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FEATURED Q&A

What Can Energy Firms Do to Fight Climate Change?

Investor-led initiatives such as Climate Action 100+ work with energy firms to help them implement policies to fight climate change. A power plant giving off gases in the United States is pictured above. // File Photo: U.S. Department of Energy.

Q **Climate Action 100+, an international investor-led initiative to curb greenhouse gas emissions, recently said it is looking to set up talks with Mexican state oil company Pemex. The group, whose 450 members manage more than $40 trillion in assets, focuses on engaging firms that contribute to climate change. How are environmental, social and governance (ESG) initiatives such as this one likely to change the way Latin America and the Caribbean's energy sector operates? How much sway will private-sector investors have with state-run energy companies? What short- and long-term strategic changes should energy firms in the region undertake to address climate change, and what factors and pressure points stand in their way?**

A **Lisa Viscidi, member of the Energy Advisor board and director of the Energy, Climate Change & Extractive Industries program at the Inter-American Dialogue:** "Until now, there has been very little investor pressure on Latin American national oil companies (NOCs) to address climate change compared to the pressure facing the oil majors—even though several Latin American NOCs, including Petrobras, Ecopetrol and YPF, list shares on local and international stock exchanges. But if oil companies in the region do not step up their climate efforts, I think investor pressure is likely to grow. Although Pemex is 100 percent state-owned, pressure from Climate Action 100+ could make it more difficult for the oil company to issue bonds, which make up nearly 90 percent of its total financial debt. Most Latin American NOCs do have specific targets to reduce their direct emissions and have implemented measures such as reducing natural gas flaring, improving

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TOP NEWS

OIL & GAS

Mexico Slashes Oil Production Goal for Next Four Years

The Mexican government significantly reduced its oil output forecast for the next four years. Analysts say it's still "optimistic."

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RENEWABLES

Panama to Hold Renewable Energy Auction in October

The government published the rules for a renewable energy auction that is scheduled to take place next month.

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OIL & GAS

Petrobras' Forex Contracts Under Investigation

Brazil's federal police are investigating foreign-exchange, or forex, transactions by state oil company Petrobras as part of the massive "Car Wash" probe. The country's chief prosecutor general, Augusto Aras, recently renewed until Jan. 31 the mandate of the anti-corruption task force that conducts the investigations.

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Aras // File Photo: Brazilian Government.

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OIL AND GAS NEWS

Mexico Slashes Oil Production Targets for Next Year

The Mexican government has significantly reduced its oil output forecast for the next four years, with the 2021 target down by 11 percent from the original goal, Argus Media reported last week. According to the national budget presented to Congress last week, state oil company Pemex will produce 1.86 million barrels per day (bpd) next year, 11 percent less than the 2.1 million bpd the company had forecast in its 2019 business plan. Even so, analysts at BBVA have said the lowered prediction is still "optimistic." The 2021 budget plan slashes output, export and price forecasts for crude amid measures that call for austerity across most projects, including the planned construction of the Dos Bocas refinery, which is envisioned to have the capacity to process 340,000 bpd of crude. The plan increases Pemex's spending by just 0.6 percent next year, to 544.6 billion pesos ($25 billion). In the budget, the Finance Ministry estimates oil prices will average $42.10 per barrel next year, up from an initial forecast of $30 per barrel at the start of April, Bloomberg News reported. According to the document, the 2021 production target "takes into account the new demand and price environment, as well as the renewed emphasis on efficiency in the production and supply of fuels by Pemex." The company's production in July fell to its lowest point since October 1979, with output at 1.59 bpd, according to the most recent data. However, President Andrés Manuel López Obrador, who has made boosting Pemex a cornerstone of his agenda, alleged the company had its numbers wrong, without providing the purportedly correct figure, Bloomberg News reported.

Analysts at BBVA said the lowered prediction is still "optimistic."

Petrobras' Foreign Exchange Contracts Under Investigation

Brazil's federal police force is investigating foreign-exchange, or forex, transactions by state oil company Petrobras between 2008 and 2011 as part of the massive "Car Wash" probe, according to a statement by federal prosecutors on Sept. 10, Reuters reported. Police conducted 25 raids as part of the 74th phase of the Car Wash investigation, but no arrest warrants were issued. Petrobras said in a statement that it is looking into the matter internally, adding that it "actively collaborated with the authorities in the probe and provided information that resulted in [the recent] operation." Prosecutors said in a statement that "evidence surfaced that financial directors [of Petrobras] directed forex contracts to [São Paulo-based financial firm] Banco Paulista, with artificial manipulation of market rates." The bank said the investigation centered on foreign exchange transactions between 2008 and 2011, which authorities have already examined in the past. Petrobras in recent years has been roiled by accusations of corruption related to the Car Wash probe, which resulted in several executives, including former chief executive officer Aldemir Bendine, going to prison on corruption charges. In related news, the World Economic Forum, or WEF, last week announced that the oil company would return to the institution's anti-corruption initiative, the Partnering Against Corruption Initiative. In a statement, the WEF said the return is "an acknowledgment to the company's efforts in promoting transparency and fighting corruption in recent years." The WEF added that the company's leadership "will make a significant contribution" to the initiative. Also last week, Brazil's chief prosecutor extended the mandate of the country's Car Wash anti-corruption task force until Jan. 31. The group's mandate had been scheduled to end on Sept. 10, according to the report.

NEWS BRIEFS

Panama's Gov't Publishes Rules for Renewable Energy Tender in October

Panama's government has announced the rules for a renewable energy auction that is scheduled for October, PV Magazine reported Sept. 10. Under the terms of the auction round, selected projects will be awarded five-year power purchase agreements by state-owned utility Empresa de Transmisión Eléctrica, and they must begin commercial operations on Jan. 1. The country's energy secretariat said the auction was necessary, as Covid-19 has hit the development of generation projects and the national electricity market to the extent that it could compromise short-term supply.

Brazil's Casa dos Ventos Signs Wind Power Project Deal with Bahia State

Brazil's renewable energy company Casa dos Ventos has signed a protocol of intentions with the government of Bahia state for the implementation of wind projects, with investment totaling nearly 9.1 billion reais, or $1.7 billion, Renewables Now reported Monday. The firm will build the Santa Diana, Santa Luzia, Santo Adalberto and São Carlos wind complexes, which combined are set to produce 6.6 terawatt-hours per year, the state government said.

Brazil Extends Tariff-Free Quota For Ethanol Imports From the U.S.

Brazil extended its tariff-free quota on U.S. ethanol imports for 90 days following a deal with the United States to begin trade talks on the biofuel and its main feedstocks, sugar and corn, Argus Media reported Sunday. The import quota, which expired on Aug. 30, resumed on Monday, according to Brazil's foreign ministry. [Editor's note: See related **Q&A** in the Aug. 28 issue of the Energy Advisor.]

Mexico's CRE Allows Pemex to Distribute High-Sulfur Diesel

Mexico's Energy Regulatory Commission, or CRE, has extended a deadline for state oil company Pemex that would have required it to produce, distribute and sell only cleaner diesel in some parts of the country, Reuters reported Sept. 11. Diesel with high sulfur content, such as the one produced by Mexico's main crude, has been criticized over its environmental consequences. The CRE resolution, dated Aug. 27 but only recently published, provides Pemex another six months to continue distributing high-sulfur fuels starting the moment Covid-19 measures are lifted. Pemex had requested the extension, claiming coronavirus-related restrictions curbed demand for its refined products. In April, the CRE had allowed Pemex to supply diesel with as much as 500 parts per million, considered "dirty" by international standards, Reuters reported. That resolution was set to expire on Sept. 1. The extension applies to some areas in the central states of Guerrero, Oaxaca, Puebla and Veracruz, according to an official document.

Venezuela Says it Dismantled Plot to Sabotage Refineries

The government of Venezuelan President Nicolás Maduro on Monday claimed it had discovered and dismantled an operation to sabotage the country's power plants and oil facilities, saying it had detained eight people involved, including a U.S. citizen who was carrying heavy weapons, explosives, surveillance footage and cash, The Washington Post reported. In a televised address, Venezuelan Attorney General Tarek William Saab said active members of the military had helped the American man, whom authorities identified as Matthew John Heath. Saab said Heath previously worked "as a mercenary" for U.S. intelligence in Iraq and was in possession of an item that linked him to the CIA, although he did not provide evidence. The announcement came just days after Maduro claimed a "U.S. spy" had been captured while spying on the Andean nation's largest refining complex, at a time during which Venezuela is struggling amid a severe shortage of fuel, Reuters reported. They detained "a marine, who was serving as a marine on CIA bases in Iraq," Maduro said. Adding, "He was captured with specialized weapons, he was captured with large amounts of cash, large amounts of dollars and other items." He did not give any further details, except saying that the man arrested was giving a statement in custody. Neither the U.S. state department nor the White House immediately responded to Reuters' requests for comment. Three Venezuelans who were with him were also arrested last week, Saab said, the Associated Press reported. Heath has been charged with terrorism, trafficking illegal weapons and conspiracy, according to Venezuelan authorities. The news comes as Venezuela continues to struggle with a severe shortage of fuel amid a production crisis at state oil company PDVSA. As many as 36 service stations in Caracas were shut down last week as a result. At the CRP refining complex, where the Amuay and Cardón facilities are located, a crude distillation unit at Amuay was

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energy efficiency in refineries and switching from oil to gas and renewables in power generation for their own operations. However, in the longer term, these companies may face pressure to establish a target year and plan for net zero emissions and create strategies to reduce their indirect emissions by producing zero emissions products for their customers. There are many barriers. In a **recent study**, we found that governments' control over their NOCs has led to erratic climate strategies, and some efforts that were introduced under one government to reduce its NOC's emissions were later reversed by the following government. In addition, most companies were loathe to undertake climate initiatives that implied higher costs. The lack of strict regulation of oil sector emissions in Latin America is another barrier."

A **Fluvio Ruiz Alarcón, Mexico-based oil and gas analyst:** "In general, the current Mexican government's oil policy direction runs the risk of not promoting a balanced energy matrix and slowing the development of renewable energy sources. Initiatives such as Climate Action 100+ can be very useful to show that, by basing energy security on fossil fuels, the emission goals to which Mexico committed to could be breached. Under the same government strategy, significant investment is necessary to develop hydrocarbon exploration, production, transportation, storage and refining activities. In this sense, a great limitation for the government's aspirations in this matter is not having enough budget to modernize Pemex's infrastructure. Thus, for example, if the necessary preventive and corrective maintenance is not carried out, or the missing reconfigurations are not completed at the Salamanca, Tula and Salina Cruz refineries, it is very possible that production costs will increase, exacerbating the problem of fuel oil generation. A large opportunity exists in research and technological development (RTD). Through RTD, the performance of technologies Pemex uses can be improved in areas such as catalysts, plant operation, material balance, elimination of bottlenecks, energy balance, electrical cogeneration, production of low carbon fuels and the use of extra

> **"The initiative can help Pemex apply better practices in industrial safety, environmental impact and adaptation to climate change."**
> — Fluvio Ruiz Alarcón

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closed due to failed industrial services, and a unit at the Cardón refinery was also shut down because of a broken pump, according to four CRP officials, Argus Media reported. The CRP has a nominal processing capacity of 971,000 barrels per day, but both Amuay and Cardón have experienced numerous outages in recent years, which the opposition has blamed on the government's mismanagement and lack of maintenance.

POLITICAL NEWS

Mexico's President Seeks Vote on Judging Predecessors

Mexican President Andrés Manuel López Obrador on Tuesday called for a referendum next year on whether to investigate and potentially bring charges against nearly all of the country's living former presidents, the Associated Press reported. López Obrador is proposing the referendum for June 6, the date of Mexico's midterm congressional elections, in which his Morena party is seeking to retain its majority in Congress. A document that López Obrador delivered to the Senate to seek the plebiscite includes a list of grievances spanning three decades before López Obrador took office in December 2018, The Guardian reported. They include privatizations that López Obrador said were marred by cronyism, escalating violence and a rising concentration of wealth, the newspaper reported. "The social and humanitarian disasters we have suffered in this country over the last 30 years were the result of a series of conscious acts by those who governed during this period," said López Obrador, the AP reported. "The evils I have enumerated did not occur by chance, but rather were the result of the application of a model over five presidential terms ... this tragic stage in the life of the country is called the neoliberal era." López Obrador has previously expressed opposition to putting former presidents on trial, saying, "We must not be anchored to the past," The Guardian reported. However, he also has a history of putting controversial ideas to a vote. In October 2018, Mexicans voted down a referendum on whether to continue construction of a new $14.5 billion airport for Mexico City in a plebiscite that López Obrador launched before

> **"The evils I have enumerated did not occur by chance..."**
> — Andrés Manuel López Obrador

ADVISOR Q&A

What Will a Split in the Opposition Mean for Venezuela's Democracy?

Q Venezuelan opposition figure Henrique Capriles, who unsuccessfully ran twice against President Nicolás Maduro, has said he would support congressional elections scheduled for December, a break from National Assembly President and opposition leader Juan Guaidó, who has vowed to boycott the vote, citing concerns that Maduro's government will rig it in its favor. Capriles' announcement came days after Maduro's government said it would pardon more than 100 imprisoned and exiled political opponents. What will result from Capriles' break from the Guaidó-led faction of the opposition? What are the reasons behind Maduro's decision to pardon political rivals? Should the opposition participate in the legislative vote, and does it stand a chance at victory if it remains divided?

A Betilde Muñoz-Pogossian, director of the Department of Social Inclusion at the Organization of American States: "Venezuelans are once again faced with the dilemma of whether to participate in elections. A democratic election requires that it be fair, free and competitive. None of these standards are met in the case of Venezuela's Dec. 6 elections. If we add the effects of gasoline shortages, hyperinflation and Covid-19 on the organization and administration of elections, the situation becomes even more severe. The critical issue is that participating in an electoral process that everyone knows will not meet the minimum standards for democratic elections means being functional to the Maduro regime, and the opposition cannot afford it. When it comes to releasing political prisoners, we must all support Capriles and others' discussions on their behalf. However, we must draw a line on the issue of elections. Venezuela is not in a position to hold democratic elections, and while Capriles' intentions to change the game and bring about a change in the dynamics to break out of the current political inertia are commendable, those conditions must still be met. We should wait to see how he will play the cards to turn this around, but it may be a dangerous game that could bring the country back into the political inertia he was trying to get it out of. Indeed, if Capriles fails in changing the game, Maduro will consolidate his stay in power, weakening the democratic forces in the restoration of democracy for Venezuela."

> **"Venezuela is not in a position to hold democratic elections..."**
> — Betilde Muñoz-Pogossian

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

NEWS BRIEFS

Poll Shows Arce Could Win First-Round Victory in Bolivia

An opinion poll published Wednesday shows Bolivian presidential candidate Luis Arce, of former President Evo Morales' MAS party, with the possibility of winning next month's election in the first round, Reuters reported. Nearly 40 percent of Bolivians included in the Jubileo Foundation poll said they would vote for Arce in the Oct. 18 election. Opposition remains divided among different parties, with former President Carlos Mesa coming in second in the poll with 26.2 percent, while current interim President Jeanine Áñez had 10.6 percent of support in the poll.

Court in The Hague Rules in Chevron's Favor in Dispute With Ecuador

The District Court of The Hague on Wednesday ruled in favor of energy company Chevron in a longstanding dispute with Ecuador, upholding a 2018 arbitral award by an international tribunal that found that a $9.5 billion Ecuadorean judgment against Chevron was fraudulent and the plaintiffs' legal team was corrupt, including by bribing the presiding judge and ghostwriting the judgment, according to a statement by the court in The Hague. The tribunal also rejected environmental allegations against Chevron.

General Becomes Brazil's Third Health Minister During Pandemic

Brazilian Gen. Eduardo Pazuello took office Wednesday as the country's third health minister during the Covid-19 pandemic, the Associated Press reported. A logistics expert, Pazuello had no prior health-related experience before being named deputy health minister last April. His two predecessors as health minister departed after clashing with President Jair Bolsonaro on how to fight the novel coronavirus. he took office as president. López Obrador's planned referendum on his predecessors could be legally problematic as Mexican law prohibits holding a referendum on the same day as an existing election, The Guardian reported. Also, the statute of limitations has expired for conduct during the terms of the country's former presidents, except for that of López Obrador's immediate predecessor, Enrique Peña Nieto.

ECONOMIC NEWS

Brazil's Bolsonaro Scraps Plan for New Welfare Program

Brazilian President Jair Bolsonaro said Tuesday that he would not go forward with the creation of the Renda Brasil social welfare program and instead maintain the current Bolsa Família conditional cash transfer program through the end of his government, Valor Econômico reported. In a video posted to social media, the president also rejected freezing salaries of retirees and pensioners to finance the aid program. Renda Brasil had been touted as one of Bolsonaro's plans for his re-election bid in 2022, as recent polls show support for the far-right president has risen at least partly due to emergency government handouts to the most vulnerable during the coronavirus pandemic. However, Bolsonaro was reportedly unable to agree on funding with Economy Minister Paulo Guedes, whose main concern is containing the country's budget deficit, Reuters reported. "It is forbidden to talk about Renda Brasil in my government until 2022," Bolsonaro said in the video. "We will continue with Bolsa Família, and that's it," he added.

Argentine Bonds Fall After Gov't Unveils Exchange Limits

Argentine bonds plunged Wednesday after the government expanded limits on foreign exchange in a bid to hold on to U.S. dollars as reserves decline, Bloomberg News reported. Benchmark sovereign notes issued only several days ago following the country's $65 billion debt restructuring lost approximately two cents on the U.S. dollar, and Argentine companies' debt also fell. The peso weakened as much as 3 percent in the "blue chip swap" market of international trading. The news came after central bank chief Miguel Pesce announced measures aimed at keeping dollars in the country, including new levies on purchases of the U.S. currency as well as a demand that firms with more than $1 million in monthly debt payments through March find a way to delay those obligations. Among other things, the foreign exchange restrictions "partially [limit] access to the official [U.S. dollar-Argentine peso] market for corporate debt service," Ezequiel Fernández, head of research at Balanz Capital in Buenos Aires, said in a note. "[It is] a concerning and partly unexpected event for both Argentina credits and equities, as investors could link this to an eventual full ban on dollar-access for corporates," Fernández added.

Ecuador to Delay Loan Payment to China's ExIm Bank

Ecuador has reached a deal to delay a $474 million loan payment to the Chinese state-controlled and trade-focused ExIm Bank until 2022, the Andean nation's government said on Wednesday, Reuters reported. Ecuador entered restructuring processes for its foreign debt after oil prices plummeted earlier this year, taking a toll on the government's revenue. Oil is Ecuador's main export. Additionally, the country reached a deal in August with the China Development Bank, another state lender, to delay another $417 million payment by one year. It also reached a deal to exchange some $17.4 billion owed to bondholders into new bonds with later maturity dates. "We have reprofiled the debt with ExIm Bank," President Lenín Moreno said on Twitter. "We have now negotiated $891 million with Chinese banks. We continue reducing strain on public finances, and attracting more resources," the president added.

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heavy crude oil and gas for the production of gasoline and electricity. In sum, the initiative can help Pemex apply better practices in industrial safety, environmental impact and adaptation to climate change."

A **Eric Parrado, chief economist at the Inter-American Development Bank:** "The climate crisis, although evolving over a longer time period, has many parallels with the pandemic and ultimately threatens Latin America and the Caribbean with even grimmer economic and health consequences. The good news is that the pandemic creates an opportunity for transformation in numerous areas—and the energy sector can play a critical role, specifically through investments that take into account environmental, social and corporate governance (ESG) factors.

> **ESG investments do not involve significant new outlays of cash."**
> — Eric Parrado

Such investing can help to achieve a sustainable recovery and a better future for current and future generations. Investing in firms that pursue unsustainable practices—such as high carbon emissions—can be counterproductive. Sooner rather than later, the costs of those practices will be borne by the whole society. ESG investments by international financiers make sense when it comes to climate change. Such investments help shift investment from polluting industries to cleaner ones, which over the longer term helps the planet while ultimately providing more employment in areas such as energy efficiency and renewable energy. Moreover, for governments concerned with fiscal budgets during the recovery, ESG investments do not involve significant new outlays of cash. They are instead a low-cost policy whereby money is shifted from firms that make little or no effort to address climate change to firms that take the threat seriously and are making a major effort to address it."

A **Carlos Ochoa, partner at Holland & Knight LLP:** "Mexico is trying to implement energy regulation to increase the role of Pemex and CFE in gas and power markets. While some projects are still in development, the government could consider development with help of those funds, which could imply advancing a greener agenda. If that happens, energy firms in the region will have to be ready for regulatory changes to come in the short and mid-terms. Firms must change their strategy to prioritize projects that could develop (as much as possible) integrated projects for regions and/or alliances with local governments that are in need of securing energy for developing business and industrial activities in their municipalities. Industrial offtakers are also seeking long-term partners to cover their energy needs."

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

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