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FEATURED Q&A

What Would Brazil Gain or Lose by Joining OPEC?

Brazilian President Jair Bolsonaro last year floated the idea of the South American country joining the Organization of the Petroleum Exporting Countries, or OPEC. // File Photo: Brazilian Government.

Q **Media reports out of Brazil in recent days suggest the country's economy ministry is weighing the pros and cons of joining the Organization of the Petroleum Exporting Countries, or OPEC. What would joining OPEC mean for Brazil's oil production, and what advantages and disadvantages would such a move bring? What is the outlook for the South American country's oil and gas sector in the year ahead? What does Brazil need to do to meet the government's goal of becoming one of the top-five global energy exporters by 2030?**

A **Cleveland Jones, researcher at the Instituto Nacional de Óleo e Gás/CNPQ (INOG) in Brazil:** "Brazil will significantly increase its oil production to as much as 7.5 million barrels per day (bpd) of oil in 2030, according to ANP Director Décio Oddone, placing it solidly among the world's top oil exporters, at an estimated four million bpd of oil. That growth is essential for the deficit-laden Brazilian economy, but also directly contrary to OPEC aims, since it seeks to restrict oil production of members in order to support prices. Brazil's possible entry into OPEC was extemporaneously mentioned by President Jair Bolsonaro last year during a meeting with Saudi authorities. It was undoubtedly an instance of speaking before thinking. Now, as a face-saving measure, the president's economic team must scramble to suggest that they are indeed considering that possibility. Brazil will not likely join OPEC, since that would subject private producers to possible OPEC production quotas. Oil majors have recently entered Brazil in a big way, spending billions of dollars on farm-ins, as Equinor did when it bought

Continued on page 3

TOP NEWS

OIL & GAS

U.S. Oil Executives Sent to Prison in Venezuela

Venezuelan police rounded up the six U.S. oil executives, who were previously under house arrest in the South American country, just hours after U.S. President Donald Trump met with Venezuelan opposition leader Juan Guaidó in the White House.

Page 2

OIL & GAS

Former Pemex Chief Arrested in South of Spain

Emilio Lozoya, who led Mexican state oil company Pemex from 2012 to 2016, was arrested near the port city of Málaga on charges of tax fraud and bribery.

Page 2

OIL & GAS

Strike Protesting Privatization in Brazil Continues

Nearly 20,000 employees across 13 states are participating in the strike, according to federal oil workers union FUP, which general coordinator José Maria Rangel helps lead.

Page 2

Rangel // File Photo: @josemaria1350 via Twitter.

OIL AND GAS NEWS

Oil Strike Protesting Privatization in Brazil Enters Second Week

An oil workers strike in Brazil has continued into a second week even after a local labor court classified the work action as politically motivated and ordered crews to report to work, Argus Media reported Monday. Federal oil workers union FUP says the ongoing strike has momentum similar to a 32-day work action in 1995. Ninety-two units across 13 states are participating in the strike, which began Feb. 1, according to the FUP. Nearly 20,000 workers at 40 platforms, 11 refineries and three natural gas treatment units, among other installations, are participating in the strike, the union added. Workers are protesting what they see as government attempts to privatize state oil company Petrobras through piecemeal divestments. Although Petrobras is indeed selling some of its assets, the government vows the firm will remain in the hands of the state. Petrobras said last Friday that it had started hiring replacement workers and services as an emergency, a move allowed by a Feb. 7 superior labor court decision. "The units are operating under appropriate conditions, with reinforcement contingency teams when necessary, and there is no impact on production so far," the company said, according to the report. In related news, Petrobras announced Monday that it reached a new production record in the fourth quarter of last year, with output surpassing 3 million barrels of oil equivalent per day, up by 5.1 percent from the third quarter and 13.7 from the fourth quarter a year earlier, Reuters reported.

Former Pemex CEO Lozoya Arrested in Spain

The former head of Mexican state oil company Pemex, Emilio Lozoya, was arrested in southern Spain on Wednesday on charges of tax fraud and bribery, El País reported. Lozoya had been on the run since May, when Mexican authorities accused him of receiving bribes in connection with Pemex's purchase of a fertilizer plant in 2014. The plant, which Pemex bought from major Mexican steel manufacturer Altos Hornos de México, or Ahmsa, for $475 million, was out of service at the time of the purchase. Critics have said the cost was extremely inflated, The New York Times reported. Lozoya, who led Pemex from 2012 to 2016, has denied wrongdoing and has alleged that he is being politically persecuted. Spanish police arrested him at the request of Mexico's special prosecutor's office. Lozoya had been living in a luxurious residential development near the Spanish port city of Málaga, and he seldom left the house, according to the report. The arrest was made during one of his rare outings. Lozoya is set to appear Thursday before a judge from Spain's national court, where he will be questioned as to whether he is ready to return to Mexico to stand trial there, The New York Times reported. The former Pemex chief was a close ally to former Mexican President Enrique Peña Nieto. [Editor's note: See related **Q&A** in the June 7 issue of the Energy Advisor.]

U.S. Citgo Executives Rounded Up, Sent to Prison in Venezuela

Six U.S. oil executives previously under house arrest in Venezuela were arrested hours after U.S. President Donald Trump met with Venezuelan opposition leader Juan Guaidó in the White House, the Associated Press reported Feb. 6. The Venezuelan government's SEBIN intelligence police rounded up the executives, who worked at Venezuelan state oil company PDVSA's U.S.-based refiner, Citgo, according to Alirio Zambrano, the brother of two of the six detained men. "We demand to know they are safe but more importantly their freedom!" he wrote on social media. Carlos Añez, whose stepfather is one of the detainees, said officers on the night of Feb. 5 "came to the apartment, told my father that they had to take him, to bring a change of clothes, they took his GPS off

NEWS BRIEFS

U.S. Government Speaks Frequently With Repsol on Venezuela: Special Envoy

The United States frequently talks to Spanish oil company Repsol, which continues to operate in Venezuela, about the South American country, U.S. Special Envoy for Venezuela Elliott Abrams said Feb. 7. His remarks followed another U.S. official's warning to oil companies, including Repsol, who still do business with Venezuelan state oil company PDVSA to "tread carefully." Abrams said Repsol has not been and does not want to be violating U.S. law.

Renewables Reach Nearly 70% of Colombian Power Generation in January

Energy from renewable sources in Colombia amounted to 68.73 percent of the country's total power production last month, generating a daily average of 132.87 gigawatt-hours, according to Colombian grid operator XM Compañía de Expertos en Mercados, Renewables Now reported Monday. Daily generation was down by 3.79 percent on average, month-on month.

BHP Obtains Exploration License for Two Blocks Off Barbados' Coast

Anglo-Australian oil and mining firm BHP has obtained "effective offshore exploration licenses" to search for oil offshore Barbados, the Caribbean nation's government information service said, Offshore Engineering reported Feb. 7. The government has allowed BHP to explore in the Carlisle Bay and Bimshire blocks, located between 40 kilometers and 140 kilometers southeast of Barbados. "While the government of Barbados is aggressively pursuing renewable and alternative energy initiatives, it also recognizes the importance of diversifying the island's energy portfolio to include offshore oil and gas development," said Energy Minister Wilfred Abrahams.

his ankle and took him away," Reuters reported. The United States has previously called for the group's release. In a briefing with reporters on Feb. 6, Special Representative for Venezuela Elliott Abrams said the State Department had confirmed the six executives were transferred to a Caracas prison. "We condemn this cruel and indefensible action and demand that their long, unjust detention come to an end and they be allowed to leave Venezuela," Abrams said during the briefing. The news came two months after the men were granted house arrest and just hours after Trump hosted Guaidó, whom the United States and dozens of other countries consider Venezuela's legitimate president, in the White House as a show of support. The executives were arrested in November 2017 after being called into a meeting at PDVSA's headquarters in Caracas. They were accused of several crimes, including embezzlement, money laundering and conspiracy, Reuters reported.

Ecopetrol, Shell Team Up to Develop Three Caribbean Blocks

Colombian state-owned oil company Ecopetrol and Anglo-Dutch energy firm Royal Dutch Shell will develop three blocks in the Caribbean together, Ecopetrol said Feb. 7, Reuters reported. Under the deal, Shell will acquire a 50 percent operating-stake in the Fuerte Sur, Purple Angel and COL-5 deep-water blocks, all located in Colombia's Caribbean waters. We are very happy with this alliance, which will help us to grow reserves and production," Ecopetrol CEO Felipe Bayón said in a statement. The blocks include a recent gas discovery, and the two companies aim to drill a new appraisal well in the area near the end of 2021, Ecopetrol said. No value for the deal was reported. "This is a significant step for Shell in Colombia and South America," said Ana María Duque, Shell's chair in the Andean country, Reuters reported. The Colombian Petroleum Association estimates that oil firms will invest between $920 million and $1 billion on exploration efforts in the South American nation. Around $250 million to $260 million will go to offshore projects.

Pemex, Talos Spat is Delaying Production in Zama Field: CEO

A dispute between U.S.-based Talos Energy and Mexican state oil company Pemex has slowed down talks on developing a major discovery in the Gulf of Mexico, Talos CEO Timothy S. Duncan told Reuters, the wire service reported Tuesday. The covert dispute over the nearly 700-million-barrel offshore discovery has come to light, as both Pemex and a Talos-led consortium claimed to hold the majority of the Zama deposit, as it is called, and ultimately the rights to operate it. Zama, which was discovered in 2017, was the largest find in decades by a private company in Mexico. It is also seen as a test for Mexico's investment climate under President Andrés Manuel López Obrador, as the case represents the first time the public and the private sectors will have to work in a joint oil reservoir since the 2013 energy reforms,

FEATURED Q&A / Continued from page 1

Carcará from Petrobras, or as Exxon and other companies did, when they bought blocks at ANP bidding rounds, investing billions of dollars in bonus payments. Those independent operators cannot now be subjected to OPEC directives, at the risk of undoing Brazil's efforts to become an attractive destination for investments and endangering its plans to quickly increase oil production. Any talk of joining OPEC is political non-speak, or worse, double-speak, to please the political base of the president, while his competent economic team continues to seek foreign investments and sets the stage for increased oil production and revenues."

> **"Growth is essential for the deficit-laden Brazilian economy, but also directly contraty to OPEC aims..."**
>
> **— Cleveland Jones**

A **Mark S. Langevin, director of BrazilWorks and senior advisor to Horizon Client Access:** "Last October in Saudi Arabia, President Jair Bolsonaro remarked that Brazil should become a member of OPEC. In January, Minister Bento Albuquerque told reporters that he would travel to Saudi Arabia in July to discuss Brazil's membership but retreated four days later to reframe his purpose as simply discussion over cooperation. The slip left diplomats and investors in the lurch and exposed the failure to engage an inter-agency process to carefully consider Brazil's foreign policy options. The country is working hard to achieve another 10 percent increase in annual oil and gas production this year, while the message mix-up casts a shadow over Bolsonaro at a moment when he plans to appoint three new directors to the National Oil, Gas and Biofuels Agency (ANP) this year, including the next executive director. His inner circle, including Albuquerque, struggles to spin the president's disruptive public remarks on major policy issues. In stark contrast, Brazil's exploration and production future is bright, driven by the Santos Basin pre-salt play and multiplied by more modest efforts to ramp up national production in nearly all basins. The pre-salt reserves require massive investments by Petrobras and a growing list of international oil companies to achieve commercial production. Albuquerque and Petrobras are working to remove the roadblocks that prevent the retendering of the two Transfer-of-Rights (TOR) blocks (Sépia and Atapu) and the National Energy Policy Council is expected to schedule the 17th concessionary and seventh pre-salt bidding rounds for the second half of 2020. If Brazil sticks to the schedule and offers an iron-clad regulatory regime to investors, then the country could surpass Canada and become a leading crude oil exporter by 2030."

Continued on page 6

according to the report. An agreement on who will operate the field as well as the initial split of the participation between Talos and Pemex is necessary before the project can go forward with regulators' approval. "That part of the discussion has obviously slowed down," Duncan told the wire service. Pemex chief executive Octavio Romero Oropeza last month announced the company's intention to operate the oil area, Oil Price reported. Romero Oropeza said Pemex could bring Zama into production next year, while Talos, he said, would not begin production until 2024. However, Talos has set a goal to begin producing oil there in 2023.

RENEWABLES NEWS

Brazil Launches Solar Electricity Program in Amazon Region

Brazil's government last week launched a new program that seeks to supply solar energy to 70,000 families living in remote areas of the Brazilian Amazon region, Renewables Now reported Feb. 6. Under the "Mais Luz para a Amazônia" program, which translates to "More Light for the Amazon," the government will install photovoltaic panels in low-income communities that have no access to the power grid. The Amazon region consists of nine Brazilian states: Acre, Amapá, Amazonas, Minas Gerais, Pará, Rondônia, Tocantins and Maranhão. The availability of solar electricity will make possible the construction of hospitals, schools and other public infrastructure.

POLITICAL NEWS

Guaidó's Uncle Detained After Return to Venezuela

Venezuelan opposition officials on Wednesday blasted President Nicolás Maduro's government for agents' detention the day before of opposition leader Juan Guaidó's uncle, Juan José Márquez,The Washington Post reported. Márquez had traveled with Guaidó on a flight from Lisbon as Guaidó returned to Venezuela from a three-week international tour. Guaidó last saw his uncle just before entering an arrivals hall at Simón Bolívar International Airport, opposition officials said. On Wednesday, Diosdado Cabello, a top Venezuelan official, claimed in an appearance on national television that Márquez had been hiding explo-

ADVISOR Q&A

Is the Coronavirus a Major Threat to Latin America?

Q **Some analysts in Brazil have revised down their economic forecasts in light of the coronavirus epidemic that started in China, as the fast-spreading illness' potential effects on global trade and supply chains sparked concerns. Meanwhile, commodity prices have been volatile, leaving exporting countries of Latin America wondering what they stand to lose, or gain, as a result of increasing global disruptions. How serious is the risk of the coronavirus spreading to Latin America and the Caribbean? What will be the disease's global economic fallout, and how will such trends affect Latin American and Caribbean economies? Which sectors in the region could be hurt the most, and which industries might benefit from the trade disruptions?**

A **Fiona Mackie, regional director for Latin America and the Caribbean at The Economist Intelligence Unit:** "Although there is still a lot of uncertainty around the eventual path of the coronavirus, there is clear evidence already of an impact on emerging market financial markets and on commodities that will transmit rapidly to Latin America, and especially South America's large commodity exporters. There will be a direct impact from reduced trade with China, and the region's open economies that export a lot to China will be particularly vulnerable here. There will be indirect impacts too from commodity prices, exchange-rate movements and the uncertainty effect on global business investment. All this raises questions as to how much policy space Latin America has to support growth in the near term. Most Latin American economies are in monetary easing mode, but coronavirus-related currency weakening could now complicate monetary policy. Space for fiscal stimulus will be even more limited. The relatively good news is that, based on our provisional baseline scenario for the spread of the coronavirus in China (which assumes the outbreak comes under control by late March), we expect a recovery in China's import demand and in commodity prices in the second half of 2020. On this basis, although we expect first-quarter data to be very weak, significant downward revisions to our GDP growth forecasts are likely to be limited to countries most exposed to commodity prices and to demand from China, including Chile and Peru. In Brazil, for example, we have for now revised down our 2020 growth forecast by only 0.1 percentage points in response to the coronavirus. However, substantial downside risks to the region are clear. If our assumptions about the spread of the coronavirus ultimately prove too benign, much larger effects from global investor uncertainty would start to hit hard."

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

NEWS BRIEFS

Head of Honduran Nat'l Police Arrested on Money Laundering Accusations

Honduran authorities on Tuesday arrested the head of the national police, Leonel Luciano Sauceda, and his wife, Patricia Sbeltlana Estrada, accusing them of money laundering, the Associated Press reported. Authorities also seized two cars and financial documents from their home in Tegucigalpa, according to a statement. Sauceda, who joined the national police in 1992, was appointed head of the force just two weeks ago. The couple's lawyer expressed confidence that the case would be nullified in court, saying evidence will show his clients' innocence.

Bukele Vows to Abide by High Court Order to Stop Pressuring Lawmakers

Salvadoran President Nayib Bukele said Tuesday that he will abide by a Supreme Court order that he stop pressuring lawmakers to pass a $109 million loan he is seeking to strengthen the country's fight against gangs, the Associated Press reported. The president said in a statement that he did not agree with the court. Bukele over the weekend in a show of force deployed the military and police to Congress, sparking national and international criticism and calls for Bukele to respect democratic institutions.

Guatemalan Congress Passes Measure on NGOs

Guatemala's Congress on Wednesday approved controversial legislation that would allow the executive branch to shut down nongovernmental organizations if they are deemed to be disruptive, the Associated Press reported. Civil society groups have expressed alarm that the measure could be used to silence dissent, and other opponents questioned the constitutionality of the legislation.

sives inside his vest. Márquez's wife and other family members, including Guaidó, denied the allegation. Márquez's wife, Romina Botaro, said her husband was wearing a protective vest that customs agents told him he had to declare.

ECONOMIC NEWS

Trump, Ecuador's Moreno Discuss Trade at White House

Ecuadorean President Lenín Moreno visited the White House on Wednesday and discussed issues including trade and Venezuela with U.S. President Donald Trump, The Wall Street Journal reported. The two leaders "committed to explore new areas in trade, investment, and job creation, which will benefit both countries," the White House said in a statement. "The United States and Ecuador will develop a road map in the short term to improve our existing bilateral trade relationship based on a sound investment environment and fair market access," it added. Following the meeting, the White House said that a high-level delegation of U.S. trade and investment officials will visit Ecuador in April. The visit will be an effort to build on the Trump administration's recently launched Growth in the Americas initiative, which in part will open Ecuador to U.S. investment in infrastructure and energy, The Wall Street Journal reported. Additionally, Adam Boehler, the chief executive of the U.S. International Development Finance Corporation, will visit the South American nation within months in order to explore new opportunities in financing, the White House said. During the meeting with Moreno, Trump told reporters in the Oval Office that he is working on a trade deal with Ecuador. "They have incredible product," said Trump. "They grow it and they make it, and we like it. So we will. Sure. And they need our product, too." Moreno's visit to the White House was the first by an Ecuadorean president in 17 years. "Ecuador has—after having gone through very hard times, and especially in regards to its international relationships—has decided to come together again with the international community and bring refreshed relationships to those who are—who have the same way of thinking as we do," Moreno said. Ties between the United States and Ecuador deteriorated during the decade-long presidency of Ecuador's Rafael Correa, but relations have warmed since Moreno succeeded Correa in 2017. In addition to trade and economic issues, Trump and Moreno also discussed Venezuela during the meeting, along with increasing international pressure on "the illegitimate regime of Nicolás Maduro," the White House said. It added that the two countries are looking forward to working together on issues including trade, security and other regional priorities in May at the United States-Ecuador Bilateral Expanded Political Dialogue.

Argentina Delays $1.47 Billion Principal Payment on Bond

Argentina has delayed a $1.47 billion principal payment on the country's AF20 bond until Sept. 30, Economy Minister Martín Guzmán said on Tuesday, a move that could potentially complicate a broader debt restructuring program, Reuters reported. The payment had been due this Thursday. In a statement, the Argentine government said it would continue making scheduled interest payments on the bond. However, the decision, made without consulting bondholders, may still hurt investor confidence. Argentina's over-the-counter bonds fell an average 1 percent following the news, while the country's risk spread widened 100 basis points to 1,982 over safe-haven U.S. Treasuries, according to JP Morgan's Emerging Markets Bond Index Plus. The announcement came a day before meetings between officials from the International Monetary Fund and the Argentine government began in Buenos Aires. The two parties have met several times over the past month. President Alberto Fernández's administration faces a challenging negotiation as it seeks to restructure $100 billion of debt while maintaining his leftist Peronist coalition's support in Congress, the Financial Times reported. [Editor's note: See related **Q&A** in Friday's issue of the daily Latin America Advisor.]

FEATURED Q&A / Continued from page 3

A Fernanda Delgado, professor and research coordinator at the Center for Energy Studies at the Getúlio Vargas Foundation in Brazil: "Brazil's entry into OPEC is not a new proposal. Former President Lula had already considered it when the pre-salt was discovered. After ups and downs in Brazilian energy policy, the OPEC invitation has gained new momentum, driven by the three million barrels per day (bpd) of production Brazil achieved last year, and the ANP's optimistic estimate of almost seven-million-bpd production in 2030. This production ramp-up would make Brazil one of the world's largest producers and exporters. However, Brazil's entry into OPEC requires further analysis, since Brazil is seeking membership in the OECD and NATO. Such economic and military cooperation organizations generate credibility and guarantee business benefits with prestigious partners—the OECD in particular—whose principles are not aligned with those OPEC proclaims. For Brazil, being part of OPEC is not attractive, since one of the group's strongest forms of activity is production control in order to influence international prices. For its members, who have vast reservoirs and large production volumes, what's attractive is for crude oil prices to remain moderate in order to ensure that they remain the main energy sources in the world matrix, as well as to discourage the development of some type of backstop technology. For Brazil, and especially for Petrobras, which holds 93 percent of national production, the control of its production levels is not welcomed, since the firm has obligations with investors and debt creditors. It's also betting on the oil market for a significant portion of the country's reindustrialization, from the availability of energy at lower prices, such as natural gas. Also worth mentioning is that the Brazilian government has no power to determine private operators' levels of production. For Brazil to achieve its bold production growth goals in the coming years, it is necessary to continue the regulatory and policy changes adopted until now, particularly maintenance of the bidding calendar for exploration areas, both for concession and sharing agreements, of low rates of local content and of Petrobras' divestment program, which opens up space for the entry of new players in practically every part of the industry."

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

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