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FEATURED Q&A

Will Petroperú's Private Placement Be Successful?



Petroperú President Carlos Paredes in August announced a private placement of the company's shares to be held next year. // File Photo: Petroperú.

Q Peruvian state-owned oil company Petroperú is seeking to sell between 10 and 15 percent of its shares through a private placement offering next year in an effort to raise money and pay down debt, the firm's president, Carlos Paredes, said last month. Why did Paredes opt for a private placement instead of a public sale, and will it attract buyers? How is Petroperú performing, and to what extent is its debt load a significant problem? What are Petroperú's most profitable assets, and are there specific areas or issues with which the company is struggling?

A Beatriz de la Vega, partner and Peru energy leader at EY in Lima: "Given the 49 percent threshold established by law, 10 percent to 15 percent of shares seems conservative. However, notwithstanding tax exemptions granted in the current income tax law, a private placement might present lower costs, as well as grant the participation of specialized investors. Likewise, as stated by Petroperú president, a private placement might prevent a punishment of the offered shares' value, as the Talara refinery is still below 100 percent of its modernization operating capacity. As a result, a private placement would not only attract specialized investors, but it would also allow placement savings to Petroperú, which is important given its already existing debt. However, such attraction of investors will depend not only on negotiations, but also on aspects related to Petroperú's functioning (corporate governance, for instance). According to Petroperú's second quarter financial statements, though it might have achieved positive results, its diluted earnings-per-share has declined as compared to the first half of

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TOP NEWS

RENEWABLES

Colombia Sets Renewables Quota on Power Firms

All power companies operating in Colombia's wholesale energy market must have at least 10 percent of the electricity they distribute come from renewable sources.

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OIL & GAS

Argentine Gov't Raises Fuel Prices, Offers Subsidy

Argentina's government said it would increase fuel prices by 4 percent to account for volatility in the international oil markets, modifying a 90-day fuel price freeze it imposed last month.

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OIL & GAS

Cuba Announces Measures to Fight 'Energy Crisis'

Cuban President Miguel Díaz-Canel has announced a series of austerity measures to grapple with fuel shortages that he said were due to tougher U.S. sanctions against his government and against Venezuela, one of Cuba's key allies.

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Díaz-Canel // File Photo: Cuban Government.

OIL AND GAS NEWS

Cuba Announces New Measures to Fight ‘Energy Crisis’

The Cuban government last Friday announced a series of austerity measures in order to grapple with a fuel shortage that President Miguel Díaz-Canel said has been exacerbated by tougher U.S. sanctions against the Caribbean nation and Venezuela, The Wall Street Journal reported. Cuban officials announced reductions to public transportation services and halted manufacturing at government-run plants that produce cement and steel. Additionally, Cuba is postponing some investments that rely heavily on energy, and the government asked residents to work from home if possible, Reuters reported. The administration of U.S. President Donald Trump earlier this year imposed sanctions designed to cut Venezuelan oil shipments to Cuba, which Díaz-Canel said has caused a shortage of diesel there, the Miami Herald reported. “The fuel problem is not of Cuba’s making but has to do with the arbitrary U.S. measures,” Díaz-Canel said during a televised address last week, adding that the United States has sought to overthrow the government of Venezuelan President Nicolás Maduro, which it sees as illegitimate, and has blamed Cuba for its failure to do so. In his unusually detailed address, Díaz-Canel said no oil shipments were scheduled to arrive in Cuba in the second half of last week, with only one due to arrive on Saturday. The country would seek to make those supplies last until the end of September, when the next shipment is scheduled to arrive, he added. Cuba has already negotiated contracts for October loadings, the president said. “Cuba is not paralyzed,” said Cuban Economy Minister Alejandro Gil Fernández. Last Friday, Cubans waited in long lines in searing heat at public transportation stations in Havana, and lines at gas stations stretched for several blocks, Reuters reported. Inspectors stopped workers in state cars so that they could pick up other passengers. Years ago, Cuba started rationing energy amid falling

oil imports from Venezuela, reducing the use of electricity at state institutions and reducing street lighting. [Editor’s note: See related [Q&A](#) in the Aug. 9 issue of the Energy Advisor.]

Argentina Increases Fuel Prices, Offers Subsidy to Oil Firms

Argentina’s government said Wednesday it would increase fuel prices by 4 percent to account for volatility in the international oil markets, Reuters reported. The country’s Energy Secretariat also said the government would raise the price per barrel of oil by 5.58 percent. The announcement comes as a modification to the 90-day fuel price freeze President Mauricio Macri announced in August as part of an effort to shield consumers after the peso currency plunged sharply following his resounding primary vote defeat to opposition candidate Alberto Fernández. Earlier this week, the government also announced it would offer oil companies and oil-producing provinces a subsidy to help offset the consequences of the fuel price freeze, according to an official bulletin published Monday, local newspaper *Ámbito Financiero* reported. The subsidy of 116.10 pesos, or about \$2.06 on Monday morning, applies to each barrel of oil delivered to the market in September, the government said. Additionally, it will offer some 2.017 pesos per ton to biofuel producers. “To sustain the level of activity and employment and protect the consumer during this exceptional period, it is appropriate to mitigate the impact that the [fuel price freeze] generated in the oil producing companies as well as in the biofuel producing companies,” the Energy Secretariat said in the bulletin. State-controlled oil company YPF had previously said it was facing “unprecedented” challenges amid the fuel price cap and the country’s financial crisis, saying in a statement that it would seek to limit the price freeze’s impact “by adapting its supply chain to this situation” and “prioritizing the continuity of projects essential for the company’s growth with a focus on the preservation of activity, safety and employment.” Among the mea-

NEWS BRIEFS

YPF Reports Well Fire at Argentina’s Vaca Muerta Following Gas Leak

Argentine state-owned oil company YPF said a gas well caught fire at the Vaca Muerta shale oil and gas formation early on Sunday after a gas leak a day earlier, Reuters reported. The cause of the leak and the fire in the LLLLO X-2 well in the Loma La Lata West gas field is still unknown, YPF said, adding that production had only been affected in that well. No injuries were reported.

Dominican Republic Launches 34-Megawatt Matafongo Wind Farm

The Dominican Republic’s 34-megawatt (MW) Matafongo onshore wind farm has begun operations, the office of President Danilo Medina announced, Renewables Now reported last week. The park, which Grupo Eólico Dominicano developed with contributions from Spain’s Genera Avante, consists of 17 turbines and cost some \$71 million in investment. The Dominican Republic expects to generate more than 25 percent of its power from clean sources and to reach 604.6 MW of renewable energy capacity this year, excluding hydropower.

Colombia’s Government Sets Renewable Quota on Power Distributors

Power firms operating in Colombia’s wholesale energy market must have at least 10 percent of the electricity they distribute come from renewables sources, according to a resolution published on the Ministry of Energy and Mines’ website, PV Magazine reported Monday. The obligation will be applied annually starting in 2022. The renewable energy will have to be bought through power purchase contracts of at least 10 years’ duration, according to the report. Colombia is set to hold a renewable energy auction later this month.

asures it has taken, YPF in late August notified suppliers that dollar contracts would be paid at a set exchange rate of 45.19 pesos per dollar, about one-quarter below the market rate, for 90 days. The move rattled suppliers and global oil companies and could hit operations in Argentina's Vaca Muerta shale oil and gas deposit, Reuters reported. Martina Gallardo-Barreyro, an assistant vice president and analyst for Moody's, said the government fuel price freeze and YPF's subsequent currency change imply a definite slowdown for Vaca Muerta operations, although the full extent is still unclear, the wire service reported.

Exxon Announces New Discovery Offshore Guyana

ExxonMobil on Monday announced a new discovery in Guyana's offshore Stabroek block, adding to the previous estimated recoverable resource of more than six billion barrels of oil equivalent in the block. Exxon discovered the oil approximately 108 feet deep, in a high-quality oil-bearing sandstone reservoir at the Tripletail-1 well in the Turbot area, located approximately three miles northeast of the Longtail discovery. The new find "helps to further inform the development of the Turbot area," Mike Cousins, senior vice president of exploration and new ventures at Exxon, said in a statement. Other exploration and development activities by Exxon are currently underway in Guyana, with a fourth drillship set to begin work in October, according to the statement.

PetroChina to Halt Direct Purchase of Venezuela Oil: Source

State-run oil company PetroChina will suspend directly buying Venezuela's crude oil in order to comply with U.S. sanctions, but China will continue to import oil from the Andean nation through other means, S&P Global Platts reported Sept. 13, citing company and industry sources.

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2018. Regarding its debt load, noncurrent liabilities represent more than 60 percent of total liabilities, which is why total liabilities in relation to net equity might present a challenge in the long term. This will depend not only on the Talara refinery project, but also

“ Total liabilities in relation to net equity might present a challenge in the long term.”

— Beatriz de la Vega

on other Petroperú projects, especially those upstream. However, S&P Global Ratings maintains a BBB- qualification on long-term debt; and Fitch Ratings holds a BBB+ qualification on long-term foreign currency debt. Without a doubt, Petroperú's most profitable assets are in the downstream sector, due to problems with the North Peruvian Oil Pipeline (ONP). Besides ONP, other areas in which Petroperú is currently struggling with are those of corporate governance and future upstream projects.”

A Jaime E. Luyo, academic director of the PhD Energy Program at the National Engineering University in Lima: “Paredes opted for a private placement for a better negotiating position, linking the valuation of the company to the operation of the new Talara refinery, currently the largest investment in the country's energy sector. Considering that in 2017 \$2 billion were successfully placed in the international debt markets and that the main international risk classifiers have ratified Petroperú's long-term credit situation as good and stable, it remains attractive to buyers. Petroperú currently continues to generate profits, despite economic losses due to the frequent disruptions of the North Peruvian Oil Pipeline, and its level of debt is manageable but also indicates the need for

an injection of private capital that has not yet been contributed. The company's main asset is the new \$5 billion Talara refinery, and it should also be taken into account that Petroperú is the main supplier of diesel and other fuel in the local market. Currently, one of the main problems it is facing is the frequency of interruptions in the operation of the pipeline due mainly to sabotage and protest by local communities over its ecological and environmental impact.”

A Gustavo Navarro, managing director of Gas Energy Latin America in Peru: “Petroperú President Carlos Paredes

believes that a public sale of shares in the stock market would set a low price due to the company's high level of indebtedness as a result of its investment in the new Talara refinery, suggesting instead an urgent capital injection through a private sale of shares in 2020. Our position, and that of a group of Petroperú technicians and professionals, proposes that the sale of shares must be made when the new high-conversion Talara refinery begins operations in the second quarter of 2021 and when the company achieves its vertical integration. Petroperú is currently discussing contract terms with Perupetro for Block 192, which is operational and could generate immediate income for Petroperú. Additionally, the company is in the process getting the required permits to start production in Block 64, which has proven reserves of 55 million barrels. Production there is expected to begin within two years. Both projects are in partnership with private companies. These projects will substantially improve Petroperú's EBITDA—and could more than double it. But income won't be generated in 2020, rather in the first quarter of 2021, when the refinery begins operations and also at a later date when the oil blocks start to generate income for Petroperú. Therefore, the sale proposal in 2020 generates many questions. The sale of shares—especially a private one—is unfeasible next

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es. "PetroChina will suspend taking Venezuelan crude," one company source said, adding that all direct imports of Venezuelan crude oil, most of which are heavy sour crudes, will be cut off starting in October. "China will continue to procure Venezuelan barrels through another company," a second senior industry official with direct knowledge of the matter said. S&P Global Platts' trade flow tracker indicated that more than 6.07 million barrels of crude at Venezuela's José Port were on the way to China for October delivery, according to the report. Other Chinese companies including CNPC have also halted their imports of crude from Venezuela to avoid U.S. sanctions. [Editor's note: See related Q&A in the July 26 issue of the Energy Advisor.]

POWER SECTOR NEWS

Power Grid Failure Hits Four Central American Countries

A failure in Central America's electric grid left millions of people across four countries without electricity for several hours on Monday, the Associated Press reported. The entire territory of Honduras was affected, with an official at the country's state electric company saying an overload at a substation on the Caribbean coast caused the blackout. Residents of El Salvador, Guatemala and Nicaragua also experienced partial outages. The four countries, in addition to Costa Rica and Panama, have shared a linked electrical network since the late 1980s, according to the report.

RENEWABLES NEWS

Mexico Says Next Renewable Energy Auction Is on Track

Mexican Energy Minister Norma Rocío Nahle García on Wednesday announced that a

ADVISOR Q&A

Is the Colombia-FARC Peace Deal Doomed to Fail?

Q Former commanders of the Revolutionary Armed Forces of Colombia, or FARC, rebel group on Sept. 4 launched a "clandestine political movement," a week after issuing a call to arms and vowing to return to war with the country's government. How significant are the former commanders' moves, and how would a "clandestine" political movement take shape? How should President Iván Duque's government respond? Is Colombia's peace deal doomed to fail?

A Humberto de la Calle, former Colombian vice president, interior minister and chief negotiator in the peace process with the FARC: "The bulk of the former combatants remain firm in compliance with the peace accord. According to official figures, this group constitutes more than 90 percent of former combatants. Additionally, the leaders of the new FARC party that emerged from the agreement have unanimously rejected Márquez and his companions' actions and have renewed their irrevocable decision for peace. The government, political forces and public opinion have indicated that we are not in the presence of a new guerrilla group, but rather of deserters who have been left out of the agreement and must be met with all instruments that the rule of law provides. However, it is clear that there are some dangers: The project of unifying forces with the

ELN that Márquez described, although it has been historically impossible, cannot be flatly ruled out. The announcement of continuing to collect 'taxes' on illegal activities causes concern, as well as the presence of urban

“The government, political forces and public opinion have indicated that we are not in the presence of a new guerrilla group...**”**

— Humberto de la Calle

terrorists in the group. The government's initial step is to prevent connections Márquez can establish with these groups and with FARC dissidents who came about earlier. All Colombians support the government. We recognize that while there is a clear commitment from the government to reinstate former combatants, their call to ignore other essential points of the accord may constitute an incentive for future dissidents. The road map is a judicial and military response, but also the integral preservation of the agreement to avoid further defections."

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

renewable energy auction that was widely believed to have been canceled in January has actually only been delayed and is on track, PV Magazine reported. In a statement, Nahle said that an inability of power lines to cope with new generation capacity was behind the delay, which was announced shortly after President

Andrés Manuel López Obrador took office. "The federal government recalls the commitment of President López Obrador to reactivate the process of the fourth long term auction (SLP) in which, once again, renewable energies would be the protagonists." Nahle did not cite a date for the new tender round, saying that a

NEWS BRIEFS

Venezuela's Rival Factions to Attend United Nations

Representatives of Venezuelan President Nicolás Maduro and opposition leader Juan Guaidó are set to appear before a gathering of world leaders at the United Nations in New York next week as the political stalemate continues in the Andean nation, Reuters reported. Dozens of countries including the United States recognize Guaidó as Venezuela's legitimate interim president, but the 193-member U.N. General Assembly still recognizes Maduro, whom Russia and China also support.

Colombia to Offer 59 Oil Blocks in Next Bid Round

Colombia will offer 59 blocks in the next round of oil bidding, with the aim of "ensuring self-sufficiency in Colombia, increasing reserves and generating critical resources and fiscal trade balances," the national hydrocarbons agency, or ANH, said Wednesday, Reuters reported. Five of the blocks are offshore, while 27 of them are areas that pre-qualified firms have already requested. Thirteen of the new areas have gas production potential. A list of qualified bidders will be announced on Oct. 21.

China in Talks With Chile Over Use of Its Port for Antarctic Expeditions

Beijing is in talks with Chile over use of the Punta Arenas port in order to explore for natural resources in Antarctica, the South China Morning Post reported Wednesday. China would use Chile's port for "the realization of projects at their bases located in the Antarctic continent," according to a Chilean foreign ministry statement. To date, China has been limited to launching its Antarctic expeditions from Hobart, capital of the Australian island state of Tasmania, and the Asian country is seeking to diversify its options for accessing the region, according to the report.

review of the country's first renewable energy auction, which took place under the previous administration of President Enrique Peña Nieto, is currently underway. That auction, in 2017, managed to achieve wind and solar prices that were among the lowest in the world, according to Brian Gaylord, an analyst with Wood Mackenzie, Greentech Media reported. Nahle also said she is considering expanding nuclear capacity.

POLITICAL NEWS

Austrian Lawmakers First to Reject E.U. Mercosur Trade Pact

Austrian lawmakers in a key committee have rejected the European Union's trade pact with Mercosur, the bloc of South American economies, Deutsche Welle reported Wednesday. Representatives from four out of five of the main parties in the Austrian parliament's crucial European Union subcommittee voted against the trade deal, putting the fate of the pact, which had been under negotiation for more than a decade, into doubt. "In times of the climate crisis, having more products cross the sea that we can produce here in Europe is the absolutely wrong path," Jörg Leichtfried of the Social Democratic Party posted on social media before the vote. France, Luxembourg and Ireland have already warned they will reject the deal if Brazil does not do more to curb fires in the Amazon rain forest. Austria's federation of industry, however, has backed the Mercosur deal, warning against "populist scaremongering and free-trade myths" and insisting that the deal includes a commitment to the Paris Climate Agreement, BBC News reported. Austrian lawmakers may be trying to curry favor with the public ahead of upcoming elections, according to the report. A recent survey by Krone Zeitung showed that 78 percent of Austrians rejected the Mercosur trade pact. Brazilians have said some countries in Europe are more concerned about protecting their agricultural sectors from competition than the global environment. The trade pact requires the backing of every parliament in the European Union in order to

move ahead. Mercosur is comprised of Brazil, Argentina, Paraguay and Uruguay.

ECONOMIC NEWS

Brazilian Central Bank Cuts Interest Rate to Record Low

The Brazilian central bank's monetary policy committee, known as COPOM, on Wednesday cut its benchmark interest rate by a half percentage point, to 5.5 percent, a record low, state-run Agência Brasil reported. The decision to cut the Selic rate by 50 basis points was in line with analysts' expectations. The rate-setting committee said the cut was appropriate given the economy's rate of inflation. In the 12 months through August, consumer prices in Brazil rose 3.43 percent, well below the central bank's target of 4.25 percent, Reuters reported. The economy has also experienced weak growth and high unemployment. COPOM indicated that it is likely to cut interest rates again this year, bringing the benchmark rate to 5 percent by year's end. On Monday, the Brazilian central bank's weekly survey of economists showed that the outlook for interest rates and inflation is at all-time lows. On average, economists in the survey said they expected inflation to end the year at 3.43 percent.

Argentina Increases Interest Rate, Passes Food Emergency Law

Argentina's central bank on Wednesday raised a floor in its benchmark interest rate to 78 percent from 58 percent for the rest of September, Bloomberg News reported. Argentina has had the world's highest interest rates for more than a year as it battles inflation triggered by political uncertainty. Also on Wednesday, the Senate approved a food emergency law that will increase financial support destined for food and nutrition programs by at least 50 percent until December 2022, Aljazeera reported.

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year. In addition to technical and economic factors, 2020 will be a very complex year politically, either as a year with an early presidential election with uncertain outcomes, or as the year prior to the elections, originally scheduled for 2021, which will also generate a polarized climate both for public opinion and among investors. Fitch Ratings in July assigned a rating of AA- for the company's long-term obligations and of CP-1 for the first short-term instrument program. In both cases, the ratings reflect a very high ability to pay and a low level of credit risk."

A **Paola Carvajal, principal of the energy practice of Arthur D. Little in Washington:** "Previous experiences selling a percentage of national oil companies' shares have had a positive impact not only in attracting financial resources but also in performance and accountability. Companies such as Ecopetrol, after the sale of close to 10 percent of its shares more than 10 years ago, started a modernization process to respond to private investors and comply with new regulations. The private placement of Petroperú's shares could positively affect the transaction value since it facilitates the negotiation with investors interested in the

company strategic position and long-term returns, instead of short-term profitability. Petroperú has been struggling with political interference that has generated multiple management changes in the last few years. The Talara project had significant delays and overcost affecting the returns of investment. Key infrastructure such as the North Peruvian Oil Pipeline requires an upgrade. It is underutilized because of the production decline in the oil fields. Moreover, Petroperú is the main downstream company in Peru, supplying more than half of the gasoline and diesel demand in the country. The company presented positive financial results in 2018 of around \$120 million, but its debt index has been increasing significantly, reaching 3.23 in 2018. In general, the sale of the company's share could have a positive impact not only to bring new financial resources to alleviate debt cost, but also for the impact on the company's management. The key challenge will be to reach a good deal under the promise to complete the Talara project in order to deliver growth and profitability as well as reactivate the upstream business."

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

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Weaponizing Justice: Rule of Law and Cuba's New Constitution

An Inter-American Dialogue Discussion with Luis Carlos Battista, Cuban-American lawyer, and Caitlyn Kelly, International Institute for Race, Equality and Human Rights

View a webcast of the Sept. 11 discussion.

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