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FEATURED Q&A

Should Chile's ENAP Continue Fracking for Natural Gas?



Chilean environmental regulator SMA has filed charges against state oil company ENAP for improper fracking activities that could potentially halt one of the firm's projects. ENAP workers are pictured above. // File Photo: Chilean Government.

Q Chilean environmental regulator SMA on Jan. 13 charged state oil company ENAP with improper fracking in the southern Tierra del Fuego region, saying it had not followed protocols in its permits for hydro-fracking activities there. Three of the six charges are serious enough to cancel ENAP's Arenal Project, which the company says is "essential" to maintaining gas supplies in the area. What is at stake if ENAP's project is canceled? What is at risk if the allegedly improper fracking continues? Is fracking a good exploration method for Chile, which has few fossil fuels and mostly depends on natural gas imports, and if so, how can responsible use of the technique be ensured?

A Andrés Rebolledo, former energy minister of Chile: "Chile is completely deficient when it comes to hydrocarbons, leading it to import 98 percent of these products. Most hydrocarbon reserves are located in the Magallanes region, which is why a matrix whose fundamental source is natural gas has been developed there, both for a variety of productive activities and for local consumption. As such, the supply of liquefied natural gas (LNG) is a crucial and strategic issue for the region. For this reason, ENAP, complying with its role as a public enterprise, decided years ago to advance exploration and exploitation of gas, incorporating technological advances based on fracking, which has allowed the sector to make an important leap. This activity must always be subject to strict environmental requirements, even more so in this case, since it is the responsibility of a state-owned company. It must incorporate best practices in its production processes, as has

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TOP NEWS

OIL & GAS

Brazil Wants to Boost Oil Output Without OPEC

Brazil wants to increase its oil production without joining the Organization of the Petroleum Exporting Countries, or OPEC, said Energy Minister Bento Albuquerque.

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OIL & GAS

Colombia Oil Investment to Rise 23% in 2020: ACP

Investment in Colombia's oil and gas industry is expected to increase to \$4.97 billion, the Colombian Petroleum Association, or ACP, said in a report.

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OIL & GAS

PDVSA Closes Last Two Refineries in Venezuela: Report

Venezuelan state oil company PDVSA has shut down its last two operating refineries in the country, according to S&P Global Platts, which cited a technical report. PDVSA, led by Manuel Quevedo, reportedly closed its Amuay and Cardón facilities at the Paraguaná Refining Center.

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Quevedo // File Photo: Venezuelan Government.

OIL AND GAS NEWS

PDVSA Closes Last Two Refineries in Venezuela: Report

Venezuelan state oil company PDVSA has shut down its last two operating refineries in the country, S&P Global Platts reported Monday, citing a technical report. PDVSA has closed its Amuay and Cardón facilities at the Paraguaná Refining Center, or CRP, the largest refining complex in the South American country, according to the report. Due to numerous failures and a lack of crude to process, the 645,000-barrel-per-day (bpd) Amuay refinery was completely shut down on Monday, with

The facilities were PDVSA's last two operating refineries in Venezuela.

its five distillers out of service. Meanwhile, the Cardón refinery, which has the capacity to process 321,000 bpd, was closed on Saturday for maintenance work on one of its distillers, which had been operating at 50,000 bpd. An unnamed refinery operator at Amuay told S&P Global Platts that it will take several days to resume operations at Amuay and "a few weeks" for Cardón to restart. Amuay's catalytic cracking has already been out of service since December, the plant's flexicoker has been down since March 2016 and its coking unit remains shut for repairs, according to the report. The facility has not run at its maximum capacity since August 2012, when an explosion killed 42 people and injured 80 others. A third plant within CRP, the 16,000-bpd Bajo Grande asphalt plant, was already closed. PDVSA operates two other refineries in Venezuela, both of which have been shuttered due to deterioration, lack of light crude to process and failures in the supply of electricity, S&P Global Platts reported. Even though Venezuela's oil output seemed to have bounced back slightly at the end of last

year, the country's upstream sector will continue to struggle, and its long-term prospects are dim without Chinese, Indian and Russian help, OilPrice.com reported.

Colombia Oil Investment to Rise 23% in 2020: ACP

Investment in Colombia's oil and gas industry is expected to surge 23 percent in 2020, the Colombian Petroleum Association, or ACP, said in a report published Monday, W Radio reported. Investment is expected to total \$4.97 billion this year, up from \$4.03 billion in 2019. Investment in production will have the highest spending of the total projected, accounting for \$4.05 billion, a 25 percent increase from last year, Reuters reported. However, production is expected to remain flat, increasing just 0.5 percent, as compared to the previous year. Total crude output is expected to grow by just 890,000 barrels per day (bpd), compared with an average of 886,000 bpd last year. "It is a realistic estimate based on the investments that we are talking about," ACP head Francisco Lloreda told journalists, the wire service reported. "If we were not making these investments this year, production would barely be more than 730,000 barrels a day." Lloreda added that such investments are needed to offset the natural decline of oil and gas fields, the reserves of which fall by an average of 18 percent a year, according to the ACP, Reuters reported.

Mexican Government Saved Pemex From Bankruptcy: AMLO

Mexican state oil company Pemex has been "saved from total bankruptcy," Mexican President Andrés Manuel López Obrador said Wednesday during his morning news conference, El Universal reported. "It is important that the people know how we are lifting Pemex from bankruptcy, of how we are afloat after the neoliberal period bet on destroying a company

NEWS BRIEFS

Jamaica's Irrigation Commission to Power Five Facilities with PV Energy

Jamaica's National Irrigation Commission, or NIC, has projects to power four of its irrigation facilities with solar energy within the next two months, the country's minister of industry, commerce, agriculture and fisheries, Audley Shaw, announced, the Jamaica Observer reported Sunday. "The NIC is now advanced in its objectives to have five of its offices and pump stations powered by solar photovoltaic systems by March," he said. The NIC already has a large-scale solar photovoltaic system at the Bengal pump station in Trelawny, which cost approximately \$272,600.

Brazil Wants to Boost Oil Output Without Joining OPEC: Energy Minister

Brazil wants to increase its oil production without joining the Organization of the Petroleum Exporting Countries, or OPEC, Energy Minister Bento Albuquerque told Bloomberg News Jan. 16. "The idea is just to increase our production and to participate more in the international oil and gas market," he told the news service in an interview in New Delhi. "But this is not a plan for Brazil to join OPEC or any other association or group of oil and gas producers. We don't want restrictions, we want to increase our production."

Peruvian Indigenous Group Wins Suit Blocking Oil Exploration in Amazon

A Peruvian judge has ruled that the government must exclude an indigenous region in the country's Amazon rain forest near the border with Brazil from any oil exploration and exploitation, a legal group said, Reuters reported Jan. 22. The decision followed a 2017 lawsuit by the Regional Organization of Indigenous People of the East against state oil firm Perupetro.

that is all of ours," the president said. "It's good news that we have been able to stop the decline in production and that important increases have been made, and this is reflected in the financial sector's confidence, because bonds' interest rates are falling," he added. Octavio Romero, who heads Pemex and accompanied López Obrador in the news conference, said the company had reversed a decline in output, saying that it is expected to produce 1.75 million barrels per day by the end of January. He also said Pemex's debt went from 2.82 billion pesos (around \$150 million) in 2018 to 1.95 billion pesos last year, Economía Hoy reported. "We still don't know what ratings agencies will say," said López Obrador said, who last year disregarded Fitch's downgrade of Pemex's rating. He added that his government will "soon" reach a deal with the private sector defining in which fields it will be able to invest. López Obrador also said he guarantees no changes to the contracts awarded during his predecessor's administration, Notimex reported.

Argentine Oil Unions Call Off Strike in Neuquén Province

An oil union in the Argentine city of Neuquén, where the country's massive shale oil and gas basin is located, called off a threat to strike, following companies' promises not to fire some 700 workers, a union leader said Jan. 23, S&P Global Platts reported. "We have reached an agreement to halt all of the layoffs," Guillermo Pereyra, secretary general of the Union of Private Oil and Gas Workers in Río Negro, Neuquén and La Pampa, told Radio 10. Pereyra had previously threatened to call a strike if even one worker was fired, a move which could have seriously affected Vaca Muerta, the basin's biggest shale play. The basin produces 47 percent of Argentina's 514,000 barrels of per day (bpd) of crude and 62 percent of its 127 million cubic meters of gas per day, according to the report. Neuquén Governor Omar Gutiérrez said last week that the region saw oil production surge 23.4 percent to 160,445 bpd in December, year-on-year. "In

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been done in the United States, Argentina and many other countries. Magallanes is a geographically complex region, with limitations in terms of connectivity with the rest of the country, so importing LNG from the north of the country is economically unprofitable. From 1998 to 2008, Argentina was a fundamental supplier for the region and for the rest of Chile. However, for fundamentally political and economic reasons in Argentina, this supply was suspended, a move that negatively affected important productive activities and put the security of the energy system at risk. Therefore, having production in Magallanes is a strategic decision. Charges that the environmental authority imposed must be taken seriously, and their recommendations must be implemented to ensure a safe and economically efficient gas supply."

A Sarah Phillips, assistant, and Lisa Viscidi, director, both at the Inter-American Dialogue's Energy, Climate Change & Extractive Industries program: "The exploration and production business line of state oil company ENAP is focused primarily in Magallanes, the southernmost and second-least populated region of Chile. Tierra del Fuego is one of the four provinces in this region, and successful extraction of tight gas from its Arenal block using unconventional methods began in 2013. The environmental regulator's recent charges against ENAP's use of improper fracking techniques in this block, such as failure to close off wells, now threaten to shut down the project, which could affect natural gas supply for consumers in the area. Chile has historically relied heavily on coal for electricity generation, but an effort to become coal-free by 2040 has shifted the government's priorities to meeting more of the country's energy demand with natural gas. In 2018, coal represented 38 percent of Chile's total generation, while natural gas accounted for 15 percent and wind and solar, combined, for 11 percent.

The country has been expanding renewable energy generation through long-term power auctions since 2006, as we explain in a recent [report](#) for the Inter-American Development Bank, and incremental demand will be met from renewable and natural gas resources over the next 30 years. Producing

“Producing gas from the Magallanes shale basin ... would help Chile reduce dependence on gas imports and shift away from coal.”

— Sarah Phillips & Lisa Viscidi

gas from the Magallanes shale basin, which holds an estimated 48 trillion cubic feet of shale gas, would help Chile reduce dependence on gas imports and shift away from coal. Yet, as with any extraction method, whether conventional or unconventional, fracking can cause environmental damage if good practices are not employed. For Chile to ensure responsible use of the technique, SMA must require robust data collection, continuously monitor industry activity and strictly enforce regulations."

A Rodrigo Andrade, regional director of Diálogo Energético Latinoamericano: "ENAP's current business strategy is based on fracking, which indicates that ideas have run out, and it is willing to use any method to get results. In the past, ENAP was innovative and created an international subsidiary to use its knowledge and ability to achieve its objectives; it developed a leveraged policy in its alliances with governments and oil companies of similar size to explore and produce hydrocarbons around the world. This administration has not been able to understand the current moment, when fossils are in retreat, and their renewable and clean substitutes are recognized protagonists.

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2019, around 30,000 additional barrels per day were produced, allowing us to reach values not reached since 2005," he said in a statement. Oil output was up 2.9 percent in December, as compared to the previous month, when it averaged 155,894 bpd, according to data from the province's Department of Energy, Mining and Hydrocarbons.

RENEWABLES NEWS

Argentina Finalizes Third Round of Renewables Auction

Argentina has finalized the RenovaAR 3 renewable energy auction round, with the seven winners signing power purchase agreements, or PPAs, last week for a total of 45 megawatts of new capacity, the Energy Secretariat said, Renewables Now reported Monday. Also known as MiniRen, RenovaAR 3 consists of a total of 33 projects of 203 megawatts of capacity. The projects are expected to bring more than \$319 million in investments, create 800 new jobs and generate enough power to supply 223,000 households once in operation, the Energy Secretariat said. Five of the projects awarded in the round, held last August, failed to meet last week's PPA signing deadline. Last December, Argentine renewable energy chamber CADER, a nonprofit association, asked the government to extend the deadline for the PPA signing and the commercial operation date for the awarded projects, in order to give winners more time to reach financial close.

POLITICAL NEWS

Maduro Eyes Consular Services With Colombia

Venezuelan President Nicolás Maduro on Wednesday said he is willing to work with

ADVISOR Q&A

How Critical Is China's Support for Venezuela?

Q China's foreign ministry said this month that it and Venezuela are "slowing down" some of their cooperation initiatives because of "sanctions and other factors." At the same time, Venezuelan opposition leader Juan Guaidó has urged the European Union to label as "blood gold" the precious metal that is informally mined in Venezuelan jungles and brings in revenue for President Nicolás Maduro's government. To what extent are China and other allies, such as Russia, propping up Venezuela's economy? How important is the gold trade for Venezuela's economy? Will its economy get any better in the coming year, or will it only worsen?

A Luis Vicente León, president of Datanalysis in Caracas: "The general oil and financial sanctions have not achieved the objective for which they were imposed: effecting political change in Venezuela. It is not a surprise, given the poor track record of this strategy in world political history. However, these sanctions have had a relevant impact on the development of Venezuela's internal economy and its income profile. On the one hand, sanctions have limited the operations of the Venezuelan government, not only with the United States, but also with some markets that are in line with the revolution, such as China, which has been forced to review its public and private commercial relations, given the risk of sanctions' secondary effects. However, we could say that the most relevant impact after the contraction of oil revenues has been the diversifica-

tion and increase of dividend revenue from nontraditional sources. These can be legal or illegal sources that are mostly exempt from sanctions or which are able to evade them, such as remittances, repatriation of savings, nontraditional exports, border smuggling,

“The evolution toward non-oil revenues is clearly positive...”

— Luis Vicente León

drug trafficking and—making up 35 percent of total nontraditional income—the legal and illegal exploitation of gold. Estimated to total about \$3 billion, this exploitation is in full expansion and has served the Venezuelan government as a means to obtain cash, give financial autonomy to some regional governments and strengthen its ties with some allied countries, such as Turkey. The evolution toward non-oil revenues is clearly positive, allowing the financing of some internal activities, which show a certain level of economic recovery and feed the massive use of foreign exchange in commercial transactions, thereby giving the government some breathing room. Shortly, Venezuela will be a country with oil, but not an oil-based country.”

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

Colombia by restoring consular services amid a diplomatic standoff following the capture of a fugitive former Colombian lawmaker, the Asso-

ciated Press reported. Venezuelan authorities this week detained Aída Merlano, an ex-legislator who escaped from prison last year during

NEWS BRIEFS

U.S. Sanctions Salvadoran Military Officials Over 1989 Massacre

The administration of U.S. President Donald Trump has banned 13 current and former Salvadoran military officials from entering the country for their part in the high-profile extrajudicial killings of eight people, including six Jesuit priests, more than 30 years ago, the State Department said Wednesday, United Press International reported. The six Jesuit priests, their housekeeper and her daughter were killed on Nov. 16, 1989, as part of a major leftist rebel offensive during the Central American nation's civil war, during which the United States backed the rightist government with military and financial aid.

Chilean Congress OKs Tax Hikes for Rich, Lower Taxes for Elderly

Chilean lawmakers on Wednesday approved legislation that hikes taxes on the rich while reducing the burden on the elderly and small businesses, Reuters reported. The package is expected to raise Chile's total tax haul, which will help pay for costly measures protesters have demanded since demonstrations over inequality began in October, including a guaranteed minimum wage, a reform to the pension system and changes to the public-private health system.

More Policy Certainty Could Benefit Growth in Argentina: IMF Official

More certainty over public policies in Argentina could help boost growth and investment in the South American country, the International Monetary Fund's Western Hemisphere director said Wednesday, Reuters reported. "As new public policies are announced it will decrease uncertainty, which is very high in the Argentine economy," said Alejandro Werner.

a visit to a dentist. She had been sentenced to 15 years in prison for buying votes during her run for Colombia's Senate in 2018. After the arrest, Colombian President Iván Duque asked Venezuela to extradite her to Colombia, but he asked opposition leader Juan Guaidó, whom Colombia and dozens of other countries recognize as the legitimate president of Venezuela. "Enough of such senselessness," Maduro said in a nationwide television broadcast, referring to Duque's move. "Put your feet on the ground, and let's be pragmatic. Iván Duque, you are making a serious mistake," he added. Maduro cut diplomatic ties with Colombia early last year after Duque backed Guaidó's bid to oust the Venezuelan president. While Guaidó holds significant international support, he does not have practical control over government institutions such as the police, which remain loyal to Maduro. Meanwhile, Duque's administration said Wednesday that it will allow hundreds of thousands of Venezuelan migrants to legalize their presence in Colombia through work permits in a bid to bring them into the legal economy, Reuters reported. Nearly 1.6 million Venezuelans now live in Colombia, a figure that the United Nations has said could reach 2.4 million by the end of this year.

Peru's Keiko Fujimori Returned to Prison in Laundering Probe

A Peruvian judge on Tuesday ordered opposition leader Keiko Fujimori back to prison for 15 months, La República reported. The leader of the Popular Force party, Fujimori is under investigation in a money laundering case and has already spent 13 months in jail. However, Peru's top constitutional court ordered her release last November, and prosecutors appealed that ruling. Fujimori was taken into custody on Tuesday night, Reuters reported. Prosecutors accuse Fujimori of illegally receiving more than \$1 million from Brazilian construction conglomerate Odebrecht and hiding the money through a network of front men, the Associated Press reported. Fujimori denies wrongdoing. Fujimori arrived in court as Judge Víctor Zúñiga was finishing the announcement of his decision to

return her to prison and was immediately taken to the Chorrillos women's prison in Lima, BBC News reported. Minutes later, she was seen in a video that circulated on social media. "This isn't justice," she said. "As woman, as wife, as mother, I am going to bring out all the strength that I have." Fujimori added that her husband would seek backing from foreign governments and other groups for her release. Her attorney, Giuliana Loza, vowed to appeal the judge's ruling. Fujimori's jailing came just two days after her Popular Force party fared poorly in the country's legislative election. Its representation in Peru's Congress fell to just 12 seats from 72.

ECONOMIC NEWS

Trump Signs USMCA Trade Deal With Mexico & Canada

U.S. President Donald Trump on Wednesday signed the United States-Mexico-Canada Agreement, or USMCA, the revised trade treaty that is to replace the 26-year old North American Free Trade Agreement, or NAFTA. The USMCA establishes new labor and environmental standards for the three countries and has other provisions including greater access for U.S. farmers to Canadian markets and requiring auto manufacturers to use higher portions of North American-made parts, The Washington Post reported. "Today we are finally ending the NAFTA nightmare and signing into law the brand-new U.S.-Mexico-Canada Agreement," Trump said in the signing ceremony at the White House, The New York Times reported. "For the first time in American history, we have replaced a disastrous trade deal that rewarded outsourcing with a truly fair and reciprocal trade deal that will keep jobs, wealth and growth right here in America." Trump said the USMCA will increase the U.S. gross domestic product by 1.2 percent, a much higher number than most other estimates, The Washington Post reported. Last April, the U.S. International Trade Commission said in a report that the deal would expand the U.S. economy by 0.35 percent when it fully takes effect in six years.

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Fracking is a highly questioned methodology, which would be unthinkable to use in a country such as Chile, with high sensitivity to socio-environmental problems if it were not done in sparsely populated areas—particularly in a region such as Magallanes, which should be the region with the greatest tourist projection in Chile. This also speaks of a disconnection with the country's development objectives. In Magallanes, a region dependent on this resource because of its cold weather, the state subsidizes the fossil industry with approximately \$300 million annually, directly and indirectly, which confirms a contradiction with regard to the Paris Agreement or the Sustainable Development Goals. It is also a very bad business goal, because with this subsidy, the region could develop the wind industry—to name a renewable source—due to the recognized winds of the area. It could solve the region's energy and heat generation needs permanently and in a clean way. All this without considering the historical capacity of the country to access natural gas from other latitudes, as a result of its historical capacity to access supply."

A **Luis Cifuentes, associate professor in the industrial and systems engineering department and chief of the Environment Center at Pontificia Universidad Católica de Chile:** "The SMA's charges against ENAP are serious and deserve the highest financial sanction and cancellation of its environmental qualifications and eventually cancellation of the project. The state company has been relatively indolent in complying with environmental regulations in the past. There was an extremely serious case at the end of 2018 with the Ventanas industrial complex, with massive poisoning affecting the nearby population. The company's responsibility in the incident was subsequently determined, due to poor oil handling. Although in this case there is no impact on the population—due to the area's relative remoteness—the SMA is acting correctly in applying sanctions for violations that cause serious environmental damage. Supplying gas to the region must not cause damage to nature, which is its main attraction and a source of important economic resources, thanks to tourism."

Advisor Video

The 2020 U.S. Presidential Race & its Impact on Latin America

With fewer than 10 months until the U.S. presidential election, the Latin America Advisor sat down with Dan Erikson, managing director of Blue Star Strategies and a senior fellow at the Penn Biden Center, to talk about how the race is shaping up, which candidate proposals are the most relevant for Latin America and how U.S. policy toward the region could be affected.

PLAY



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