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FEATURED Q&A

Can Mexico's Oil Sector Adapt to New Realities?

Ratings agencies have stripped Mexican state oil company Pemex of its investment-grade rating, citing concerns over the company's finances in a context of low international oil prices and falling demand for crude. // File Photo: Mexican Government.

Q As prices for the U.S. benchmark WTI crude fell into negative territory for the first time in history on April 20, prices for Mexican grades indexed to them, including the country's Maya crude, hit a record low, with the Latin American country's oil export basket also dropping into negative numbers the same day. Meanwhile, ratings agencies stripped state oil company Pemex of its investment-grade rating, effectively pushing it into junk status. How is the international context of both lower demand and lower prices for crude affecting the outlook for Mexico's oil sector? Will the consequences be relatively short-lived, or should Mexico prepare for a challenging international scenario in the longer term—and if so, how? How significant are rating firms' latest downgrades of Pemex, and what do they mean both for the company and the country's finances?

A Lourdes Melgar, research affiliate at the Center for Collective Intelligence at MIT and nonresident fellow at the Center for Energy Studies at the Baker Institute: "Black April has just ended for Mexico's oil sector. In the midst of the pandemic, with the sharpest oil demand drop in 70 years, Mexico took part in the OPEC+ agreement. The claimed victory was shorted-lived, as a fight for Mexican market share ensued in Asia, and, as WTI plunged to negative $37 a barrel, it brought the Mexican basket to negative $2.37 per barrel for May contracts. As if that news were not bad enough, for a government that has set the oil industry as the driver of development and sovereignty, Pemex lost its investment-grade rating and closed the month announcing a $24 billion loss for the first quarter. Industry analysts are not optimistic

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Pemex Registers Huge Loss in First Quarter

Mexican state oil company Pemex posted a loss of $23.6 billion in the first quarter. It is 16 times greater than the loss registered in the same period a year ago and likely the firm's largest quarterly loss ever.

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RENEWABLES

Enel, Heineken Mexico Strike Deal on Renewables

Under the deal, Enel will provide Heineken Mexico with electricity generated from renewables sources for 10 years.

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OIL & GAS

Colombia Cuts 2020 Outlook for Oil Production

If benchmark Brent oil prices reach around $35 per barrel, Colombia's oil production could average 850,000 barrels per day, down from previous estimates, according to Armando Zamora, the head of the country's National Hydrocarbons Agency.

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Zamora // File Photo: Colombian Government.

OIL AND GAS NEWS

Colombia Cuts 2020 Oil Production Outlook: Zamora

Colombia's oil output this year will be lower than previously expected due to the plunge in oil prices combined with low demand for crude due to the coronavirus pandemic, the president of the country's National Hydrocarbons Agency, or ANH, said April 30, Reuters reported. Alongside Energy Minister María Fernanda Suárez in a virtual press conference, ANH President Armando Zamora said that if benchmark Brent oil prices reach around $35 per barrel, Colombia's oil production could average around 850,000 barrels per day (bpd). That figure is lower than a previous forecast of 900,000 bpd. "If prices were to fall drastically to an average of around $30 this year, well, then we would be talking about average production close to 790,000 to 800,000 barrels a day," Zamora said, Reuters reported. He added that an average price of $35 per barrel of oil was the most probable scenario. If Brent prices remain at current lows of $25 a barrel, the average national daily output in Colombia could fall to around 750,000 bpd and could also lead to a cut in exploration activities, Zamora said. "We have already been informed that nine wells have been postponed," he added. With oil prices in a range of between $60 and $65 a barrel, Colombia had expected some 42 exploration wells to be drilled there this year. Now, it expects 20 to 33 wells, according to Zamora. Lower oil prices have hit the outlook for the country's oil and gas sector, including in the private sector. The Colombian Petroleum Association, or ACP, expects private oil producers in the South American country to cut investment by more than $1 billion this year with Brent oil prices below the range of $40 to $45 a barrel. If prices fall below $25 a barrel, some 80,000 bpd of oil could be cut from private companies' daily output, Francisco Lloreda, the head of ACP, told Reuters. In March, Colombia's oil production fell to 857,113 bpd, down 3 percent as compared to the same month last year

CORRECTION

Due to an editing error, a sentence in Paola Carvajal's commentary in the May 1 issue of the Energy Advisor read: "Although in the short term some exports were fulfilled with oil storage from the Pascuales terminal, the pipeline damage forced Petroamazonas to shut down production due to lower crude oil processing in the Esmeraldas and La Libertad refineries." It should have read: "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."

Pemex Registers Multibillion-Dollar Loss in First Quarter

Mexican state oil company Pemex on April 30 posted a multibillion-dollar loss in the first quarter, 16 times greater than the loss it registered in the same period a year ago and likely the company's biggest quarterly loss ever, Reuters reported. Pemex's losses during the first quarter totaled 562.13 billion pesos ($23.6 billion) as the plunge in crude prices, coupled with a sharp depreciation of the Mexican peso and dwindling demand for crude due to the coronavirus pandemic, have hammered the company. In the first quarter a year ago, Pemex posted a loss of 35.7 billion pesos. Pemex Chief Financial Officer Alberto Velázquez said the pandemic was the main reason for the economic fallout, calling the losses "serious but temporary" in an analyst call that followed the results' publication. Pemex "will continue with the best operational and financial [plans] implemented since the beginning of this administration," Velázquez added, in reference to the government of President Andrés Manuel López Obrador, who has made strengthening Pemex one of his key priorities. Last week, his

NEWS BRIEFS

Brazil Considering Aid Package for Power Sector This Month: Albuquerque

Brazil's government is working on an aid package for companies in the country's electricity distribution sector to be presented by the end of May, Energy Minister Bento Albuquerque said Tuesday, Reuters reported. He did not give details on how large potential loans could be. Brazilian utilities are facing surplus energy this year of between 20 percent and 40 percent due to the sharp plunge in consumption during the coronavirus pandemic. [Editor's note: See related **Q&A** in the April 17 issue of the Energy Advisor.]

Brazil's Petrobras Posts 145% Rise in Oil Exports in April, Breaks Record

Brazilian state oil company Petrobras exported one million barrels of oil per day in April, setting a new monthly oil-export record, the company said on Monday. Due to a sharp reduction in the national market, Petrobras has turned to exporting its products after meeting domestic demand, the statement said. The volume sold internationally in April was 145 percent higher than exports in the same month a year ago. In the first quarter, exports grew 25 percent as compared to the same period a year earlier.

Profits of Chile's Colbun Down 32 Percent in Q1

Chilean power utility Colbun's net profit plunged 32 to percent to $43.7 million in the first quarter, according to the company's financial results, Renewables Now reported Monday. However, earnings before interest, taxes, depreciation and amortization, or EBITDA, rose by 4 percent to $172.3 million, in part due to lower costs of power generation with natural gas. Colbun said its power plants continued to operate normally through the Covid-19 pandemic, according to the report.

government announced Pemex would receive additional fiscal benefits as part of a series of measures designed to help it with its finances, S&P Global Platts reported. Among the measures, which total 113 billion pesos, is a tax benefit of around 65 billion pesos for the rest of the year that allows the indebted company to reduce its tax burden. Despite the posted losses, Pemex will continue to invest in six struggling refineries and work to build a new one, even as the company's refining margins fell to a negative $12.51 per barrel in the first quarter, Argus Media reported. Pemex recently said it would cut capital expenditure by about 10 percent in response to the fall in demand for crude and the plunge in oil prices, but most of the cut—about 40 million pesos—will be in the company's more profitable exploration and production segment, according to the report.

Guyana Has Received $60 Million in Oil Revenues: Minister

Guyana's government on Saturday said it had received about $60 million in oil revenues just four months after beginning production, the Associated Press reported. The payments are linked to the country's production-sharing deal with offshore operators ExxonMobil, Hess and Nexen, of which Guyana has the rights to five shipments of a million barrels of oil each this year. The South American nation sold its first cargo in February through Royal Dutch Shell's trading unit, Shell Western Supply and Trading. The unit traded the shipment to Middle Eastern traders and dealers in southern states in the United States for $55 million, according to the report. Additionally, Guyana recently received $4.9 million in royalty payments for the oil sold by the consortium, Finance Minister Winston Jordan said Saturday. "All the monies that we have earned so far, as people can see, is going into the account, and they can see the interest being earned," he said, the AP reported. Jordan said no money from oil will be released or used until parliament reconvenes following a recount of votes from the disputed March 2 general elections.

Chevron Not Totally Withdrawing From Venezuela: CEO

Chevron Chief Executive Officer Michael Wirth told CNBC May 1 that the company does not intend to completely pull out of Venezuela. The Trump administration last month ordered Chevron, Halliburton, Schlumberger and other companies to "wind down" Venezuela operations including the drilling, processing or transportation of "Venezuelan-origin petroleum or petroleum products" by Dec. 1. Wirth told CNBC that Chevron does not operate any assets in Venezuela but rather is a partner in two operations controlled by another company. Wirth said the Treasury Department's order "requires us to wind down certain additional activities that we've previously been allowed to do." He added, "It doesn't actually require us to leave the country." Wirth said Chevron will comply with the U.S. government's requirements, adding, "we're not actually winding down and leaving the country."

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about the outlook. Yet, energy policy seems detached from the realities of an extremely depressed oil market and the fragility of the national oil company. The government has reiterated its target to increase Pemex's production to two million barrels a day for 2020 and continues investing heavily in a new refinery. In a country where no countercyclical policy has been put in place to stir the incoming recession, Pemex has been granted fiscal support on the order of $2.7 billion. The López Obrador administration is deepening its bet on strengthening a national, self-sufficient oil sector. A losing game could have a severe impact on Mexico's economy, even when it is diversified. Oil revenues represent about 16 percent of the country's federal budget. The stakes are high, and no change in direction is in sight."

A **Fluvio Ruiz Alarcón, Mexican oil sector analyst**: "Given the circumstances of the international oil market, Mexico will have to evaluate its strategic goals and take short, medium and long-term measures. It is not a question of abandoning its central goals in the oil sector, but rather of adjusting the route, times and instruments used to achieve them. The state must rethink the role of the oil sector in its economic model and overhaul the institutional architecture that emerged from the energy reforms in order to provide consistency, efficiency and stability to a new sectoral dynamic. It also needs to make coherent the orientation and objectives of its public policies in economic, fiscal, industrial and oil matters, with the institutional design itself, as well as the sector's legal framework and regulatory measures. For several years, Pemex has faced complex challenges. It needs to redefine its strategies and hierarchy of priorities

> **"Pemex is not preparing to face profound changes in the world's energy sector. This juncture offers the opportunity for it to do so."**
>
> **— Fluvio Ruiz Alarcón**

and projects. Pemex will have to adjust its business plan, which is currently based on its history, without questioning the extractivist and rentier oil model of the last 40 years despite the government's nationalist turn. The plan aims to correct the flaws that led Mexico to subordinate energy integration in North America, as well as reverse the previous administration's attempt to make Pemex 'one more actor' in the oil sector. However, it attaches little importance to the energy transition. Pemex is not preparing to face profound changes in the world's energy sector. This juncture offers the opportunity for it to do so."

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RENEWABLES NEWS

Enel, Heineken Strike Renewables Deal for Mexico Operations

Enel Green Power and Heineken Mexico have struck a 10-year deal for Enel to leverage renewable energy to power the Dutch brewer's operations in the Latin American country, Smart Energy reported Monday. Under the 100 percent renewable energy deal, Enel will provide Heineken Mexico with 28.8 gigawatt-hours of solar and wind power every year in order to power operations at a beer plant in the city of Meoqui, in Chihuahua state. The power generated from renewable sources to keep operations at the plant running is equivalent to planting more than 405,000 trees, avoiding more than 16,100 tons of carbon emissions or removing 3,200 vehicles from circulation for a year, according to the report. The deal is part of Heineken Mexico's efforts to curb its impact on climate change. "This alliance is historic and something to be proud [of]," said Marco Antonio Mascarúa, the vice president of corporate affairs of Heineken Mexico, Smart Energy reported. "It represents a firm step towards the goal of making this year's operations … 66 percent renewable in terms of energy consumption, with the aim to achieve 100 percent in 2030," he added. The company is using renewables to power six of its stores in Mexico.

POLITICAL NEWS

Brazil Reports New Records for Daily Covid Cases, Deaths

Brazil recorded its highest jump in number of confirmed cases of coronavirus and related deaths on Wednesday, prompting the new health minister to consider the possibility of strict lockdowns in particularly hard-hit areas,

ADVISOR Q&A

Can Innovation and Tech Help Colombia Cope and Recover?

Q Luis Alberto Moreno, the president of the Inter-American Development Bank, recently cited tech companies in Colombia as examples of innovation in response to Covid-19. In what ways is the pandemic spurring innovation in Colombia, and how should President Iván Duque's government seek to leverage new technologies for economic recovery? How can innovation be deployed in Colombia in education, health, financial services, trade and other areas affected by the crisis? How should Duque's administration ensure that the best regulations are in place to facilitate innovation and that new technologies can benefit the country's most vulnerable populations?

A Laura Gaviria Halaby, director at Softbank Group International: "Understanding how the coronavirus pandemic will change the world is top-of-mind for political leaders and entrepreneurs. Although the extended lockdown is protecting lives, many people have lost their jobs, including thousands in Colombia. Now, Colombia and governments around the world have to get millions of people back to work and at the same time develop a more agile health care system to fight this pandemic. Innovation is key to both of these challenges. As scientists and medical experts use technology to help identify treatments and therapeutics to combat the virus and stop the pandemic, entrepreneurs and companies are also using technology to create new connectivity platforms for telemedicine, food delivery and digital learning. The crisis has spurred an increase in telemedicine technology to deliver care at a distance, which helps address people's medical needs and reduces hospitals' overcapacity. Even though schools are closed, digital learning and teleconferencing platforms are helping students continue with their studies. While we can't go out shopping today, we have delivery platforms that are bringing groceries, medicines and essential goods to our doorsteps. We can entertain ourselves with video streaming platforms and social networks, and we can work remotely from our homes. Technology is allowing Colombians to stay safe and healthy at home during the pandemic. While the 'gig economy' and the 'passion economy' are redefining the way some work, they will be essential in supporting the country's most vulnerable populations. These platforms will bring work opportunities and at the same time democratize access to quality services that were only available to a few. Improving our health care system is critically important, but bringing the economy back to life is equally important. The government should eliminate outdated provisions that impede innovation and job creation and should adopt new regulations that improve our health care system. This includes formalizing telemedicine in the country—from consultation to diagnosis to e-prescriptions—enacting regulations that protect gig economy workers and allowing them to move freely between different platforms."

> "Technology is allowing Colombians to stay safe..."
> — Laura Gaviria Halaby

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

NEWS BRIEFS

Ecuador Indigenous Groups File Lawsuit Over Oil Spill

Indigenous communities in Ecuador's Amazon region have filed a lawsuit against the government and oil firms over a massive oil spill that left them without access to water, Agence France-Presse reported Wednesday. A landslide on April 7 ruptured three pipelines, sending 15,000 barrels of oil into local rivers in Orellana province near the Peruvian border. The spill affects some 27,000 indigenous people from the Kichwa and Shuar tribes.

El Salvador Announces New Lockdown Measures

Salvadoran President Nayib Bukele on Tuesday rolled out tougher measures to combat the spread of coronavirus, among them limiting shopping trips to twice a week and prohibiting the crossing of municipal boundaries, even to buy food or medicine, Reuters reported. The new measures take effect for 15 days starting on Thursday. The Central American nation has registered 695 cases of Covid-19 and 15 related deaths. Bukele's government has implemented one of the region's strictest lockdowns. [Editor's note: See related **Q&A** in the April 30 issue of the Latin America Advisor.]

Chile Central Bank Holds Policy Rate Near Zero

Chile's central bank on Wednesday left its policy rate near zero as policymakers brace for the economic fallout of the coronavirus pandemic, Bloomberg News reported. The bank left the key rate at 0.5 percent, a record low, and said that monetary policy will remain expansive "for an extended period of time" in order to support the economy. Chilean businesses were already suffering when the pandemic struck following months of social unrest. The country has seen a plunge in consumer spending and lower demand for copper, its chief export.

Reuters reported. The South American country is emerging as one of the world's coronavirus hot spots, registering 10,503 new confirmed cases of the virus on Wednesday, well above the previous record of 7,288 cases on April 30, according to health ministry data. Brazil also registered 615 deaths on Wednesday, up from the previous record of 600 a day earlier. Additionally, there are more than 100,000 completed coronavirus tests that have not yet been registered in the national database, Deputy Health Minister Wanderson Oliveira said, forewarning a possible spike in the coming days. Health Minister Nelson Teich told reporters that a growing number of local authorities may have to institute lockdowns as a result of the sharp increase in cases. Teich took office last month after President Jair Bolsonaro fired his predecessor over differences on how to best approach the health crisis, with the president publicly snubbing the recommended social-distancing measures. Public health data shows that in recent weeks there has been a shift in the national hot spots of coronavirus cases in Brazil, moving from wealthy boroughs in São Paulo, Rio de Janeiro and Fortaleza to the cities' shantytowns, where there is little access to running water, septic systems and health care facilities, Reuters reported last Friday.

American Apparently Confesses to Plot in Venezuela Video

Venezuelan President Nicolás Maduro on Wednesday showed a video on state television in which a U.S. citizen apparently confesses to participating in what he said was a plot to overthrow Maduro, BBC News reported. In the video, Luke Denman said he was hired to lead a group of insurgents to seize the Caracas airport, topple Maduro and fly him to the United States, The Wall Street Journal reported. However, as the incident played out, Denman, a 34-year-old resident of Austin, Tex., and another American, Airan Berry, 42, who has addresses in Texas and Florida, were among 13 people whom Venezuela's government said its forces captured on Sunday morning when the group tried to come ashore in two boats. "They were playing Rambo," Maduro said in a television address as he held up what he said were the two Americans' passports. The Venezuelan government said it captured 13 "terrorists" and killed another eight. "I thought I was helping the Venezuelans take back their country," Denman said in the 10-minute edited video that Maduro played twice on state television before posting it to social media. Denman held up what he said contained a contract signed by the plot's apparent mastermind, retired U.S. Green Beret Jordan Goudreau. Denman said the contract was also signed by Venezuelan opposition leader Juan Guaidó, but Guaidó in a statement called the contract a fake and denied any ties to Goudreau's company. Guaidó accused Maduro's government of using the incident as a smokescreen in order to justify political persecution, The Wall Street Journal reported. In his televised appearance, Maduro also accused U.S. President Donald Trump of being "the direct chief of this invasion," BBC News reported. However, Trump earlier this week denied any U.S. government involvement in the incident.

ECONOMIC NEWS

Colombia's Duque Declares Emergency to Support Economy

Colombian President Iván Duque on Wednesday declared a second state of emergency to support sectors that will remain shut down for an extended period of time in the fight against the spread of coronavirus, Reuters reported. The declaration allows the president to issue decrees without Congress' approval during times of crisis or a threat to Colombia's security. Under the country's constitution, the government can declare a state of emergency for as long as 30 days, and the period of rule by presidential decree cannot surpass more than 90 days per year. Among the announced measures, the government will subsidize workers' pay for as much as 40 percent of minimum wage in companies whose business has fallen by at least 20 percent due to the health crisis.

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A **Raphael Portela, corporate research analyst for Latin America at Wood Mackenzie:** "Moody's is now the second rating agency to downgrade Pemex's debt to junk status. Expectedly, this has triggered forced selling of bonds from the most indebted E&P in the world. Prices tumbled sharply on the day of the announcement. Bonds maturing in the next couple of years now trade at around 60-70 cents on the U.S. dollar. Pemex entered this downturn in a fragile situation—sky-high taxes, a heavy interest burden and declining production. On a standalone basis, the company was already deemed below investment grade. But the Mexican government's link to the national oil company meant rating agencies could supersede the corporate assessment with that of the sovereign. Now, with Mexico's economy expected to enter a recession, that guardianship is no longer a saving grace. Optionality is certainly dwindling for Pemex. Managing the large debt load through reissuances—a common practice in 2019 with more than $8 billion refinanced—just became a much costlier endeavor. Government support this year will be critical, but the dry powder may be harder to come by. We believe the downgrade will likely force President López Obrador to recalibrate priorities to some extent. The leader has promised to revitalize Pemex's production despite the collapse in price, and he will want to keep that promise. But the recovery will be shallower and more dragged out than originally planned."

A **Gonzalo Monroy, managing director of GMEC in Mexico City:** "Lower prices and lower demand mean two different things in the Mexican oil sector. On the one hand, international companies operating in Mexico will adjust, more likely delay or slow down, their activities in the country. On the other hand, for Pemex, due to the López Obrador administration's nationalistic approach, it means to push through, regardless of the cost. Some cuts to its capital expenditure (about $1.8 billion) and tax breaks (nearly $3 billion) are in place to help Pemex, but no real change in strategy is being considered. The sole parameter of success for the administration is to increase production. It is likely that Pemex and Mexico will face severe consequences due to this approach. First is Pemex's loss of its investment grade, with the possibility of Mexico's sovereign rate following the same path. One aspect that should keep Pemex officials worried is the aggressive competition seen by the Saudis in the Far East markets, where Pemex delivers about 390,000 barrels per day."

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