutionalized investment and attracted more than 48 exploration and production operators to Brazil in recent years to help push toward the five million bpd mark by 2027. The United States and Brazil will drill the largest increases in the hemisphere as production tumbles in Mexico and Venezuela. Deeper liberalization and the Petrobras divestment plan guarantee steady investment and technological cooperation to fuel a structural synergy between Houston and Rio de Janeiro that favors improved bilateral relations between the two largest oil and gas producers in the Americas. This outcome could reboot Brazilian foreign policy under the new government of President Jair Bolsonaro. However, the disruptions caused by his inner circle and last month's P-58 spill in the Campos basin remind industry leaders and policymakers that the positive outlook could be jeopardized by the president's disruptive demeanor, industry disasters and systemic failure to comply with environmental licensing commitments."

A **Ana Heeren, senior managing director, and Sebastián Maag, consultant, at FTI Consulting:** "Brazil has been on a consistent energy liberalization path that has spanned three different governments and generated competitive conditions, legal certainty and opportunities for international players to develop its vast oil and gas reserves. Current production estimates are a result of these improved conditions and increases in the number of high productivity wells and FPSOs, as well as several new project start-ups and production ramp-ups. The private sector will continue to have a large part to play in Brazil's production growth in the coming years, which will need to be propelled by the deployment of additional drilling vessels, production platforms, FPSOs in the pre-salt fields and, of course, new auction rounds. While the driving forces behind Brazil's production boom are unlikely to be reversed by the current administration, organized environmental activism and increased scrutiny from local authorities and independent entities could be a roadblock to the ambitious expansion of oil and gas production. This is particularly the case for unconventional and onshore projects. Whether activism and the regulatory ecosystem derail major projects and impact crude production will depend on how the private sector chooses to proactively engage with stakeholders to build goodwill around their operations and work toward common goals. Lastly, in terms of global market dynamics, Brazil's upward trend could pose a problem for efforts to rebalance the global oil market, as its growing output offsets OPEC's production cuts and declining output in Venezuela and Mexico."

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