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FEATURED Q&A

Can Colombia's Oil Production Bounce Back This Year?

Colombia's government is hoping to recover 2019 levels of oil production this year after a sharp plunge in 2020. // File Photo: Colombian Government.

Q **Colombia's oil production was down 11.6 percent through November last year as compared to the same period a year earlier, according to the Ministry of Mines and Energy. Meanwhile, Vice Minister Miguel Lotero has said the government hopes to recover 2019 production levels this year. What were the most important factors driving the fall in Colombia's crude output last year? Is production likely to recover this year? What needs to happen for Colombia to reverse the declining trend?**

A **Armando Zamora, president of Colombia's National Hydrocarbons Agency (ANH):** "The fall in crude output is the result of the onslaught of the Covid-19 pandemic and the simultaneous collapse of oil prices after disagreements in the OPEC+ group of producers, both of which occurred March. At the outset of the crisis, operators requested, and the National Hydrocarbons Agency provided, flexibility in their investment obligations for operating expenses, capital expenditures and also exploration. The government swiftly issued biosafety protocols and allowed operators to continue operating even during the strictest periods of countrywide lockdown. As a result, only a small number of production wells were closed, due to their high operating cost, but the vast majority of production facilities kept operating at a safe minimum level of personnel and maintenance. However, gas production increased over the year. After the worst of the crisis began to pass, and oil prices recovered, so did production, ending the year at slightly over 750,000 barrels per day (bpd) of oil. With higher

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TOP NEWS

OIL & GAS

Biden Supporters Clash Over Pipeline Cancellation

While environmental groups applauded U.S. President Joe Biden's move to scrap the permit for the construction of the Keystone XL pipeline, labor unions are mobilizing to avoid further cancellations of pipeline construction projects.

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RENEWABLES

Enel Installing Smart Meters in São Paulo

Enel announced it had begun a pilot project to install 300,000 smart meters in São Paulo. Brazil's electricity regulatory agency is partially financing the project.

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OIL & GAS

Argentina Warns of Cuts if LNG Plant Remains Closed

Argentina's energy secretariat, led by Darío Martínez, has warned of residential supply cuts and power outages if the country's only import terminal of liquefied natural gas, or LNG, is not reopened ahead of the Southern Hemisphere winter.

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Martínez // File Photo: @dariomartinezpj via Twitter.

OIL AND GAS NEWS

Biden Supporters Clash Over Keystone Pipeline Decision

Environmental groups and labor unions that both backed U.S. President Joe Biden are clashing over the construction of pipeline projects that would transport Canadian crude into the U.S. market, Reuters reported Monday. Among his first moves in office, Biden signed an executive order canceling the permit for the Keystone XL crude oil pipeline, as part of his administration's plan to bring the U.S. economy toward net-zero carbon emissions by 2050. Climate activists applauded the move to scrap the project, which would have expanded an existing pipeline that delivers Canadian crude to the United States. Environmental groups for years have warned of dire consequences over climate change concerns, citing the threat of spills and the amount of oil extracted from Canada's oil sands, which are considered some of the most greenhouse-gas intensive in the world, The Wall Street Journal reported. However, labor unions are mobilizing in a bid to keep other projects from being derailed or canceled altogether. Mike Knisely, the secretary and treasurer of the Ohio State Building and Construction Trades Council, which endorsed Biden as a candidate, has said he is counting on state officials to talk to the president about how his decisions are affecting support from the union's members, Reuters reported. "I tell them they need to get back with Biden and ask if this all really has to happen on day two of the new administration," Knisely said, the wire service reported. "I just get so frustrated that there's almost no common ground [on pipelines] with the environmental community," he added. Other unions that work on pipelines, refineries and other energy infrastructure, including the Teamsters and North America's Building Trades, are lining up against the closure of other pipelines such as Enbridge's Line 3 and Line 5, as well as Energy Transfer's Dakota Access Pipeline. The three lines are currently in service. [Editor's note: See related **Q&A** in last week's issue of the Energy Advisor.]

Labor unions that endorsed Biden are mobilizing against the cancellation of other pipeline projects.

Argentina Warns of Cuts if LNG Terminal Remains Closed

Argentina's government has warned of residential supply cuts and power outages if the country's only import terminal of liquefied natural gas, or LNG, is not reopened before the Southern Hemisphere winter begins, Argus Media reported last week. The energy secretariat warned of those consequences if the Escobar terminal is not reopened before the upcoming winter, which starts in May. A court last October called for the closure of the terminal, located in Buenos Aires province, as part of a case involving a resident who claimed there was a risk of fire or explosion at the plant. Argentina estimates national gas production of about 107 million cubic meters per day this winter, and according to the latest supply contract, the country is also set to receive a maximum of 14 million cubic meters per day of gas from Bolivia. That total is not enough to cover demand in the winter months, when demand soars as residential heating increases, according to secretariat estimates. When operating normally, the Escobar terminal, which is operated by state-controlled energy firm YPF, supplies an average of 18 million cubic meters per day of gas in the winter months, the energy secretariat added in a judicial filing. Additionally, the secretariat said gas shortages would force thermal power plants to use diesel, which is not only a bigger pollutant but also more expensive, costing an additional $600 million, Argus Media reported. The Argentine government last year put an incentives plan in

NEWS BRIEFS

Top Compliance Officer at Brazil's Petrobras to Step Down, Sources Say

Marcelo Zenkner, chief compliance officer at Brazilian state oil company Petrobras, is planning to step down in March for personal reasons, Reuters reported last Friday, citing four people familiar with the matter. The departure of Zenkner, a former prosecutor who assumed that position in July 2019, would mark the third exit by the firm's top corruption official in three years. His contract is set to expire in March. Petrobras has already begun the process to find a possible replacement, one source said.

Banco Davivienda in El Salvador Gets IDB Invest Loan for Green Projects

Banco Davivienda's unit in El Salvador, one of the largest lenders in the Central American nation, is set to receive a loan package of as much as $100 million from IDB Invest intended to finance green projects and support small and medium-sized enterprises, Renewables Now reported Tuesday. IDB Invest, a branch of the Inter-American Development Bank, said it would also advise the lender on renewable energy and energy efficiency projects with emphasis on solar photovoltaic plants.

Enel Begins Installation of Smart Meters in São Paulo

Italian firm Enel said last week it had begun a pilot project to install 300,000 smart meters in São Paulo. The project aims to bring improvements such as monitoring of interval energy consumption, accurate remote meter reading, customizable tariff structures and other advanced functions that help improve the quality of service, the company said in a statement. Brazil's electricity regulatory agency, Aneel, is financing the project with 121 million reais ($22 million), with additional financial support from Enel.

place in a bid to attract investment and boost natural gas production in the country. [Editor's note: See related **Q&A** in the Oct. 30 issue of the Energy Advisor.]

POWER SECTOR NEWS

Mexico's Supreme Court Strikes Down Power Sector Rules

Mexico's Supreme Court on Wednesday ruled unconstitutional changes in the country's electricity market that gave preference to state-owned utility CFE, The Wall Street Journal reported. The ruling deals a setback to President Andrés Manuel López Obrador, who has sought to return state-owned energy companies to dominance. It also casts a shadow over legislation López Obrador sent this week to Congress that would give the CFE a prominent presence in the electricity market. The fast-tracked bill would alter the order in which electricity is sent to the national grid, putting private investors behind the CFE, the Financial Times reported. The legislation strikes a blow against producers of renewable energy, whose electricity is currently sent first to the national grid, a place they would lose under the legislation. The Supreme Court's ruling on Wednesday, however, could lead to a confrontation between López Obrador and the high court. The president has sought to reverse integral parts of the energy reform that was carried out under former President Enrique Peña Nieto, The Wall Street Journal reported. The Supreme Court's 4-1 ruling strikes down key parts of a policy that Mexico's Energy Ministry published last year, which required the national power grid operator to receive electricity that the CFE generated before less expensive options from private generators. However, Mexico's antitrust commission challenged the policy, arguing it violated the constitution by harming free competition and market access. In related news, the CFE last week published its 2021-2025 business plan, which includes investments of as much as 62.8 billion pesos ($3.12 billion)

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oil prices, a better outlook both for the pandemic and OPEC+ behavior and the return of investment obligations, production is set to continue recovering. The levels achieved in January 2020, shy of 900,000 bpd, might be somewhat optimistic to expect, but we do expect production to reach the 850,000 bpd mark toward the end of the year."

A **Jose Vicente Zapata, partner at Holland & Knight:** "According to the Colombian Ministry of Mines and Energy, the main factors affecting oil production in 2020 were the temporary closure of fields due to the fall in international oil prices, the health and employment crises due to the Covid-19 pandemic, and the social and environmental concerns surrounding operations. The decrease in oil prices prompted companies to request suspension or extension of exploration and production contracts from the Colombian National Hydrocarbons Agency. Thus, exploration and production operations were minimized, which kept the country's crude output from rising. In order to mitigate these losses, Colombia enacted the Permanent Process for Area Assignment, which seeks to ease allocation of blocks for the first quarter of 2021. More than 60 onshore and offshore blocks will be offered to boost investment in the oil and gas sector. Similarly, granted extensions should allow production to recover, especially considering the positive forecast for oil prices. Additionally, there are four strategic actions that the Ministry of Mines and Energy is executing: 1.) the development of offshore exploration and production, 2.) the promotion of exploration in onshore reservoirs, 3.) improved recovery technologies and 4.) the development of pilot projects of comprehensive research in unconventional reservoirs. Such measures, as well as the oil and gas block adjudications processes scheduled for 2021, should help Colombia recover from lower oil production in 2020. Colombia also needs to allow for rules and contracts that improve its competitive edge if it is to attract renewed investment in the sector, and it must definitively provide strong messages as to security and the rule of law."

A **Leopoldo Olavarría, international partner at Norton Rose Fulbright:** "Crude production in December 2020 was 15 percent lower than in February 2020, mainly due to the combined impact of the pandemic and the resulting steep drop in prices. April was the year's low-price point, which led crude production to collapse in May to about 742,000 bpd. For the first week of 2021, official production figures stood at 740,500 bpd. Recovery of production to pre-pandemic levels will no doubt take time. Campetrol's rig count for November 2019 showed 58 active drilling rigs. Contrast this with November 2020's rig counts of 15 (by Baker Hughes) and 20 (by Campetrol). As coronavirus vaccines are rolled out and lockdown restrictions are relaxed this year, triggering increased mobility, crude production should gradually recover. This needs international crude prices to remain stable. This will, in turn, mainly depend on foreign factors, such as OPEC+ members' discipline to their allotted production quotas. Sustained drilling activity is essential to reverse Colombia's declining production (and reserves) trend. Campetrol's position is that long-term recovery in the sector requires the yearly drilling of between 80 and 100 exploratory wells. However, 16 e-wells were drilled through November 2020, in comparison to 40 e-wells drilled through November 2019. The country's immediate focus will be the

> **"Recovery of production to pre-pandemic levels will no doubt take time."**
> — Leopoldo Olavarría

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in 2021 on efforts to overhaul its generation capacity, BNamericas reported. The level of investment is a 20 percent increase from last year, when the CFE invested 52 billion pesos. The plan outlines total investments of about 330 billion pesos. In addition, the CFE plans to invest 101 billion pesos in the construction of power plants and to increase distribution investments next year, according to the report. The business plan also mentions the CFE's venture into nonconventional renewable energy sources, a recently announced move by the company, which has historically focused on thermal and hydroelectric generation. However, the plan does not mention any specific solar or wind projects, according to the report.

RENEWABLES NEWS

Share of Power From Renewable Sources Increases in Chile

Nontraditional renewable energy sources in Chile generated 1,858 gigawatt-hours of electricity in December, a 7.5 percent monthly increase, according to the latest figures released by Chile's energy commission, CNE, Renewables Now reported last week. In total, renewables produced 27.1 percent of the country's total gross power production, similar to the level registered the previous month despite the increase in output. Year on year, power production from renewable energy sources was up by 20 percent, with geothermal energy seeing the largest yearly jump, at 55.9 percent.

POLITICAL NEWS

White House Affirms Recognition of Venezuela's Guaidó

The administration of U.S. President Joe Biden on Wednesday reaffirmed its recognition of Venezuelan opposition leader Juan Guaidó as the Andean nation's legitimate president and ruled out talks with the government of President Nicolás Maduro, whom it called a dictator, Reuters reported. State Department spokesman Ned Price also called for free and fair elections in Venezuela, adding that the administration will emphasize "targeting

ADVISOR Q&A

Would Talks Help Solve Venezuela's Political Crisis?

Q The European Union on Jan. 25 called for political talks in order to hold "credible, inclusive and transparent local, legislative and presidential elections" in Venezuela. The statement came less than two months after Venezuela's Dec. 6 legislative elections, which have been widely denounced as fraudulent and which the main Venezuelan opposition parties boycotted. What is the likelihood of such dialogue happening this year in Venezuela? Would talks between President Nicolás Maduro's government and the opposition lead to a productive outcome? What actions should international actors, such as the European Union and the Biden administration in the United States, as well as Maduro allies such as Russia and Iran, be taking now to help stabilize Venezuela?

A Vanessa Neumann, former Juan Guaidó-appointed Venezuelan ambassador to the United Kingdom: "No one who thinks clearly believes there will be free and fair presidential elections in Venezuela in 2021. While it's long overdue, we have neither the drivers nor the conditions. The electoral farce of Dec. 6 has strengthened Maduro's co-option of everything, including foreign NGOs and civil society, paradoxically bringing greater stability: a stabler downward spiral into further horror, without credible challengers to disrupt that terrible momentum. The dictatorship is winning. Currently, its only motivation to sit down would be to get its sanctions lifted and live the international high life again. That won't help the Venezuelan people. To drive a real dialogue, we need a paradigm shift. As in any negotiation, you have to develop some trust across sides but most importantly with the target audience: the Venezuelan voters. First, start with key performance indicators of positive outcomes from smaller joint projects that deliver measurable results to ease Venezuelans' horrific suffering, through vaccination and food programs. That would establish solid credentials of delivering for the people and the confidence-building measures that support a framework for shared projects and outcomes, such as an election. While the international community supports those joint confidence-building efforts through the United Nations and other multilaterals, it should also continue to wield a stick, by punishing criminals and kleptocrats. It should treat the Maduro regime as the transnational criminal organization it is. If the dictatorship wants to improve its image (and if the opposition does, too, while we're at it), it should earn forgiveness from the Venezuelan people by serving them. Let's get some real political competition going to the benefit of Venezuelans. All of this, of course, is contingent upon the key international stakeholders having the policy bandwidth to deal with Venezuela while they tackle the pandemic and rebuild their economies, which remains to be seen."

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

NEWS BRIEFS

Biden Signs Orders to Review Trump's Immigration Policies

U.S. President Joe Biden signed executive actions on Tuesday that order the review and potential reversal of the previous administration's immigration policies, which restricted legal immigration along the Mexico border and which Biden called "very counterproductive to our security," The Washington Post reported. The orders also create an interagency task force with the aim of reuniting migrant families separated by former President Donald Trump's "zero tolerance" policy.

OAS' Almagro Condemns Killings of FMLN Supporters in El Salvador

Organization of American States Secretary General Luis Almagro on Monday condemned the fatal shooting of two supporters of El Salvador's FMLN opposition party weeks ahead of the Central American nation's legislative and local elections. "We condemn the attack on party supporters of FMLN," Almagro wrote on Twitter. "We support quick action from the police. We request El Salvador investigates and prosecutes those responsible," he added. Five others were seriously injured in the politically motivated attack, Deutsche Welle reported.

Chile's Codelco Reports Declines in Copper Production: Gov't Figures

Chilean state-owned mining company Codelco's production fell 16 percent in December as compared to the same month a year earlier, according to government figures released Tuesday, Reuters reported. National copper commission Cochilco said Codelco's output declined in December to 157,800 metric tons. The company's total production for 2020 rose by 1.2 percent as compared to 2019, according to the government figures.

regime officials and their cronies involved in corruption and human rights abuses." Price's remarks suggested little change from former President Donald Trump's stance on Venezuela, though Price did not mention the tough oil sanctions that the Trump administration had imposed since 2019. Before being appointed director for the Western Hemisphere in Biden's National Security Council, Juan Gonzalez told the Latin America Advisor in a **Q&A** published Aug. 21 that, as president, "Biden will stand with the Venezuelan people and for democracy by granting [Temporary Protected Status] to Venezuelans, marshaling a robust international response to the humanitarian crisis, targeting regime supporters involved in corruption and human rights abuses" as well as "recovering assets stolen from the Venezuelan people, leading international pressure for free and fair elections and aiding the country's long-term recovery." Gonzalez also said Biden supports multilateral sanctions, as opposed to Trump's unilateral approach.

Bolsonaro Allies Win Top Positions in Brazil's Congress

Allies of Brazilian President Jair Bolsonaro on Monday won the top positions in both houses of Brazil's Congress, which is expected to help Bolsonaro fights efforts to impeach him, the Associated Press reported. The Chamber of Deputies selected Arthur Lira of the center-right Progressives party as its president, while the Senate selected Rodrigo Pacheco of the center-right Democrats party as its leader. Any move to impeach Bolsonaro would have to begin in the lower chamber. Outgoing Chamber of Deputies President Rodrigo Maia has been a tough critic of Bolsonaro, but he has rejected calls for ousting Bolsonaro, the AP reported. In Monday's vote, Lira garnered 302 votes among his colleagues in the lower house, while Deputy Luiz Felipe Baleia Rossi received 145. Lira also leads the Centrão bloc, a group of 230 legislators known for giving political support in exchange for government appointments or allocations in the government budget, the Financial Times reported. Ahead of Monday's congressional leadership elections, Bolsonaro's government freed up hundreds of millions of dollars in the federal budget for 250 legislators to spend on public works projects in the areas they represent, Brazilian newspaper O Estado de S.Paulo reported before the votes. "A partnership based more on interest than ideology, however, carries its own risks, particularly if Bolsonaro's popularity crumbles further amid a rising Covid-19 death toll and economic woes," Anya Prusa, a senior associate at the Woodrow Wilson International Center for Scholars, told the daily Latin America Advisor in a **Q&A** published Jan. 28. In the Senate race, Pacheco had the support of opposition parties, despite Bolsonaro's endorsement. Pacheco won the Senate presidency by a vote of 57-21 against his rival for the position, Senator Simone Tebet. In their victory speeches, neither Lira nor Pacheco mentioned Bolsonaro, and they both vowed to lead an independent Congress.

ECONOMIC NEWS

Biden Administration to Release $1.3 Billion in Aid to Puerto Rico

The administration of U.S. President Joe Biden is planning to release $1.3 billion in delayed aid to Puerto Rico, originally meant for reconstruction after Hurricane Maria hit the island in 2017, The New York Times reported Monday. The aid is now intended to protect against future climate disasters, the administration said, adding that it is beginning to lift some restrictions that the Trump administration had put on an additional $4.9 billion for the U.S. territory. Biden has promised a quick delivery of the long-delayed disaster relief package, the Miami Herald reported. Congress had earmarked more than $60 billion in aid for Puerto Rico following the devastating hurricane, which damaged the island's power grid and destroyed other infrastructure. However, only about $20 billion of that aid has been distributed so far, The Hill reported. Trump had put restrictions on the aid's disbursement over concerns of alleged corruption in Puerto Rico.

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offshore areas (where big-name players operate) and natural gas production (with better economics). Onshore unconventional crude production (currently labeled investigation projects) will take longer to materialize, due to strong headwinds in the form of persistent above-the-ground difficulties and strong environmental and social opposition to fracking activities."

A **Marianna Boza, director of Brigard Urrutia in Bogotá:** "Considering the low diversification of Colombia's economy and its dependence on the energy and mining sectors (32 percent of exports in 2020 and 4 percent of GDP in 2019), the country was very exposed to international events such as Covid-19 and the international fall in oil prices. Covid forced some companies to close operations and adjust their personnel in order to comply with biosecurity measures and to protect office and oil field employees. Thus, crude oil development has been practically suspended, and operation plans, in addition to exploration and production investments, have been rescheduled. If a higher price is reached, and if companies build bridges with the people, production will increase. In Colombia, some projects are no longer profitable at a price lower than $40-$45 per barrel (the breakeven). To reverse this declining trend, Colombia needs to: 1.) continue implementing innovation and technology through enhanced oil recovery due to the high magnitude of mature fields in the country that needs to be stimulated to keep production levels, 2.) provide a stable legal, social and environmental framework for the development of unconventional resources, whose potential could position Colombia as a large oil and gas producer and 3.) dictate measures that foster and speed up exploration and development investments as part of the new contracts signed during the 2019/2020 bidding process."

> **In Colombia, some projects are no longer profitable at a price lower than $40-45 per barrel..."**
>
> **— Marianna Boza**

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

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