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FEATURED Q&A

How Can Colombia Ensure Oil & Gas Self-Sufficiency?

The government of President Iván Duque has made boosting the country's oil and gas reserves a priority. // File Photo: Colombian Government.

Q **Colombian state oil company Ecopetrol said last month that its proven reserves of oil and gas had increased 9.6 percent at the end of last year, equivalent to 7.8 years of production. Boosting the country's dwindling reserves has been one of the Colombian energy ministry's main priorities under President Iván Duque, with officials emphasizing how developing unconventional resources through fracking could raise oil and gas reserves fourfold. What does the increase of Ecopetrol's reserves mean for the company and for the country? Where does the legal use of fracking in Colombia currently stand, and is there sufficient political will within the Duque administration to push the initiative forward? What else can Colombia do to secure long-term domestic supply of oil and gas?**

A **Karla Schiaffino, politics analyst at Verisk Maplecroft:** "Amid the expectation of decreasing oil production, an increase in reserves breathes life into Ecopetrol and assuages concerns over Colombia's energy self-sufficiency. The increase will play well with fracking supporters to develop Colombia's unconventional resources. Indeed, late in 2019, Energy Minister María Fernanda Suárez warned that an outright ban on fracking would likely compromise Colombia's fiscal stability and weaken its currency. In the short term, the collapse of oil prices will have a direct negative macroeconomic impact on Colombia; if sustained over a longer period, it would reduce the likelihood of unconventional development, which has a higher breakeven than current pricing. Furthermore, on Jan. 31, a local Cundinamarca court upheld

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Coronavirus, Oil Prices Could Hit Venezuela Hard

The combination of a health crisis, lower oil prices and U.S. sanctions could potentially mean the collapse of Venezuela's oil and gas industry, analysts say.

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Plunge in Gas Prices Could Hurt Brazil's Biofuels

The fall in crude oil prices could hurt biofuels production in Brazil, as the cleaner alternative struggles to compete against lower costs for gasoline at the pump.

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OIL & GAS

Oil Price Shock Raises Doubts Over Vaca Muerta

Last week's oil price shock has raised concerns over the Argentine government's plans to develop the country's huge Vaca Muerta shale formation, a cornerstone of President Alberto Fernández's agenda to boost revenue amid an economic recession.

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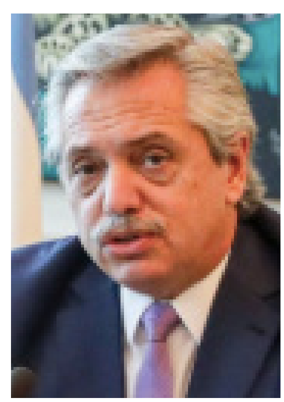

Fernández // File Photo: Argentine Government.

OIL AND GAS NEWS

Low Prices, Covid-19 Could Hit Venezuela's Oil Sector: Report

Venezuela will be among the hardest-hit Latin American countries as the coronavirus spreads across the region, and its oil industry is particularly vulnerable to collapse, Argus Media reported Monday. The Andean country's oil and gas sector was fragile even before the health crisis, with production averaging approximately 750,000 barrels per day (bpd) in early March amid tightened U.S. sanctions against subsidiaries of Russian state oil company Rosneft, which had been helping Venezuela export its crude. This week, the government of Venezuelan President Nicolás Maduro ordered a lockdown in an effort to stem the spread of the coronavirus, which comes at a time when Venezuela's health care systems are near collapse and there are wide shortages of basic medical supplies and doctors. However, the extreme measures are accelerating the oil industry's decline, according to the report. State oil company PDVSA has ordered essential employees to continue working. However, it is unclear and unlikely that key support teams from PDVSA's private partners, including the United States' Chevron, Spain's Repsol and Italy's Eni, as well as Rosneft and China's CNPC, will risk sending in their workers in the face of falling demand for crude, Argus Media reported. Additionally, following last week's plunge in oil prices after Saudi Arabia vowed to up production and drive down prices, PDVSA reportedly started offering discounts of as much as $23 per barrel on its flagship crude, Merey heavy oil, Reuters reported. Even before the oil price shock, Venezuela had already been pricing its Merey at between $16 and $18 below Brent crude, sources told the wire service, in a bid to attract buyers who were wary of violating U.S. sanctions. With Brent prices plunging in their worst rout in 30 years on March 9, low prices could leave PDVSA struggling to cover its costs of production. "It's a perfect storm," Francisco Monaldi, an energy economist at Rice University's Baker Institute in Houston told Reuters. "If this fall in prices prolongs, it would be catastrophic for Venezuela because the combination of adverse factors is lethal." [Editor's note: See related **Q&A** on the consequences of last week's oil price shock in last Friday's issue of the daily Latin America Advisor.]

> **"If this fall in prices prolongs, it would be catastrophic for Venezuela because the combination of adverse factors is lethal."**
>
> **— Francisco Monaldi**

Oil Price Shock Puts Vaca Muerta's Profitability at Risk

Last week's oil price shock has raised concerns over the Argentine government's plan to develop and export the country's huge Vaca Muerta shale formation in Patagonia, a cornerstone of President Alberto Fernández's strategy to boost revenue amid a worsening recession, the Buenos Aires Times reported Monday. Vaca Muerta currently plays a key role in the domestic market, supplying 3 percent of the country's gas demand and 19 percent of its oil. Although extraction in the large shale formation began in 2013 and nearly 20 companies operating there, including Chevron, Shell, Total and Statoil, development has largely stalled, analyst Alejandro Einstoss, of the Mosconi Energy Institute, told the Buenos Aires Times, adding that just 5 percent of the reserves had been exploited. Production Development Minister Matías Kulfas has repeatedly said that international companies' interest in Vaca Muerta "is still intact, despite the crisis." However, Einstoss expressed skepticism as to whether the shale development could truly bring foreign currency into Argentina, saying that "Vaca Muerta is

NEWS BRIEFS

U.S. Sanctions Second Rosneft Unit to Pressure Venezuela's Maduro

The U.S. Treasury on March 12 sanctioned a second subsidiary of Russian state oil company Rosneft, which the Trump administration has said gives backing to Venezuelan President Nicolás Maduro. The Treasury said it was sanctioning TNK Trading International. "The Trump Administration remains committed to targeting those who support the corrupt regime's exploitation of Venezuela's oil assets," Treasury Secretary Steven Mnuchin said in a statement. Last month, the Treasury sanctioned another Rosneft unit, Rosneft Trading.

Colombia's Ecopetrol to Cut 2020 Investment Plan By $1.2 Billion: Statement

Colombian state oil company Ecopetrol announced Tuesday that it has cut its 2020 investment plan by $1.2 billion to between $3.3 billion and $4.3 billion, in response to current market conditions, with lower oil prices and shrinking demand for crude, Oil & Gas Journal reported. The firm's production target for this year remains the same, at between 745,000 and 760,000 barrels of oil equivalent per day.

Brazil Regulator Approves Purchase of 419-Megawatt Wind Portfolio

Brazil's Administrative Council for Economic Defense, or CADE, has approved the purchase of a 419-megawatt wind portfolio by Votorantim Energia and the Canada Pension Plan Investment Board, or CPPIB, Renewables Now reported Monday. The two companies secured the acquisition through their joint venture, VTRM Energia Participaçoes, which is buying 14 wind projects under development in the states of Piauí and Pernambuco from Salus Fip, the parent company of Brazilian wind energy firm Casa dos Ventos.

a potential that has yet to demonstrate its capacity in competitive markets." Yet Einstoss said the fall in oil prices is unlikely to affect reserves in the short term. "The industry is looking to the longer term. The big investment decisions are not made based on whether the price is $30 a barrel now or whether it was $70 in January," he said. The plunge in oil prices prompted state intervention in Argentina's energy industry, with the government saying it would halt imports of crude, gasoline and diesel, Argus Media reported. With the new policy, crude and fuel imports will be subject to so-called nonautomatic licenses, which give the government as much as two months to authorize purchases from abroad. The policy does not affect jet fuel, liquefied petroleum gas and fuel oil, according to the report.

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a ban on fracking and requested environmental and social impact assessments of the pilot Ecopetrol program and of fracking in general. The ministry of energy responded with a decree outlining the general guidelines of the pilot projects. We expect the pilots to shed some light into the potential adverse impacts of fracking, but also on the activity's implications for Colombia's energy self-sufficiency and fiscal stability, albeit in the longer term. A lift of the ban is, therefore, unlikely to occur in the next 18-24 months. Meanwhile, environmentalists and local communities continue to reject fracking. Amid a general environment of social tensions, public opposition will likely play a significant role in Duque's policy stance toward fracking. Ecopetrol will need to be proactive in engaging local communities to secure social licenses to operate, going well above and beyond legal requirements and meeting international best practices and standards."

> **"Amid the expectation of decreasing oil production, an increase in reserves breathes life into Ecopetrol..."**
>
> **— Karla Schiaffino**

A **Enrique Ortiz, program director at the Andes Amazon Fund:** "Ecopetrol's announcement last month of the increase in reserves in Colombia, as well as the recent government decree providing guidelines for a prompt start of fracking operations (for research, not commercial purposes), signaled a forward step for Ecopetrol's projections and for the oil industry in Colombia. However, the recent fall in the world's oil prices, and the legal recourse presented by representatives of Congress objecting to the decree, bring back uncertainty in the sector as well a deeper debate on whether fracking should take place in Colombia at all. The complaint states that, with the argument of research objectives, the decree masks the real intentions of the government—that is, to start fracking operations as a means of assuring a long-term provision of hydrocarbons. It is up for debate if the representatives have a solid case by invoking the environmental precautionary principles for not using hydraulic fracturing—even in pilot projects—as the decree is based on recommendations by a group of independent experts. In spite of an increase in renewable energy initiatives, the lifetime of current oil reserves is a valid concern for this and future governments. As recent news shows, the Duque administration is taking every step to ensure that nonconventional sources are not left aside."

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RENEWABLES NEWS

Brazil's Biofuel Production Will Feel Impact of Low Prices

The plunge in oil prices will have serious effects on Brazil's biofuel production, potentially driving down margins in the South American country's industry, Bloomberg News reported Tuesday. Oil prices fell sharply on March 9 after Russia and Saudi Arabia failed to reach an agreement regarding production cuts, which prompted the Middle Eastern nation to vow an increase in crude production, oversupplying the market amid falling demand for crude amid the global coronavirus pandemic. As prices for gasoline fall, ethanol is also under pressure, as the two fuels compete at the pump, especially in Brazil, where most drivers have cars that can run on either. Margins for the corn-based biofuel have already turned negative in Goiás state, where one-third of Brazil's biofuel plants are based, Bloomberg News reported, citing Matheus Costa, an analyst at INTL FCStone. There could be even worse outcomes if low oil prices continue, with as many as 60 percent of planned expansion projects being canceled, according to Guilherme Nolasco, the president of an industry group known as Unem. Earlier this year, FCStone had forecast that corn-ethanol output would rise to 2.5 billion liters in the upcoming 2020-2021 season, which would have represented a 16-fold increase from about 150 million liters five years ago. However, the oil price shock comes at a time in which production had already been slightly struggling as corn costs surged for the mills turning the grain into fuel. The relatively high energy prices had allowed processors to stay profitable. The fall in prices, if sustained, could cause only 40 percent of the biofuel projects in Brazil to go forward, Nolasco said. Brazil currently has about 15 ethanol corn mills in operation, three in pre-operational stages, and 23 new plants are in the works, Nolasco said. Brazil's largest sugar and ethanol producer, Raizen, said last week that it was planning to speed up plans to shift away from ethanol production toward sugar in the upcoming season amid lower oil prices, Argus Media reported. "we had already planned to allocate more cane to sugar, and the drop in oil prices will only accelerate this," Raizen's vice president, Ricardo Mussa, said at investor event, according to the report.

POLITICAL NEWS

Brazilians Appear at Windows in Anti-Bolsonaro Protests

In major cities, Brazilians quarantined at home appeared at their windows and on balconies on Wednesday night, banging pots and pans and shouting "Bolsonaro out!" in a large-scale demonstration against President Jair Bolsonaro, who initially labeled the coronavirus pandemic a "fantasy" and is accused of not taking the outbreak seriously, MercoPress reported. Brazil has more than 500 confirmed cases of Covid-19, the most of any country in Latin America, and four people there have died of the disease, according to data compiled by Johns Hopkins University. Worldwide, there are more than 222,000 confirmed cases and more than 9,000 deaths. Bolsonaro has said he tested negative for the disease twice, but 14 people in his delegation that visited Florida, where Bolsonaro and other Brazilian officials met with U.S. President Donald Trump, have tested positive, Reuters reported. On Wednesday, Bolsonaro and members of his cabinet, all wearing face masks, announced new emergency measures to contain the outbreak and fortify the economy, including support for the aviation industry and assistance for poor families. Brazil's financial markets have been among those that have been pummeled amid the global crisis. The country's Bovespa stock index plunged 10 percent on Wednesday, while bond yields spiked and Brazil's currency hit an all time low of 5.2 reais per U.S. dollar. Central bank measures in foreign exchange and in the country's bond market pared some of the declines. Bolsonaro also closed Brazil's border with Venezuela in an effort to fight the spread of Covid-19 and said he was considering closing all of the country's land borders. The closure of Brazil's border with Venezuela does not apply to trucks hauling cargo or humanitarian aid, Reuters reported. Elsewhere in the region, Colombia's government said Wednesday that it would spend 14.8 trillion pesos ($3.65 billion) on emergency measures related to the virus, adding that it will not take on new debt to finance the economic measures. The government is planning additional payments under its social welfare programs and an accelerated plan to return value-added tax to needy Colombians, said Finance Minister Alberto Carrasquilla. In Chile, President Sebastián Piñera declared a 90-day state of catastrophe as Covid-19 cases grew to 238.

ADVISOR Q&A

How Hard Will the Oil Price Plunge Hit Latin America?

Q An oil price war erupted last week between Saudi Arabia and Russia, causing prices for the commodity to plunge 25 percent March 9, their steepest drop since the Gulf War in 1991. The start of the oil price war coincided with the first global fall in demand since 2009, according to the International Energy Agency. Which oil-producing nations in Latin America and the Caribbean are most at risk from the situation, and what will be the consequences of such low oil prices on their economic and fiscal stability? How should governments in the region respond? What's behind the price war, and how will the geopolitical dynamics play out this year as they relate to Latin America?

A Lisa Viscidi, director, and Sarah Phillips, assistant, in the Energy, Climate Change & Extractive Industries Program at the Inter-American Dialogue: "Russia chose not to back OPEC's proposed production cuts, and Saudi Arabia responded by significantly reducing its crude prices and deciding to ramp up output in an effort to maintain market share. While it appears that U.S. shale producers (who have benefited from higher prices resulting from OPEC production cuts in recent years) were the real targets of Russia's decision, Latin America, a major oil-producing region, is also feeling the shock of low crude prices in an oversupplied market. Venezuela will be hit hardest. Already beset by falling production and U.S. sanctions that restrict its potential buyers, state-owned PDVSA has been forced to sell its crude at steep discounts. PDVSA has been selling its flagship Merey heavy crude blend at discounts of as much as $23 below the Brent international benchmark, which closed at just $36 per barrel on March 11. With Venezuelan production costs averaging $10-$12 per barrel, plus royalties, PDVSA is scarcely making a profit on oil sales. Conversely, Mexico will not feel the effects of low oil prices as acutely thanks to its hedging strategy. For 2020, Mexico spent $1.4 billion on oil hedging—a kind of financial insurance that gives it the option to sell oil at a certain strike price. On March 10, Mexico's finance minister said it had secured the price of $49 per barrel set in its annual budget. Other oil export-dependent economies around the region, such as Colombia and Ecuador, will also suffer from lower prices."

> **"While it appears that U.S. shale producers ... were the real targets of Russia's decision, Latin America ... is also feeling the shock..."**
> **— Lisa Viscidi & Sarah Phillips**

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

NEWS BRIEFS

Mexican Judge Issues Arrest Warrant for Former Investigations Chief

A Mexican judge has issued an arrest warrant for Tomás Zerón, the former head of investigations for the attorney general's office, for alleged violations of the case of 43 college students who disappeared in 2014, officials said Wednesday, the Associated Press reported. Another five former officials are also facing charges, which include torture, forced disappearance and judicial misconduct. Three have already been detained, and the three others, including Zerón, are still at large.

Brazil's Central Bank Cuts Rates to Record Low

Brazil's central bank on Wednesday cut its benchmark interest rates by 50 percent to a record low of 3.75 percent, seeking to protect the economy from a likely hit due to the coronavirus pandemic, Reuters reported. The decision was unanimous and comes amid a worsening forecast for Brazil's economy, pointing to a recession. Goldman Sachs on Wednesday revised down its 2020 outlook for Brazil to a 0.9 percent contraction, down from a forecast of 2.2 percent growth in January.

Venezuela Banking Shutdown Leads to Spike in Crypto Trading

The shutdown of Venezuela's national banking system, part of the country's response to the coronavirus pandemic, has led to a spike in cryptocurrency trading in the Andean nation, Cointelegraph reported today. After declining for three weeks, local trading activity between the bolívar currency and LocalBitcoins, a peer-to-peer bitcoin marketplace, rebounded above $3.4 million, Cointelegraph reported. Trading with LocalBitcoins has also reportedly increased elsewhere, including in Peru and Colombia.

The declaration gives the government broad powers to restrict freedom of movement and assure basic services and supplies of food. The 90-day measure was scheduled to take effect Thursday morning, and a military official was set to oversee its implementation. "This state [of catastrophe] is aimed at ... preparing ourselves to confront what lies ahead," said Piñera, Reuters reported. As many countries have done, Chile has closed schools, shut its borders and limited public gatherings. Chilean lawmakers this week started to consider postponing a referendum on a new constitution, which had been scheduled for April 26. Cases of coronavirus continued to rise in several other countries. Among them, Panama's health minister said the country had registered 109 cases, up from 86 the day before. Costa Rica's health minister announced the country's first death from Covid-19, an 87-year-old man who had been hospitalized west of San José. "We stand in solidarity with his family," Costa Rican President Carlos Alvarado said in a posting on Twitter. "Only together and with solidarity will we overcome this national emergency." [Editor's note: See **Q&A** on Latin American countries' response to the pandemic in Tuesday's issue of the daily Latin America Advisor.]

> **"Only together and with solidarity will we overcome this national emergency."**
>
> **— Carlos Alvarado**

Argentina, Domestic Bondholders Reach Debt Swap Deal

The Argentine government has reached a deal with domestic bondholders to swap nearly 200 billion pesos ($3.2 billion) in local currency debt in a major planned on March 19, Economy Minister Martín Guzmán told Reuters. The planned swap, which will offer new instruments that expire between 2021 and 2024 for others maturing this year, is part of the government's strategy to gain more time to make payments amid a severe debt crisis. "The goal is to roll-over a significant portion of the peso-debt at sustainable interest rates," Guzmán told the wire service. "We expect to change about 200 billion of short-term peso debt in this first round," he added. The minister said delaying the peso debt payments would "alleviate the stress on the treasury financing needs and, in the current conditions, on the central bank as well," Guzmán is also handling separate negotiations with international bondholders to restructure about $70 billion in foreign-law debt, talks which have been complicated by the coronavirus outbreak, which has hit emerging-market bond prices, S&P Global Platts reported. Many analysts are now considering Guzmán's timeline too optimistic. He originally aimed to present the government's offer to foreign creditors in the second week of March and reach a deal by the end of the month.

IMF Rejects $5 Bn Loan Request From Venezuela

The International Monetary Fund on Tuesday quickly rejected a surprise request by Venezuela for an emergency $5 billion loan to fight the coronavirus pandemic, the Associated Press reported. An IMF spokesperson said the request can't be considered because there was no clarity among its member states on who it recognizes as Venezuela's legitimate leader: Nicolás Maduro or Juan Guaidó, the head of the National Assembly. "IMF engagement with member countries is predicated on official government recognition by the international community," the spokesperson said in a statement. "There is no clarity on recognition at this time." Maduro's request for the funds came as a surprise because the socialist leader has been critical of the Washington-based lender's market-oriented requirements in providing financing to developing nations. While Venezuela's exposure to the coronavirus has so far been limited, its health system is in disarray amid economic collapse, and the country of 30 million could be among the worst hit by the pandemic, health experts said.

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A **Antero Alvarado, managing partner and Venezuela director at Gas Energy Latin America:** "Colombia remains a preferred location for oil and gas. However, its Achille's heel is still its geology. Last year was a good year for Ecopetrol in terms of reserves, with the replacement rate reaching 169 percent, giving it about 7.8 years at the current production rate. However, it is little for a large company that best on the long term. Regarding the issue of fracking, so far pilot tests have been allowed in the middle valley of Magdalena, César and Ranchería. It may take even longer to reach a commercial phase. In the United States, fracking actors have a lot of flexibility to stop production when prices don't make it profitable. With the recent drop in oil prices, many fracking projects must stop production. Are actors in Colombia prepared for this dynamic? For its part, Iván Duque's government is committed to the development of fracking, and doing so in a responsible manner, given the high social and political cost that such a decision implies. Colombia continues to make great efforts to reverse its reserve situation by implementing new secondary recovery technology, diligent allocation of new prospective areas and fracking tests. It is important to note that Colombia and Venezuela have a gas pipeline that links both systems, of which there has been very little talk in the media and Colombia's mining planning unit, UPME. While it is true that transporting gas remains complex today, it is one of the best options in terms of time and cost."

A **Inés Elvira Vesga, senior counsel at Holland & Knight:** "The outlook for self-sufficiency in Colombia is short term, so the increase in reserves that Ecopetrol announced is good news for the company, its shareholders and the country, since having to import fuels would have a great impact on industrial production as well as on consumers—all of which affects the country's economic future. The government recently issued Decree 328, which regulates various aspects of pilot projects' research of unconventional deposits. The decree is a framework regulation, from which we get the specific regulations required for operations to be developed, as well as their evaluations. At this moment, environmental, contractual, technical and social regulations are still pending in order to start the projects. The decree is currently in force, but it has already been sued. Additionally, the Council of State's decision on the legality of technical regulation is still pending, and regulation remains suspended preventively. Right now, there is no legal framework in Colombia that allows the immediate development of such projects. A renewables policy is being strongly promoted to prepare us for an energy transition, but this is a long-term issue, since we still depend on fossil fuels. In addition to the exploration of unconventional deposits, it is necessary to increase continental and offshore exploration. Institutional support is required to streamline the processes of environmental licensing and social matters, so that communities welcome the projects. The government has been very firm in its policy on renewables but could be more forceful in supporting the hydrocarbon industry."

> **"The increase in reserves that Ecopetrol announced is good news for the company, its shareholders and the country..."**
> — Inés-Elvira Vesga

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

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