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FEATURED Q&A

What Explains
Uruguay's Success
in the Energy Shift?

Uruguay has consistently ranked as the leader in the Americas' transition to renewable energy sources. // File Photo: Uruguayan Government.

Q Uruguay continues to lead in the Americas' transition to renewable energy sources, and it is now ranked 13th in the world, according to a joint index recently published by the World Economic Forum and consultancy firm Accenture. However, the country this year dropped two spots from 11th place on the 2020 ranking. What factors help explain Uruguay's success in transitioning to renewable energy sources, relative to other countries in Latin America and the Caribbean, and how does it compare to leading countries in other regions? To what extent can other Latin American countries emulate Uruguay's model? What challenges remain for the South American nation as it continues efforts to shift toward cleaner energy sources?

A Omar Paganini, Uruguay's minister of industry, energy and mining: "The progress made in Uruguay's energy transition has been possible thanks to the development of a set of conditions that enabled investment (mostly foreign) in the country. Other enabling conditions include political and institutional stability, the existence of a specific, clear and transparent investment promotion framework and the development of long-term contracts with the local electricity company, which has an outstanding track record of meeting its obligations. All of this, combined with the reduction of costs associated with technology, generated a favorable investment climate, which both the private sector and multilateral credit organizations tapped into. When analyzing the possibilities of replicating the experience in the region, it

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TOP NEWS

RENEWABLES

Brazil Keeps 10% Biodiesel Blend for July, August

The decision sparked criticism from biodiesel producers, most of which expected the government to return to a 13 percent biodiesel blend in the coming months.

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OIL & GAS

Colombia's Oil Production Falls Amid Protests

The Andean nation's daily crude oil production has dropped below an average of 700,000 barrels per day for the first time since 2009 amid nationwide protests.

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OIL & GAS

Guyana Turns to 'Public and Open' Bidding Process

Guyanese President Irfaan Ali announced that the South American nation will change how it reaches deal with international oil companies for exploration and production. The government plans to launch a "public and open" bidding process.

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Ali // File Photo: Guyanese Government.

OIL AND GAS NEWS

Colombia's Oil Production Falls Amid Deadly Protests

Colombia's daily crude production has dropped below an average of 700,000 barrels per day (bpd) for the first time since 2009, as nationwide protests and roadblocks have curtailed the country's ability to produce and transport oil, refined products and other minerals, Energy Minister Diego Mesa said Wednesday, Reuters reported. The reduction is a minimum 6 percent decline from the 744,715 bpd of oil the nation was producing in March, the most recent available monthly figure. That volume was already down from a year earlier, when Colombia was pumping 857,112 bpd, due to the economic impact of the Covid-19 pandemic. Mesa said that demonstrations across the country had caused aggregated production losses so far of 560,000 barrels of crude, and about 45 percent of Colombia's service stations have been affected by the protests and blockades. Affected stations have reported an average decline of 50 percent in sales at the pump, Mesa added. A nationwide strike has been underway in Colombia over the past three weeks. The protests were initially prompted by a now-canceled tax reform plan but have turned into demonstrations over a litany of grievances, included rising poverty, unemployment and police brutality.

Guyana Turns to 'Public and Open' Oil Bidding Process

Guyana will change how it concludes agreements with international oil companies for hydrocarbon exploration, with the government launching bidding rounds for offshore and onshore areas, President Irfaan Ali announced last week, Argus Media reported. The South American nation's government had previously directly negotiated exploration and production contracts with companies. Now, the process

will be public and open, Ali said. "We will be looking for the best offers," he added. Unnamed government officials told Argus Media that the first bidding round is expected for early 2022, after Ali's administration reviews the terms of current production-sharing contracts. The officials also said the administration is overhauling the country's regulatory structure for the oil sector. As part of the change, it will create a petroleum commission that is set to become Guyana's main oil authority. In related news, ExxonMobil—one of the companies that inked deals in direct negotiations with the Guyanese government—increased its forecast for crude production at the deepwater Stabroek block offshore Guyana. Exxon now expects output of 800,000 barrels per day (bpd) by 2025, up from a previous outlook of 750,000 bpd by 2026, driven in part by Yellowtail, the company's fourth project in the Stabroek block. The government is even more optimistic, with a projection of one million bpd by 2027, Natural Resources Minister Vickram Bharrat said last month, Argus Media said in a separate report. "Production is expected to begin at year end 2025 with an expected field life of at least 20 years," Exxon said in its latest environmental permit application, which it submitted last week to Guyana's environmental agency.

Petrobras to Maintain Flexible Fuel Price Policy: Trading Chief

Brazilian state oil company Petrobras will not change its fuel pricing policy, the company's new trading chief said last Friday, Reuters reported. The move in practice gives Petrobras ample flexibility to avoid international market volatility when setting fuel prices. Last year amid the Covid-19 pandemic, the company's former leadership extended from three months to one year the period for which it calculates the international price parity of the fuels it sells. In effect, the decision meant that the median local fuel price must be on par with the international median fuel price, in addition to import costs, over the course of 12 months, Reuters reported. In a news conference

NEWS BRIEFS

Abengoa to Construct Transmission Lines for Future Wind Farm in Peru

Spanish firm Abengoa is set to construct transmission lines that will transport electricity from the upcoming 260-megawatt Punto Lomitas wind farm in Peru, Renewables Now reported last week. Abengoa said Engie Energía Perú, a unit of French utility group Engie, had selected it to design and build the 63-kilometer double ternary transmission line. Abengoa has already developed more than 4,000 kilometers of power lines and 30 substations in the Andean nation, the company said.

U.S. Likely to Renew Waiver for Energy Firms in Venezuela: Sources

The U.S. government is likely to renew a waiver that allows several U.S. energy companies to operate in Venezuela despite sanctions on the Andean nation, Argus Media reported, citing sources "close to the process." The waiver exempts firms including Chevron, Schlumberger, Halliburton and Baker Hughes from being subject to sanctions for their businesses in Venezuela. The current waivers are set to expire in early June. The sources said the United States could extend them for an additional three to six months, Argus Media reported.

Brazil's CADE Approves AES Tiete's Acquisition of 231-MW Wind Portfolio

Brazil's Administrative Council for Economic Defense, or CADE, last week approved AES Tiete's acquisition of a 231-megawatt wind portfolio, Renewables Now reported. Under the deal, the local unit of U.S.-based utility AES Corp. will buy seven pre-operational wind parks from CPE Participações, which is part of local business conglomerate Grupo J Malucelli. The value of the deal was not disclosed, according to the report.

following the company's first-quarter results release, Claudio Mastella, the head of trading and logistics at Petrobras, said the policy was implemented as a means to protect domestic consumers from price volatility while at the same time shielding the company from losses. He said prices would be reviewed daily, but that there would be no pre-established period for adjustments. The decision seems to be a middle point between daily adjustments, which the market favors, and the low-frequency changes, which consumers prefer. "We've used various fuel price adjustment frequencies," Mastella said. "Today we are at an intermediate level, which seems appropriate to us ... In practice, that means no immediate passing of international volatility onto consumers, while also keeping our prices competitive," he added. The company posted a profit of \$220 million, above margin estimates, for the first quarter of the year. "We had a very strong quarter with solid operational and financial performance," Rodrigo Araujo Alves, chief financial and investor relations officer, said in the call. "Our recurring EBITDA achieved a 34 percent growth in the quarter with 55 percent recurring EBITDA margin," he added. These were the first quarterly results since new Chief Executive Officer Joaquim Luna e Silva took office after the controversial ousting of Roberto Castello Branco. The move sparked investor concerns that the government of Jair Bolsonaro was interfering in company affairs. [Editor's note: See related [Q&A](#) in the March 5 issue of the Energy Advisor.]

Finley Resources Accuses Mexico in \$100 Million Claim

U.S. oil service group Finley Resources has introduced a \$100 million claim in a World Bank arbitration court, accusing Mexico of breaching investor protections under the North American Free Trade Agreement by not complying with honor agreements, Reuters reported Tuesday, citing lawyers for the firms and court documents. The case, which the World Bank's International Centre for Settlement of Invest-

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must be considered that Uruguay does not have fossil resources. Therefore, in addition to being environmentally and socially advisable, the incorporation of renewable energy sources was the best economic alternative for the expansion of the electricity system. This context, although present in some countries in the region, is not a widespread reality. Moreover, it must be considered that the organization of the energy sector within each country has its peculiarities, so the transfer of experiences from one country to another may not be immediate and may not even be recommended. The most important challenge that Uruguay faces in terms of decarbonization of its energy sector in the future is mainly associated with the transportation and industry sectors. Both have been working on their direct and indirect electrification; it is therefore not surprising that electric mobility (electric vehicles and fuel cell electric vehicles), power-to-x and the role of green hydrogen toward these objectives are all Uruguay's priority at this time."

Alejandro Perroni, director of energy consulting firm Clerk:
"At the beginning of the 21st century, Uruguay's energy sector had difficulties in maintaining the security of electricity supply, and it had a strong dependence on oil, with a high impact on costs, risks and environmental performance. The change process was based on a good strategy and a favorable starting situation. The design of the strategy included: 1.) support of the political system for the change process; 2.) a clear and long-term definition promoting unconventional renewable energy; 3.) high participation of the private sector through power purchase agreement (PPA) contracts with adequate standards to access financing and 4.) tax exemptions for the incorporation of renewable energies. The strengths of the starting situation included a strong capacity and good performance of the transmission network to allow con-

nection in alternative locations, as well as previous evaluation of wind resources. Add to this storage capacity and instantaneous power to manage variability (hydro reservoir and fast-inlet thermal, for example), strong interconnection capacity with neighboring countries for occasional exchanges and medium-term macroeconomic balance and investment-grade debt, which are essential for obtaining competitive financing. The essential lessons of the process can be summarized as: good infrastructure, good rules and a strong political and institutional commitment to attracting investment. In the coming years, the main challenges are in the transport sector (which today runs almost exclusively on fossils), industry and heating. Electric transportation based on batteries, liquefied natural gas (LNG) and green hydrogen will be the key for the second transition."

Marta Jara, nonresident fellow at the Institute of the Americas:
"Uruguay is reaping the benefits of a state policy that set the

course in 2010. Most people tend to agree that a unified message of political support underpinning the transition was a determinant factor. The underlying circumstance—that Uruguay does not have indigenous fossil resources—made it very compelling at a time of high oil prices to bet heavily on renewables. The projects also relied on the positive general business environment, where long-term power purchase agreements with an investment grade offtaker (the state power company) made projects bankable. We are now witnessing a new wave of energy transition at an unprecedented scale around the world. Green funds available and market appetite for clean energy solutions are accelerating the deployment of new technologies toward the electrification of all sectors. Innovative solutions are first deployed in those countries where the technologies are created, and it is a challenge to bring them at pre- or early commercial state to small, remote countries

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ment Disputes, or ICSID, registered on May 12, involves the Texas-based company, which had won two oil tenders and negotiated a third drilling service contract with Mexican state oil firm Pemex. Andrew Melsheimer, an attorney for Finley, said it sought arbitration at the international court following stalled attempts in Mexican courts to enforce the contracts. This is the first claim by a U.S. oil services firm against Mexico under the United States-Mexico-Canada Agreement, the updated version of NAFTA that went into effect last year. Mexico is currently facing 13 arbitration disputes before ICSID, 10 of which have been introduced since 2018, when President Andrés Manuel López Obrador took office. The president has made strengthening Pemex a cornerstone of his agenda, moving to roll back energy reforms under the previous administration that opened up the sector to private and international investment. Unless Mexico's Supreme Court overturns the new laws introduced by López Obrador's government, "legal fights and arbitration will follow," Lourdes Melgar, Mexico's former deputy secretary of energy for hydrocarbons, told the Energy Advisor in a **Q&A** published April 16. "The laws are in violation of trade deals, and of the Paris Agreement ... The dispute over energy is underway," she added. The American Petroleum Institute, the largest lobbying organization for U.S. oil and gas producers, has expressed concerns that Mexican government actions have violated regional trade deals and hurt U.S. investors, Reuters reported.

Indigenous Group Blocks Access to Petroecuador Field

An Indigenous community in the Amazonian region of Ecuador has been blocking access to one of state oil company Petroecuador's main fields since Saturday, Petroecuador said, Reuters reported. The company added that the demonstration had blocked its delivery of supplies needed to maintain operations at Block 12 in Orellana province, prompting it to ask help from the armed forces to deliver the input via airlift, Reuters reported. The field produces

ADVISOR Q&A

Will Fujimori Be Able to Overtake Castillo in Peru?

Q Polls ahead of the June 6 runoff in Peru's presidential race show a narrowing gap between leftist front-runner Pedro Castillo and his rival, right-wing former legislator Keiko Fujimori. An Ipsos Perú voter simulation published Sunday in *El Comercio* showed Castillo with 51.1 percent support and Fujimori with 48.9 percent, within the 2.8-point margin of error. Recent polls have also shown double-digit percentages of voters who are undecided or would vote blank. What accounts for the shrinking gap between Castillo and Fujimori, and with less than a month until the election, is that trend likely to continue? What is driving support for each candidate? To what extent, and in what ways, have the candidates shifted their positions toward the center in an attempt to capture undecided voters, and what might this mean for the winner's mandate?

A Jo-Marie Burt, associate professor of political science at George Mason University's Schar School of Policy and Government and senior fellow at the Washington Office on Latin America: "Castillo continues to lead the polls in Peru, but his advantage has narrowed considerably, from 20 points in the immediate aftermath of the April 11 first-round vote to two to six points, depending on the poll consulted. This is surprising given that Keiko Fujimori has a very high rejection rating. The race has evolved to be defined by those who favor the current political and economic model, and those who oppose it. Castillo won in the first round because he successfully channeled popular discontent with the existing neoliberal model, whose limitations have been on full display amid Covid-19. (Peru continues

to have among the world's highest per-capita fatality rates.) He promised to change the constitution and tackle inequality, which has worsened despite years of high economic growth. Despite her obvious flaws as a candidate—her continued vindication of her father's corruption and abusive government, her obstructionist tactics since 2016, and a criminal accusation against her for money laundering and leading a criminal organization—Keiko has managed to narrow the distance in the polls by positioning herself as the defender of the existing 'model.' She has done this not by outlining concrete policy differences, but rather by mobilizing a brutal but effective red-baiting campaign that has eroded support for Castillo and boosted her own numbers. The media blitz includes frequent appearances by Keiko and her allies on mainstream media, WhatsApp chats, dozens of Facebook accounts (many of which have been canceled for not meeting Facebook's standards) and billboards that have popped up throughout Lima and elsewhere, all peddling a consistent message: Keiko is the only thing that stands between Peru and 'communism.' It seems grossly anachronistic that such red baiting has become a driving force in an election campaign in 2021, but Castillo's inability to articulate a clear, viable government plan favors Fujimori in the end. The demons of Peru's past continue to dominate its politics. What remains to be seen is whether the anti-Fujimori coalitions that prevented a Keiko victory in 2011 and 2016 will manage to play such a role this time around."

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

NEWS BRIEFS

Ramírez Tapped as Colombia's Foreign Affairs Minister

Colombian Vice President Marta Lucía Ramírez will take over the country's foreign affairs ministry in addition to her duties as vice president, President Iván Duque announced Wednesday. Claudia Blum, who had served as foreign minister since 2019, resigned last week amid massive protests in the Andean nation that left more than 40 dead, according to human rights groups. The demonstrations, initially against a now-canceled tax overhaul, also prompted the resignation of former Finance Minister Alberto Carrasquilla.

Colombian Judge Sentences Venezuelans for Plot Against Maduro

A judge in Colombia on Tuesday sentenced three Venezuelan men to six years in prison for their involvement in a plot aimed at removing Venezuelan President Nicolás Maduro from office, the Associated Press reported, citing an attorney for the three co-defendants who spoke to the AP on Wednesday. The sentence was the minimum allowed for the crimes. The men pleaded guilty to working alongside former U.S. Green Beret Jordan Goudreau and rogue or former Venezuelan military members in a bid to overthrow Maduro's government.

Crusading Ex-Guatemalan Tax Agency Chief Arrested

Guatemalan authorities on Wednesday arrested Juan Francisco Solórzano Foppa, who was known for building cases against powerful families as head of the Tax Administration Superintendency, Reuters reported. Solórzano Foppa, who was forming a new political party, was arrested on accusations of falsifying official documents. "This does not give me any shame," he said in court. "This shows we are touching the powerful people of this country."

about 28,500 barrels per day. The Indigenous group is protesting compensation that it says its members have not received and are entitled to because they reside in the oil field's area of influence. Petroecuador said it had approached community leaders to settle a deal but had not yet reached consensus. In a **Q&A** published May 7, the Energy Advisor asked experts what the growing Indigenous movement in Ecuador would mean for President-elect Guillermo Lasso, who is to take office next week, and his energy policy in particular. "Lasso can expect to face significant resistance to his politics of both privatization and resource extraction both from organized social movement mobilizations on the streets and the Pachakutik's electoral representatives in Congress," responded Marc Becker, professor of history at Truman State University.

POWER SECTOR NEWS

Brazil's Lower House OKs Bill to Privatize State Power Utility

Brazil's lower house of Congress on Wednesday approved legislation to privatize state power company Eletrobras, Reuters reported. Under the terms of the bill, the utility will sell new shares to investors, reducing the stake of the government, which would lose its controlling interest in the company. The long-awaited divestment is expected to bring about 25 billion reais (\$4.71 billion) in revenue for the government. Eletrobras' shares were up nearly 4 percent on Wednesday on expectations that the lower chamber would approve the bill. Legislator Elmar Nascimento, who was the sponsor of the bill, made a last-minute change to it, removing a key clause tying the sale to government contracts for natural gas-powered generation, Reuters reported. The provision had sparked criticism from industry groups, who cited risks of "market distortion" that could lead to higher electricity costs in the South American nation. The legislation will now go to the Senate, which has until July 23 to approve it, Erich Decat, political analyst at

XP Investments, told the Energy Advisor in a **Q&A** published April 23. "Despite the controversy that the privatization of Eletrobras has created, there is room for Congress to pass the bill," Decat wrote. "The new CEO will be key to the outcome," he added. Brazil's government recently appointed Rodrigo Limp Nascimento, who formerly worked at the energy ministry, as head of Eletrobras. The former CEO, Wilson Ferreira, had resigned in January over what he said was a lack of political backing in Congress for the company's privatization plans.

RENEWABLES NEWS

Brazil Maintains 10 Percent Biodiesel Blend for July, August

Brazil's Mines and Energy Ministry announced last week that it would maintain a mandate for 10 percent biodiesel blending into diesel for July and August, prompting frustration among producers that had hoped the ministry would return to the 13 percent mixture, S&P Global Platts reported. In the announcement, the ministry said it had considered consumers' interests when making the decision. High biodiesel prices during an auction for diesel

**Biodiesel producers
blasted the decision.**

supply in May and June led the government to reduce the mandate from 13 percent to 10 percent for April, in part over concerns that high costs would prompt a truckers' strike or affect the country's inflation. Most biodiesel producers had expected the government to return to the 13 percent blend in July and August, according to the report. Brazilian oilseeds crushers association Abiove blasted the decision as government intervention in the market, and the country's biofuels producers association, Aprobio, said the decision sparked uncertainty.

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such as Uruguay (more generally, scale is not a factor favoring Latin America, when compared to Asian emerging economies). However, there are opportunities: Uruguay is a stable, innovative and secure country with an enormous renewable generation expansion potential and a place where any supply chain could claim the energy it uses is already green. It explains why Google just announced the construction here of its second data center in Latin America."

A Carlos St. James, board member of the Latin American and Caribbean Council on Renewable Energy (LAC-CORE):

"If Latin America were likened to an unruly neighborhood with no zoning and charming, if inconsiderate and loud neighbors, Uruguay would be that wise and kind older couple that keeps their small home and front lawn in good order and whose son is a doctor. Everyone in the neighborhood sees the orderly life they live and complement them on it but lack the self-discipline to get their own houses in similar fashion. Uruguay's success in renewable energy has nothing to do with any particular abundance of wind, rivers or sunshine—although they have a good measure of all of these—or even a lack of its own oil. It has everything to do with consistency. And it is only noticeable given the contrast

in the region. Uruguay consistently—and consistency is the key word—appears at or near the top of international rankings on things such as voice and accountability; low corruption perceptions; high regulatory

Consistency is the soothing balm that opens investors' wallets."

— Carlos St. James

quality; strong civil liberties; and a low Gini income inequality index. That is all. There is no secret recipe. Consistency is the soothing balm that opens investors' wallets. Perhaps also its comparative small size and homogeneity have worked to its benefit; perhaps having two outsized and generally boastful neighbors have taught it the merits of comparative humility. Uruguay's two-point drop in global renewable energy rankings from 11th to 13th isn't the newsworthy item. The newsworthy item is how that older couple has managed to keep their home so orderly in such a messy neighborhood."

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

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Advisor Video

Pamela K. Starr on Mexico's Midterm Elections

The Latin America Advisor interviewed Pamela K. Starr, senior advisor at Monarch Global Strategies, to discuss the upcoming midterm elections in Mexico and what's at stake for President Andrés Manuel López Obrador.



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