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FEATURED Q&A

Can Ecuador Pick Up the Pace of Oil Production Soon?

The SOTE pipeline, pictured above, was one of the two major Ecuadorean oil pipelines that ruptured last month. // File Photo: Ecuadorean Government.

Q Ecuadorean state oil company Petroamazonas said on April 11 that it would slash oil output by nearly 85 percent to 65,000 barrels per day, declaring force majeure on its crude exports after the rupture of two major oil pipelines. What are the most significant short-term and long-term consequences of the pipeline damage and Petroamazonas' decision to cut production? How much do recent events worsen an already dire scenario for Ecuador's oil and gas sector as global demand for crude plunges? Will the Andean nation be able to pick up the pace of crude production and exports soon?

A **Jose L. Valera, member of the Energy Advisor board and partner at Mayer Brown:** "Recent events have been disastrous for Ecuador's oil and gas sector. The SOTE and OCP crude oil pipelines had breakages close to rivers due to soil erosion and mudslides. The effects of resulting oil spills include the contamination of fresh water sources for native communities. The Shushufindi-Quito fuels pipeline also broke due to mudslides. All this is in addition to closures of the Esmeraldas refinery due to electrical failures and of the La Libertad refinery due to virus-related sanitary problems. The rupture of SOTE and OCP resulted in Petroamazonas having to reduce its oil production in 16 areas from 430,000 barrels per day (bpd) to 65,000 bpd. At the time of the accidents, there were about 2.5 million barrels stored in the Balao terminal, but those have since been exported. Current exports are negligible. The government is working to restore oil transportation capacity by looping around the broken segments. In addition to deep budgetary shortfalls resulting from the fall in oil prices, Ecuador remains

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TOP NEWS

OIL & GAS

Venezuela Faces Gasoline Shortage, Rising Prices

Gasoline prices in the Andean nation were reportedly among the highest in the world last week, a sharp reversal in country known for one of the world's cheapest fuels.

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RENEWABLES

Renewables Make Up 99 Percent of Costa Rica's Power

The Central American nation generated 99.15 percent of its electricity last year with renewable sources, up from 98.6 percent a year earlier.

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OIL & GAS

Ecopetrol Raises $2 Billion in Bond Issue Due to Covid

Colombian state oil company Ecopetrol, led by Felipe Bayón, raised $2 billion through more than a doubly subscribed bond issue. The company said it was raising the money due to the plunge in oil prices, caused in part by the Covid-19 pandemic.

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Bayón // File Photo: Ecopetrol.

OIL AND GAS NEWS

Ecopetrol Raises $2 Billion in Bond Issue Due to Covid-19

Colombian state-owned oil firm Ecopetrol raised $2 billion through more than a doubly subscribed bond issue, the company said on Monday, Reuters reported. Ecopetrol issued 10-year paper due April 29, 2030, with a 7 percent yield. The company last week warned that the coronavirus outbreak and the plunge in oil prices will hit its third-quarter results, saying it expected consolidated net income to fall by between 52 percent and 65 percent compared to the January-March period a year earlier. The bonds were oversubscribed by two-and-a-half times, with more than 250 investors participating in the bidding for a total of $5 billion in the issuing round, Ecopetrol said. The company said it continues to monitor market movements and that it might make further reductions to its investment plan for this year. Additionally, the firm said it may cut its 2020 production target, which is currently in a range of 745,000 and 760,000 barrels of oil equivalent per day.

Pemex and Other Firms Reducing Staff at Oil Platforms

Mexican oil platforms have begun reducing their staff in an effort to curb the spread of coronavirus, leaving only essential personnel on board, Pemex said Sunday. Some 259 rig workers, of which 76 are Pemex staff and the rest are employed by firms working for the state oil company, have stopped work on oil platforms in the Gulf of Mexico following stricter social-distancing measures to combat the Covid-19 outbreak. A Pemex spokeswoman confirmed that essential staff would continue to work at the rigs, and an unnamed source told Reuters that oil platforms would continue operations with between a quarter and half of their normal personnel. The source said the reductions will likely hit production, resulting in a drop in oil output considerably larger than the production cuts Mexico agreed to as part of the recent OPEC+ deal. In related news, Pemex last week declared force majeure over fuel imports from its trading arm PMI Comercio Internacional, two sources with knowledge of the decision told Reuters, as demand for fuel plummets amid the pandemic. PMI has yet to declare force majeure on fuel bought from its own suppliers, but it is likely to do so soon, one of the sources said. This could potentially affect U.S. refiners, which are Mexico's largest fuel providers, according to the report. Mexico's demand for imported fuel has fallen 60 percent over the past few weeks as lockdown measures force people to stay home and businesses to close temporarily, according to estimates by consultancy group Wood Mackenzie.

Venezuela Fuel Prices Reportedly Spike Amid Gas Shortages

Retail gasoline prices in Venezuela reportedly shot up due to shortages last week in a sharp contrast to the Andean nation's usually cheap fuel, Reuters reported Sunday. Venezuelans reported paying more than $2 per liter for gasoline last week, one of the highest global rates in a country that has long boasted of having the world's cheapest fuel. Subsidies implemented during the administrations of late socialist President Hugo Chávez and current President Nicolás Maduro have kept gasoline sold by state oil company PDVSA—which has a legal monopoly on fuel sales—essentially free. Consumers sometimes offer pump workers tips in the form of snacks or a few hundred bolivares (less than 10 U.S. cents) instead of payment, according to the report. However, Venezuela's 1.3 million barrel-per-day refining network has basically collapsed after years of inadequate maintenance, and U.S. sanctions against Maduro's government have put a strain on fuel imports, causing shortages that force Venezuelans to wait hours outside gas stations or to resort to the costly black market. Last

NEWS BRIEFS

Shell Submits Plans for Three Solar Projects in Brazil's Minas Gerais State

Royal Dutch Shell has submitted to Brazilian power sector regulator Aneel a plan for the development of solar photovoltaic projects with a total installed capacity of 130 megawatts, Renewables Now reported last Friday. Shell is seeking to build three photovoltaic parks, the Aquarii Solar 1 and 2, each of 50 megawatts, and the 30-megawatt Aquarii 3 plant, all to be located in Minas Gerais state. The projects would require an investment of more than 500 million reais ($91 million), Reuters reported.

Costa Rica Generating 99 Percent of its Electricity From Renewable Sources

Costa Rica generated 99.15 percent of its electricity last year from renewable sources, according to the latest report by the National Center of Energy Control, or CENCE, Renewables Now reported Monday. Gross power production in Costa Rica totaled 11,312.85 gigawatt-hours (GWh), of which thermal power plants generated only 95.64 GWh. In 2018, the Central American country's renewables share was 98.6 percent.

Argentina's Renewables Output Increased by 75% in March: CAMMESA

Argentina generated 913 gigawatt-hours (GWh) of electricity using renewable sources in March, up by 75.4 percent year-on-year, according to the latest monthly report by the wholesale electricity market administrator, CAMMESA, Renewables Now reported last week. Compared to February, the country's output from renewables rose 1.67 percent, with the overall share staying at 8 percent for six consecutive months. Argentina's total installed nonconventional renewable energy capacity totaled 3,022 megawatts in March.

week, Erling Rojas, the vice minister for refining and petrochemicals at Venezuela's oil ministry, said the country had received refining materials from Iran in order to help it start operations at the Cardón refinery's catalytic cracking unit, which is needed to produce gasoline. Planes from Tehran arrived at the Las Piedras airport on the Paraguaná peninsula in western Venezuela, home to the Cardón refinery, on Wednesday and Thursday of last week, according to data on flight-tracking service FlightRadar24, Reuters reported. Venezuelan authorities are also seeking to restore the catalytic cracking unit at the El Palito refinery in central Venezuela. "We will overcome our difficulties," Rojas said, the wire service reported. "[Iran's support is] driving the gringos in the White House crazy."

Argentina Reportedly Planning to Set Local Oil Barrel Price

Argentina is planning to issue a decree establishing a higher local oil barrel price in a bid to protect the industry from collapse following the plunge in global oil prices and dwindling demand due to the coronavirus pandemic, Reuters reported April 23, citing two industry sources. The locally set price, known as the "criollo barrel," has been used before in order to offset volatility in global prices. The move would come as oil demand has collapsed both in Argentina and around the world due to lockdown measures that keep people at home and businesses closed due to the Covid-19 pandemic. In Argentina, as in many countries, demand for fuel has plunged. Refiners are not purchasing all the crude that is being produced, which in turn raises concerns over the country's storage capacity reaching a limit and pressuring prices even more, according to the report. One of the sources, a senior industry official with knowledge of government plans, said the announcement would likely be released this week, although he said the official decree was not yet completed. Víctor Bronstein, director of the Center for Energy, Politics and Society Studies in Buenos Aires, told the Energy Advisor last month that the government of

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committed to repaying Chinese loans with crude. More barrels will be needed now to amortize principal. Ecuador's irresponsible and continued dependence on oil revenues has already forced it to renegotiate its foreign debt at a time when its access to capital markets is limited. Ecuador is in very serious trouble, and there doesn't seem to be political will to fundamentally change the economic model from dependency on the export of a commodity to one primarily driven by the private sector in the context of a diversified market economy."

A **Schreiner Parker, vice president for Latin America at Rystad Energy:** "Ecuador has recently suffered two natural disasters, one localized and the other global in nature, which have produced serious ramifications for the oil industry in the Andean nation. The ruptures of the country's two main crude pipelines due to mudslides caused by torrential rains has caused an abrupt risk to the country's near-term production capacity, and Covid-19 has destroyed short-term global demand, sending the price of crude to levels not seen before. With the SOTE and OCP pipelines both out of commission, the immediate production situation in Ecuador looks grave. The Ministry of Energy declared force majeure on operators' crude exports, and national oil company Petroamazonas will cut production to a mere 65,000 barrels per day (bpd), an 85 percent reduction, until the pipelines can be restored. Fortunately, these drastic actions won't last long. The repairs are estimated to be complete by mid-May at the latest, and Petroamazonas could be back at full production capacity by June. Covid-19 is another, much more serious story for Ecuador and its petroleum industry. The artificial demand destruction caused by Covid-19 lockdowns worldwide will be felt at least until December, and possibly into 2021, before returning to the 100 million bpd range observed before this crisis. The resulting downward pressure on oil prices will in the medium term put at risk 254,000 bpd of Ecuadorean production, which has a breakeven higher than $30 per barrel. These two events in conjunction exacerbate an already precarious fiscal situation in the country. Taken individually, however, the effects will be significantly different in terms of duration and overall impact on the national hydrocarbons sector."

"The artificial demand destruction caused by Covid-19 lockdowns worldwide will be felt at least until December, and possibly into 2021."
— Schreiner Parker

A **Paola Carvajal, consultant at the extractive industries cluster at the Inter-American Development Bank:** "Ecuador is one of the Latin American countries with the highest exposure to oil price volatility. The oil rent represents about 5 percent of its GDP, and the oil exports value share was more than 30 percent of total exports in 2018. Ecuador, as other Latin American oil-producing countries, experienced a significant reduction in oil demand because of the Covid-19 pandemic, as well as the vertiginous price drop for oil exports. Moreover, just when the Ecuadorean oil industry thought it could not get any worse, the country suffered the rupture on April 7 of the two major oil pipelines, SOTE and OCP, limiting the transportation of oil from Lago Agrio to Marine Terminals. The pipeline damage forced Petroamazonas to shut down production. However, some short-term exports were fulfilled with oil stored in the Pascuales terminal because of lower crude oil processing in the Esmeraldas and La Libertad refineries. The closure and restart of producing wells will generate higher costs,

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President Alberto Fernández was considering implementing the so-called criollo barrel. The measure "fixes the price per barrel independently of international prices, at a level at which investments are made possible," he said. [Editor's note: See related Q&A in the April 3 issue of the Energy Advisor.]

Venezuela's Maduro Names New PDVSA Head, Oil Minister

Venezuelan President Nicolás Maduro on Monday named Tareck El Aissami, a close ally who is accused by the United States of drug trafficking, as the country's oil minister, The Wall Street Journal reported. According to Venezuela's official gazette, El Aissami will be responsible for reorganizing the country's energy sector, which faces strict U.S. sanctions against the government, nationwide fuel shortages and declining crude production. Venezuela's oil output has plunged to 600,000 barrels a day from about 3.5 million barrels a day when Maduro's predecessor, Hugo Chávez, was elected in 1998. El Aissami is a longtime Socialist Party member and one of Maduro's top economic advisors, and he also serves as vice president for the economy and industry minister. Also on Monday, Maduro appointed Asdrúbal Chávez to head state energy company PDVSA, the Associated Press reported. Chávez, a cousin of the late president, had previously served as director of PDVSA, overseeing a refining network that once had the capacity to process 1.3 million barrels of crude per day. El Aissami and Asdrúbal Chávez replace Manuel Quevedo, who previously held both positions. In related news, Venezuela's government has proposed a drastic restructuring that would transfer a large portion of PDVSA's current activities to private companies, Reuters reported Tuesday, citing a government presentation. If implemented, the plans would roll back a series of reforms that were carried out under Hugo Chávez's administration nearly two decades ago with the aim of increasing the role of the state in the country's then-booming oil industry. Among the proposals, there are plans to reduce gasoline subsidies and to allow private firms to have big stakes in PDVSA-owned fields and refineries, according to the presentation of the proposals dated March 2020. It also strips PDVSA of nonenergy-sector duties, a sharp reversal for a company that has served as a cash cow for the government, The Wall Street Journal reported. "To boost production and make Venezuela a protagonist in the oil world again, the urgent restructuring of PDVSA is necessary," the document reads. A restructuring committee that Maduro appointed in March compiled the plan. "It's extremely too

ADVISOR Q&A

Will Piñera's Plan Help Chile Face the Covid Recession?

Q Chilean President Sebastián Piñera on April 8 announced a second phase to his emergency measures, designed to soften the economic fallout of the coronavirus pandemic, including a $2 billion fund to benefit informal workers. The previously announced stimulus package of almost $12 billion, or 5 percent of GDP, aims to save jobs and protect small businesses. Finance Minister Ignacio Briones said the new measures could bring Chile's fiscal deficit to 8 percent of GDP. Will Piñera's economic package effectively help Chileans weather the recession, and should the government be doing more in terms of economic relief? Are these the right moves, or could the growing deficit backfire significantly in the longer term? Will the stimulus be enough to temper social discontent among Chileans?

A Carolina Goic Boroevic, Chilean senator for Magallanes and the Chilean Antarctic: "For now, the Chilean government's economic measures are going in the right direction. Politically, the proposals have had the support of the opposition, consistent with the objective of facing the pandemic as a countrywide challenge. However, it is evident that we still need a larger fiscal effort in order to help those who work in the informal sector and live day by day, those who cannot comply with the quarantines and stay at home without a guaranteed minimum income to sustain their families. Likewise, instruments targeted at the middle class, made up of professionals who work on a fee basis, whose incomes have dropped dramatically and who are not among the most vulnerable, are still pending. The support package, which Congress recently approved, will be put to the test in its implementation.

> **"We still need a larger fiscal effort in order to help those who work in the informal sector and live day by day..."**
> **— Carolina Goic Boroevic**

The speed with which it is implemented, the elimination of unnecessary bureaucracy and the flexibility in requirements for access to funds will be key to its success, especially in the case of the many, many entrepreneurs whose sales had already been hurt as a consequence of the protests that began last October. Chile has been orderly in its finances since the restoration of democracy, which today allows it to borrow and make a greater fiscal effort to face the impacts of the pandemic."

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

NEWS BRIEFS

Mexico City Hospitals Filling Up With Coronavirus Patients

At least five of the largest private hospitals in Mexico City have filled up with patients suffering from Covid-19 and have no room for additional patients, Reuters reported Tuesday, citing doctors and other hospital workers. The ABC medical center, Médica Sur, Hospital Español and two Ángeles group hospitals were no longer receiving new Covid patients. [Editor's note: See related **Q&A** in Tuesday's issue of the daily Latin America Advisor.]

Peru's Vizcarra Rejects Pension Withdrawal Bill, Vows System Overhaul

Peruvian President Martín Vizcarra on Wednesday rejected a proposal approved by Congress earlier this month that would let Peruvians withdraw as much as 25 percent of their holdings in private pension funds, promising instead to propose a plan to overhaul the pension system to lawmakers, Reuters reported. He said he would push to have the pension reform bill passed within six months. "Let's go straight to the heart of the issue," Vizcarra said.

Mexico, E.U. Conclude Negotiations on Updated Trade Agreement

Mexico and the European Union have concluded negotiations on an updated trade agreement, the two sides said Tuesday, the Associated Press reported. The pact, which includes provisions on investment protection and government purchases, still needs final approval. Mexico's economy department said the deal will contribute to economic recovery following the coronavirus pandemic. The European Union said that basically all trade in goods between the E.U. bloc and Mexico will now be duty-free.

little, extremely too late," Orlando Ochoa, an oil economist at Andrés Bello Catholic University in Caracas, told the newspaper, calling the proposal a pipe dream, given the current troubles Venezuela is facing.

POLITICAL NEWS

Brazil's Supreme Court Launches Probe of Bolsonaro

Brazil's Supreme Court on Monday launched an investigation of President Jair Bolsonaro after outgoing Justice Minister Sérgio Moro accused the president of trying to interfere with probes of the country's federal police, The Washington Post reported. Moro resigned last week after Bolsonaro fired Federal Police Chief Maurício Valeixo. In stepping down, Moro accused Bolsonaro of dismissing Valeixo in order to gain access to classified information and curtail police investigations of his supporters. "The president emphasized to me, explicitly, more than once, that he wanted someone who was a personal contact, whom he could call, from whom he could get information, intelligence reports," said Moro. The outgoing justice minister also sent news program National Journal photos of messages from Bolsonaro that appeared to back up his allegation. Two of Bolsonaro's sons, Flávio and Carlos, are the targets of embezzlement investigations. Carlos Bolsonaro is also reportedly under investigation on allegations that he created a fake news scheme to spread misinformation. The president dismissed the allegations as baseless, adding that he did not try to protect family members from investigations. He added that, as president, he was within his authority to fire the police chief. "The prerogative is mine, and the day I have to submit to any of my subordinates, I cease to be president of the republic," he told reporters last week. Bolsonaro has named André Mendonça, who was the head of Brazil's Solicitor General's Office, as Moro's replacement as justice minister, the Rio Times reported. Moro, a popular former judge, oversaw Brazil's sprawling "Car Wash" anti-corruption probe. His allegations against Bolsonaro could form the basis of an impeachment case against Bolsonaro, The Washington Post reported. A poll showed that 57 percent of Brazilians would support the president's impeachment.

Chile's Release Documents Won't Certify Immunity

Chile will issue coronavirus "release certificates," but the documents will not yet certify immunity, the country's top health official said Wednesday, Reuters reported. The move marks a reversal of the so-called immunity passports the government had planned on distributing to patients who have recovered from the novel coronavirus, following weeks of global debate on whether such patients develop resistance to the virus. Health Minister Jaime Mañalich said Chilean officials would begin issuing release certificates early next week to anyone who has completed a mandatory quarantine after testing positive for coronavirus. "Once the respective quarantine is completed, we will provide … a release certificate, but we will not make any pronouncement with respect to immunity," Mañalich said.

ECONOMIC NEWS

S&P Downgrades Outlook for Chile to Negative from Stable

Ratings agency S&P on Monday downgraded Chile's outlook to negative from stable, adding that it could revise down the country's credit rating in the next two years due to the risk of a prolonged period of low economic growth, Reuters reported. For now, it maintained Chile's sovereign rating at A+/A-1, but increased global uncertainty, risks of weak recovery in global trade and likely social protests in the country could hit the Chile's economy and erode public finances, S&P said.

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and it will take more time to reach normal levels after the pipelines reopen. This will be sharpened even more due to Covid-19, which limits work force and oil services availability at the operations. Despite the bleak picture, the silver lining is that the major drop in WTI prices during the week of April 20 (less than $10 per barrel) reduced the opportunity cost of the unproduced oil. If one takes, for example, Petroamazonas' average production cost for 2019—$18 per barrel—current international oil prices for Oriente and Napo will hardly cover their cost."

A **Sebastián Maag, consultant at FTI Consulting:** "Ecuador's oil and gas sector, long ridden by inefficiency and political meddling, stands at a critical juncture. Structural changes are needed before a steep course reversal can materialize. Short-term supply interruptions and price volatility (particularly as Ecuador's mix references WTI prices) present daunting challenges for the country's nonfinancial government income –nearly 20 percent of which depends on oil revenues—amid mounting international debt obligations. The immediate disruption to the hydrocarbons value chain, coupled with low crude prices, accounts for a loss of more than $2.5 billion for the country's income. While the Shushufindi polyduct has been repaired and is again transporting fuels to Quito, the SOTE and OCP crude pipelines remain under repair. Regardless of whether they regain operations soon, Ecuador's current production costs (around $18 per barrel) mean that oil output is likely to remain depressed in the medium term—especially given limited cost reduction opportunities in a noncompetitive industry. This paints a grim outlook for Ecuador's economy, as nearly a sixth of its GDP depends on oil. Significant areas of opportunity to increase long-term production through attracting capital and technology can be seized through stronger investor protection, looser fiscal terms and modified frameworks that transcend services contracts—for instance, allowing companies to add reserves to their books. But before crude production and exports can be revamped through such measures, stakeholders must revisit questions about Ecuador's energy future. Will the Petroecuador-Petroamazonas merger crystalize? Can investment openness diversify the approximately 80 percent of crude production that depends on Petroamazonas? Will pursuing further investment openness through the Intracampos II round attract investments in the $1 billion range committed by GeoPark, Gran Tierra and Frontera during Intracampos I? Will Energy Minister René Ortiz have a mandate to reinvigorate Ecuador's energy regulatory framework in the Moreno administration's last year in office?"

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