LATIN AMERICA ADVISOR

ENERGY ADVISOR

A WEEKLY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

July 12, 2019

FEATURED Q&A

Will Peru & Bolivia's Energy Integration Plans Yield Results?

Peruvian President Martín Vizcarra and Bolivian President Evo Morales (L-R) met in the port city of Ilo in Peru last month. // Photo: Peruvian Government.

Q The presidents of Peru and Bolivia and members of their cabinets met in late June to discuss the interconnection of the countries' natural gas networks. Among the topics for discussion was a link between Bolivia and Peru's southern gas pipeline project to allow Bolivia to export liquefied natural gas through Peru to Asia. What are the most important areas for energy co-operation between Peru and Bolivia, and what are the main benefits for each country? What difficulties could stand in the way of the countries' energy integration plans? How will consumers and businesses in both countries be affected?

A Eleodoro Mayorga Alba, oil and gas consultant and former minister of energy and mines in Peru: "The three agreements recently signed between Peru and Bolivia regarding natural gas cooperation provide both countries a lot to gain. For Peru, the southern gas pipeline—now called the Integrated Gas Transportation System (SIT)—is energy infrastructure of critical importance. For Bolivia, accessing other markets—outside Brazil and Argentina, which now have their own abundant gas resources—is also of great urgency. Indeed, both require transportation infrastructure to reach new markets and make use of their gas reserves, which would otherwise remain in the subsoil. The first two agreements confirm YPFB's intention to initially supply the neighboring Puno market with liquefied petroleum gas (LPG) and natural gas (via a virtual pipeline and then with networks in neighboring cities). If these agreements provide Peruvians with a lower price supply, it is an impossible offer to refuse. However, the Puno market is rather small. The

Continued on page 3

TOP NEWS

OIL & GAS

PDVSA Continues to Struggle With U.S. Sanctions

Amid sanctions banning business with U.S. firms, Venezuelan state oil company PDVSA is turning to little-known buyers, including a Turkish firm with reported ties to Venezuelan President Nicolás Maduro.

Page 2

OIL & GAS

Brazil's Petrobras Begins Process to Sell Off Gas Fields

The Brazilian state oil company plans to sell off the Tucano Sul Polo block of four onshore natural gas fields and treatment facilities.

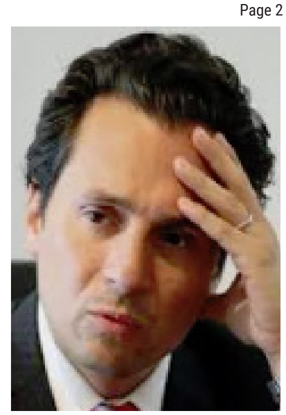
Page 3

OIL & GAS

Mexican Judge Issues Warrant for Ex-Pemex CEO

A Mexican judge issued an arrest warrant for Emilio Lozoya, who led state oil company Pemex from 2012 to 2016. Lozoya is accused of being involved in a corruption case in connection to Brazilian construction conglomerate Odebrecht.

Page 2



Lozoya // File Photo: Mexican Government.

OIL AND GAS NEWS

Venezuela's PDVSA Continues to Struggle With U.S. Sanctions

Venezuelan state oil company PDVSA has turned to little-known buyers including a small Turkish firm with ties to President Nicolás Maduro amid U.S. sanctions that ban it from selling oil to the United States, Reuters reported Monday, citing a PDVSA source. Since the administration of U.S. President Donald Trump imposed sanctions against Venezuela's oil sector in an effort to force Maduro to step down, PDVSA has been scrambling to find alternative export destinations. The company's exports plummeted by more than a fifth since the sanctions were imposed, according to company records and Refinitiv Eikon data. Its largest buyers today are Chinese and Indian companies. A small Turkish company called Grupo Iveex İnşaat has also started buying Venezuelan oil since April, following a decision by PDVSA's board that temporarily waived requirements for new customers and suppliers, including requiring at least two years of experience in the oil industry, according to three unnamed sources, Reuters reported. Iveex İnşaat was formed less than a year ago, and it was one of only five firms that bought Venezuelan upgraded crude from April through June, according to the report. The tiny Turkish company loaded four cargoes of PDVSA crude in April, equivalent to nearly 8 percent of Venezuela's oil exports, and nothing in May or June. Corporate records show Iveex İnşaat is owned by Miguel Silva, a Venezuelan businessman at the head of the Venezuelan Exporters' Chamber and a housing ministry commission in Maduro's administration. Neither PDVSA, Venezuela's oil industry, Iveex İnşaat or Silva responded to Reuters' requests for comment. In related news, the Trump administration is reportedly considering letting a waiver that allowed Chevron and other U.S. companies to continue working with PDVSA expire at the end of July, S&P Global reported Tuesday, citing unnamed sources. The move could further accelerate the decline in Venezuela's oil production, the U.S. Energy Information Administration said. Meanwhile, concerns over the humanitarian consequences of the U.S. sanctions against Venezuela have been rising, according to a new study by Venezuelan economist Francisco Rodríguez for New York-based brokerage Torino Capital, the Financial Times reported Sunday. U.S. financial sanctions are associated with a 797,000 barrel per day (bpd) drop in Venezuela's oil production, worth about $16.9 billion a year, according to the study. Rodríguez warned against the "disastrous consequences" of such financial strains in a country that barely grows one-third of the food it needs. "We're going to see famine in Venezuela," he said. However, U.S. officials have said the sanctions are not primarily responsible for Venezuela's demise. "Oil production has been declining for many years, and the steady decline cannot be explained by the sanctions, a senior U.S. official told the Financial Times, instead blaming "corruption, mismanagement, lack of investment and departure of trained engineers … exacerbated by the lack of, or an interrupted supply of, electricity."

PDVSA's exports have dropped by more than a fifth since the sanctions were imposed in January.

Arrest Warrants Issued for Ex-Pemex CEO, Relatives

A Mexican judge has issued arrest warrants for the former chief executive of state oil company Pemex, Emilio Lozoya, three of his family members and one other person in connection with a corruption case involving Brazilian construction conglomerate Odebrecht, Mexico's attorney general's office said Friday, Reuters reported. The Finance Ministry said in May that it had presented the attorney general's office with three charges against Lozoya for "acts of

NEWS BRIEFS

Environmentalists Slam E.U.-Mercosur Trade Deal

The recently announced agreement between the European Union and the South American Mercosur trade bloc, which includes Brazil, Argentina, Uruguay and Paraguay, has come under fire from environmentalists, the Financial Times reported Tuesday. Advocates claim the slashing of agricultural tariffs will drive a surge in Brazilian cattle ranching, one of the factors considered to be behind growing levels of deforestation in the Amazon rainforest. Advocacy group Fern estimates cattle ranching is responsible for as much as 80 percent of deforestation in the Amazon.

Indigenous Protesters Take Peruvian Pipeline

Some 400 indigenous protesters armed with spears took over an Amazonas Region station along a pipeline owned by Peruvian state oil company Petroperú on Saturday, brining operations to a halt after cutting electricity to the facility, the company said, Reuters reported. The incursion occurred in the early hours of Saturday morning when the station had several security officers on site. Protesters are demanding more benefits for what they call oil exploitation in the South American country.

Deal with E.U. to Boost Brazil's Ethanol Exports

Brazilian sugar cane industry association UNICA expects ethanol exports to the European Union to increase under a new deal reached with the Mercosur trade bloc, which includes Brazil, Renewables Now reported July 4. The agreement removes tariffs for 562 million liters of ethanol from Brazil every year and lowers tariffs for an additional 250 million liters. This, in addition to zero tariffs on sugar, could bring the value of annual E.U. imports from Brazil to nearly 2 billion reais ($521 million), up from 600 million in previous years, UNICA said.

corruption" when he was the head of Pemex from 2012 to 2016. The case was opened in 2017, but it's not until now that "we have obtained the arrest warrants that will now likely bring those involved to justice," the attorney general's office said in a statement, Reuters reported. The arrest warrants are for Lozoya, his wife, Marielle Eckes, his sister, Gilda Lozoya, his mother, Gilda Austin, and Nelly Aguilera, a real estate tycoon, the wire service reported, citing an unnamed government source. The office added that Interpol had issued a red notice for all five people, which indicates a request to law enforcement around the world to locate and provisionally arrest a person pending extradition or surrender. Lozoya and his sister are facing separate charges for alleged involvement in another bribery scheme with links to Pemex. He has denied wrongdoing, saying in an open letter last month that he was a victim of "political persecution" and a "media campaign," Notimex reported. [Editor's note: See related **Q&A** in the June 7 issue of the Energy Advisor.]

Petrobras Begins Process to Sell off Natural Gas Fields

Brazilian state oil firm Petrobras has begun the process of selling off the Tucano Sul Polo block of four onshore natural gas fields and treatment facilities, the company said in a filing on Monday, Reuters reported. Petrobras plans to sell 100 percent of its stakes in the four fields, which are located in the northeastern state of Bahia, according to the statement, which added that the move is part of the company's strategy of "optimizing" its portfolio, Reuters reported. Petrobras also said Monday that it had reached a settlement with the country's antitrust regulator, CADE, to sell natural gas transportation and distribution assets, S&P Global reported. Under the deal, Petrobras can relinquish a 51 percent stake in Transportadora Brasileira Gasoducto Bolívia-Brasil, or TBG, a midstream company that imports a significant fraction of Brazil's gas supply from Bolivia, according to the report. It also includes the sale

FEATURED Q&A / Continued from page 1

most outstanding is the third agreement: to join efforts and take forward a pipeline project that not only meets the needs of Peru's domestic energy market but also allows the construction of new projects, such as fertilizers or a new LNG plant, for exports to Asian markets. It is obvious that a higher volume transported by pipeline corresponds to a lower tariff and, therefore, the possibility of developing a greater demand (both internally and internationally. Certainly, there are a number of issues to be decided, particularly the financing of investments and the development of an adequate regulatory framework, but the economic rationality is there."

A **Francesco Zaratti, energy analyst, columnist and former advisor to ex-Bolivian President Carlos Mesa:** "The changes in the regional gas market—as a result of Vaca Muerta's shale gas, pre-salt in Brazil and abundant and cheap LNG—suggest that Brazil and Argentina won't be reliable markets in the future and, consequently, that it's necessary to look to other destinations for Bolivia's gas. In this context, three letters of intent, with different scopes, were announced during the binational encounter between Bolivian and Peruvian ministers. The first—more political than economic—seeks to extend the domiciliary network of the border town of Desaguadero to the adjacent Peruvian city. The supply is carried out with LNG tanks, which travel more than 800 kilometers from Santa Cruz de la Sierra. Next, liquefied petroleum gas (LPG) would be sold to the border Puno Department, with a bottler facility to be installed there. The LPG would arrive in cisterns from the south of Bolivia (1,200 kilometers away). Likely, the real business will be transportation as well as the possible deactivation of existing contraband, depending on the price. Finally, the most ambitious and chimerical project: the export of LNG overseas, something that Evo Morales opposed in 2000. Large investments are required, given that there are no facilities in the Ilo port for such a business nor a gas pipeline to transport gas from the south of Bolivia to the port. Moreover, Bolivia no longer has sufficient gas reserves, and the project's costs would bring few gains for the country. In sum, it's a project that only provokes indifference, if not hilarity."

A **Pablo de la Flor, executive director of Sociedad Nacional de Minería, Petróleo y Energía (SNMPE) in Lima:** "The agreements that both governments signed represent an important step in the agenda for binational integration. They are three documents that set forth guidelines to advance the design and execution of technical studies and other measures from which energy integration can be promoted. However, the final result will depend on the progress of

> **"The agreements that both governments signed represent an important step in the agenda for binational integration."**
> — Pablo de la Flor

the implementation of such commitments. It's important to note that Peru has been promoting mass consumption of natural gas, having scheduled additional distribution in seven regions, including Puno, at the border with Bolivia. Hence the need to have clarity about the compatibility of this initiative and the provisions of the agreement with Bolivia regarding the distribution through home gas networks in the border areas of Puno. With regard to the deal that would allow for the commercialization of LGP from Bolivia in southern areas, we should highlight that, to date, there are sporadic imports of LGP in bulk from that country, in addition to contraband bottled LGP. In this

Continued on page 6

of 10 percent in Nova Transportadora do Sudeste, a midstream firm with more than 2,000 kilometers of pipeline connection the states of Rio de Janeiro, Minas Gerais and São Paulo, as well as of a 10 percent stake in Transportadora Associada de Gás, or TAG, which owns a separate network of pipelines of more than 6,500 kilometers in length. “Petrobras is firmly committed to exiting the natural gas distribution business,” CEO Roberto Castello Branco said in a statement on Monday. “Our team is working intensively to conclude negotiations in the shortest time possible,” he added. [Editor’s note: See related **Q&A** in the June 14 issue of the Energy Advisor.]

Colombia State Oil Company Announces New Discovery

Colombian state-owned oil company Ecopetrol on Monday announced it had discovered oil in northeastern Colombia, the second find in the area since 2017, Canal RCN reported. The well, dubbed Boranda-2, is located in the same platform as Boranda-1, a discovery reported two years ago near the Rionegro municipality in Santander Department. During initial tests, the well registered an average daily production of 960 barrels of oil, Ecopetrol said in a statement, Reuters reported. Ecopetrol jointly owns the block with Canada’s Parex, which operates it. “This finding is part of Ecopetrol’s strategy to increase reserves, which includes as one of its focuses exploring areas near production fields,” said Alberto Consuegra, executive vice president at Ecopetrol, the wire service reported. Colombia currently registers proven reserves of 1.96 billion barrels of oil, equivalent to around 6.2 years of consumption. [Editor’s note: See related **Q&A** in the May 24 issue of the Energy Advisor.]

> **“This finding is part of Ecopetrol’s strategy to increase reserves...”**
>
> **— Alberto Consuegra**

ADVISOR Q&A

How Revolutionary is the E.U.-Mercosur Trade Agreement?

Q After 20 years of on-and-off again talks, the Mercosur trade bloc, consisting of Brazil, Argentina, Uruguay and Paraguay, and the European Union have reached an agreement to strengthen commercial ties. The deal would form one of the world’s largest free trade areas and includes the elimination of nearly 90 percent of tariffs on both sides. How significant is the Mercosur-E.U. trade deal, and what are its most important provisions? Which sectors in the South American countries stand to gain or lose the most from the agreement? What challenges will the deal face before its final approval, and to what extent could presidential results in Argentina and Uruguay in October affect its implementation?

A Shunko Rojas, former undersecretary of international trade at the Argentine Ministry of Production: "The Mercosur-E.U. Agreement (MEUA) constitutes the first modern and comprehensive agreement concluded by Mercosur countries, and their most important decision on integration into the global economy in the last 25 years. The European Union, in turn, becomes the first economy to achieve preferential trade agreements with all Latin American countries, a goal that the United States was not able to accomplish with the Free Trade Area of the Americas (FTAA). This agreement now sets the base of a minimum common denominator for a deeper integration in the region. Moreover, the successful conclusion of the agreement reinvigorates the external agenda of Mercosur, boosting current negotiations with European Free Trade Association (EFTA), Canada, Korea and Singapore, as well as the convergence with the Pacific Alliance, and also opens up a unique window of opportunity for eventually advancing an agreement with both the United Kingdom and the United States. The MEUA takes Argentina and Brazil closer to the OECD, and the institutional anchoring provided by the agreement will not only make it more difficult and unlikely for future governments to adopt arbitrary restrictive measures but will also act as a catalyzer for reforms resulting in a substantial improvement in the business environment for trade and investment. The agreement now has to be ratified by the European Parliament (no need for individual members’ ratification) and the Mercosur countries’ congresses. Ratification is expected by 2021. Regardless of the winning candidates in the October presidential elections in Argentina and Uruguay, the prospects for passing the agreement in both legislatures is good. In the case of Argentina, if President Macri is re-elected, ratification will be a priority. If Fernández is elected instead, although the process will be more cumbersome, the deal will probably pass. This is either because there is enough genuine support among provincial governors or because not passing the agreement may mean a huge economic setback for Argentina. If Brazil ratifies the agreement but Argentina does not follow suit, Argentina faces the enormous risk of trade diversion and losing the Brazilian market, its largest export destination. In turn, for Uruguay, the ratification process is not expected to face major challenges.”

EDITOR’S NOTE: More commentary on this topic appears in Monday’s issue of the Latin America Advisor.

NEWS BRIEFS

Mexican Authorities Arrest Attorney With Ties to Former Presidents

A judge in Mexico on Wednesday ordered Juan Ramón Collado, a well-known attorney with ties to former presidents, to stand trial on charges of organized crime and money laundering, the Associated Press reported. Collado stands accused of creating front companies to handle money from questionable land deals. Collado, who was arrested on Tuesday, has reportedly represented the brother of former President Carlos Salinas and other prominent politicians. He is being held pending trial.

Colombian Government Planning to Sell Stakes in Low-Profit Companies

The government of Colombian President Iván Duque is planning to sell off public stakes in low-profit companies, expecting to generate more than $1.8 billion a year, said César Arias, the finance ministry's director of public credit, Reuters reported Wednesday. Arias said that the money would then be diverted toward "more profitable investments," mentioning strategic sectors such as infrastructure, clean energy, education and health care. "It's a strategy that seeks to secure resources needed to maintain public investment at optimal levels," Arias added.

Former Argentine President de la Rúa Dies

Former Argentine President Fernando de la Rúa died at 81 on Tuesday after falling ill with heart problems, Reuters reported. De la Rúa led Argentina from 1999 until 2001, when he resigned as the country's economy spiraled out of control, prompting angry protests. He was forced to flee the presidential palace. Current President Mauricio Macri sent his condolences, saying de la Rúa deserved "the recognition of all Argentines."

POLITICAL NEWS

Former Puerto Rico Officials Arrested on Corruption Charges

U.S. authorities on Wednesday arrested a former Puerto Rico secretary of education and five others on charges related to the alleged steering of $15.5 million in federal money to politically connected, unqualified contractors, the Associated Press reported. FBI agents arrested former Education Secretary Julia Keleher, former Puerto Rico Health Insurance Administration head Ángela Ávila-Marrero, businessmen Fernando Scherrer-Caillet and Alberto Velázquez-Piñol, as well as sisters and education contractors Glenda E. Ponce-Mendoza and Mayra Ponce-Mendoza. Of the federal money in question, the territory's Department of Education spent $13 million while Keleher headed the department, and the insurance administration spent $2.5 million when Ávila-Marrero was its director. There was no evidence that Keleher or Ávila-Marrero personally benefited in connection with the alleged scheme, federal officials said. Velázquez-Piñol had improperly used individuals in the two departments to win contracts from the federal government and also misappropriated federal money in order to pay for lobbying, alleged the U.S. attorney for Puerto Rico, Rosa Emilia Rodríguez. Glenda E. Ponce-Mendoza was an assistant to Keleher, and she and her sister were friends of the ex-education secretary, officials said. Keleher, who resigned from her position in April, is accused of steering public contracts to her friends, without going through formal bidding procedures. "It was alleged that the defendants engaged in a public corruption campaign and profited at the expense of the Puerto Rican citizens and students," said Neil Sanchez, special agent in charge of the U.S. Department of Education's Office of Inspector General's Southern Region. "This type of corruption is particularly egregious because it not only victimizes taxpayers, it victimizes those citizens and students that are in need of educational assistance." Puerto Rico Governor Ricardo Rosselló was not involved in the investigation, said Rodríguez. The governor was on a family vacation in France when the arrests occurred, and he said he would cut the trip short and return to Puerto Rico, The New York Times reported. "It is time to be present on the island and reiterate the message personally: the agenda of this Government does not stop, despite those who have incorrectly decided to treason the trust of the People," he said in a statement, the newspaper reported.

The case involves the steering of $15.5 million in federal money to unqualified contractors.

ECONOMIC NEWS

Brazil's Lower House Advances Pension Reform Measure

Lawmakers in Brazil's lower house of Congress on Wednesday voted in favor of a bill to overhaul the country's pension system, the first and most important hurdle for the reform's congressional approval and a major win for the government of President Jair Bolsonaro, The Wall Street Journal reported. Legislators voted 379 to 131 to approve the main body of the bill following nine hours of debate. The lower house must now approve the legislation, which would modify the Constitution, in a second vote before it goes to the Senate. Each vote requires a three-fifths majority for approval. The reform is estimated to save Brazil's pension system as much as $265 billion over 10 years, a crucial step toward cutting the country's ballooning budget deficit and avoid a potentially deep fiscal crisis, according to the report. But other measures such as tax reform would also be key to improve competitiveness and attract investment, economists say. [Editor's note: See related **Q&A** on Brazil's pension reform in the Jan. 16 issue of the daily Latin America Advisor.]

FEATURED Q&A / Continued from page 3

sense, it would be important to know how such a commercialization would be carried out. Commercialization should be carried out considering international prices and in compliance with technical and safety standards. Finally, the cooperation project for the interconnection of the Bolivia-Peru gas pipeline with the pipeline in the south, which aims to allow future exports of LNG from the Ilo Port, would be beneficial, as there would be a higher volume of gas in the pipeline, which will allow for more competitive prices. However, it is crucial to continue promoting Peruvian production of natural gas, which in turn requires the approval of the new organic law on hydrocarbons, which is currently under revision in the Peruvian Congress."

A **Álvaro Ríos, managing director of Gas Energy Latin America and former Bolivian minister of hydrocarbons:** "Gas Energy Latin America believes that Asia will definitively drive LNG demand around the globe in the decades to come due to economic growth and replacing dirty coal, which is contaminating many cities, mainly in China. So, the United States, Trinidad and Tobago, Argentina, Peru and now Bolivia are looking to that market as a way to monetize natural gas reserves and potential. Bolivia has still around nine trillion cubic feet of natural gas reserves, and its natural markets of Argentina and Brazil are changing quite rapidly with more gas coming from Presal and Vaca Muerta, as well as LNG coming mainly from the United States. Both are big markets in which Bolivia has competitive access under different conditions. The only possibility of this project to move gas to Ilo for further exports to Asia is if Argentina and Brazil close their doors completely to Bolivia, a situation unthinkable now as Bolivian gas is quite competitive and has big infrastructure to move the gas into both countries, with actual reserves and some current exploration. For now, the integration project is only wishful thinking. Bolivia needs a firm buyer of LNG in Asia, the reserves to develop a project (without Argentina and Brazil) and needs to secure close to $3 billion to develop infrastructure capacity for a dedicated gas pipeline and LNG plant."

> **"For now, the integration project is only wishful thinking."**
> **— Álvaro Ríos**

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

Advisor Video

Guatemala's Presidential Runoff: What's Next for the Rule of Law and U.S. Relations?

An Inter-American Dialogue Discussion with
Sadaf Khan, U.S. House Foreign Affairs Committee
Martín Rodríguez Pellecer, Nómada
Brittany Benowitz, American Bar Association
Hugo Maul, Guatemala School of Government

View a webcast of the July 10 discussion.

PLAY

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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

Subscription Inquiries are welcomed at
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