LATIN AMERICA ADVISOR

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THEDIALOGUE

**FEATURED Q&A**

# Will Pressure Push Oil Companies Away From Fossil Fuels?

Private and national oil companies operating in Latin America and the Caribbean have been facing increased pressure to transition away from fossil fuels due to concerns over global warming. // File Photo: New York Senate.

**Q In a ruling last month, a court in the Netherlands ordered Royal Dutch Shell to cut its carbon dioxide emissions in that country by 45 percent by 2030, after deciding the firm was partially responsible for climate change. Shell plans to appeal the ruling, which could have implications beyond the European nation. Meanwhile, Texas-based ExxonMobil replaced two board members following a shareholder dispute over the company's business strategy, with a third board seat possibly going to another climate activist soon. How significant are recent developments pushing major oil companies to accelerate their shift away from fossil fuels? What potential repercussions could the recent court rulings, and growing shareholder and political pressure, bring for both private and national oil firms in Latin America and the Caribbean? To what extent are companies operating in the region willing to transition away from fossil fuels, and how can they navigate the demands of the market, obligations to their shareholders and the public interest?**

**A Roberto Furian Ardenghy, chief institutional and sustainability officer at Petrobras:** "Environmental responsibility is an ethical imperative and is fundamental in order to generate sustainable value for our business, preserving the value of our assets and products. That is the context for global pressure on oil companies to shift away from fossil fuels. Local and global pressure for natural resources is growing, affecting society and markets. In the context of a transition to a low-carbon economy, Petrobras has reinforced

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**TOP NEWS**

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## Colombia Moves Forward With Fracking Project

The Colombian government is moving forward with pilot fracking projects despite massive public opposition to the practice.

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## Chile Launches Joint Thermal and Solar Project

Chilean President Sebastián Piñera inaugurated Latin America's first joint thermal and solar project, which is expected to generate enough electricity to power 382,000 homes.

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OIL & GAS

## Petrobras Closer to Selling First of Eight Refineries

Petrobras is closer to selling its first refinery after Brazil's antitrust watchdog approved the state oil company's deal with Abu Dhabi's state-owned investment fund, Mubadala. Petrobras, headed by Joaquim Luna e Silva, is planning to sell eight refineries by year-end.

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Luna e Silva // File Photo: Brazilian Government.

OIL AND GAS NEWS

# Brazil's Petrobras Closer to Selling First of Eight Refineries

Brazil's Petrobras is closer to selling its first refinery after antitrust watchdog Cade last week approved the state oil company's $1.65 billion deal with Abu Dhabi's state-owned investment fund, Mubadala, Argus Media reported. The agreement to sell the Landulpho Alves refinery, which has the capacity to process as many as 333,000 barrels of crude per day, is the first of eight facilities that Petrobras is under pressure to sell. The sale is still subject to a 15-day review period and on other conditions included in the agreement, Petrobras said last week, Argus Media reported. Mubadala and Petrobras had begun talks on the transaction last July. The length of the process has raised concerns that the oil company will not be able to close sales of the other seven local refineries by the end of this year, the deadline Petrobras and Cade had set for the sales. In April, Cade approved July 31 as the new deadline for Petrobras to sign sale agreements for the refineries, but the watchdog has not changed the Dec. 31 deadline for finalizing the transactions. In total, the eight facilities up for sale would have approximately one million barrels-per-day of installed capacity. The coronavirus pandemic in part delayed the process, but not substantially. "Despite Covid-19, divestment plans are being implemented," Adriano Pires, founding partner and director of the Brazilian Center of Infrastructure (CBIE), told the Energy Advisor in a **Q&A** published Nov. 13. "Through September [of last year], the company raised $1 billion from asset sales, signaling that Petrobras remains focused on generating value through the reallocation of capital in more profitable assets," Pires added. Despite Covid-related delays, "the sheer size of Brazil's transportation fuel market continues to tease investors around the world," Mark Langevin, senior advisor to Horizon Client Access, wrote in the same edition of the Energy Advisor.

**Petrobras and Cade had agreed on a Dec. 31 deadline to close the sales of eight refineries.**

# Colombian Gov't Moves Forward With Fracking Pilot Project

Despite massive public opposition in Colombia against fracking, the government is moving forward with pilot contracts to begin extraction in farming areas such as Puerto Wilches, Infobae reported last week. U.S.-based company ExxonMobil is set to manage the pilot fracking project, the second such project in the Andean nation. It will entail an investment of $53 million, according to the Colombian government. The pilot projects will allow Colombia "to make a decision based on science and research for the future of hydraulic fracturing, or fracking, as a drilling practice," said Energy Minister Diego Mesa, Infobae reported. The practice has been controversial over concerns of potential environmental damage. Many local communities as well as unions, including the largest oil-sector union, have opposed the pilot projects. "Fracking postpones the design and implementation of a comprehensive energy transition strategy in which the state plays a strategic role and which protects the jobs and quality of life of those who live in oil and mining territories," Edwin Palma Egea, president of the national board of directors of the Oil Industry Workers' Union, or USO, told the Energy Advisor in a **Q&A** published April 30. In the same edition, Marianna Boza, director of Brigard Urrutia in Bogotá, argued that the projects will "provide valuable insight on the risks and benefits fracking and the development of unconventional deposits in Colombia." Developing unconventional resources could increase hydrocarbons reserves in the Andean nations threefold, which would guarantee its self-sufficiency and energy security, Boza

NEWS BRIEFS

## Brazil Announces its First Power Capacity Auction, to Be Held in December

Brazil will have its first power capacity auction in December, the government announced last week, Argus Media reported. The country is seeking companies that want to build generation capacity to begin serving demand in 2026. The ordinance issued by the Ministry of Mines and Energy allows operators of dispatchable power sources, including natural gas- or diesel-fired plants, to offer new or existing capacity to the system as a reserve source during times of high demand, according to the report.

## Chile Inaugurates Latin America's First Joint Thermal and Solar Project

Chilean President Sebastián Piñera last week launched Latin America's first joint thermal and solar project, CNN Chile reported. The project, which is located in the country's Antofagasta region, could generate as much as 210 megawatts of renewable energy, or enough to power 382,000 homes without interruption, according to the report. The renewable energy project helps avoid about 630,000 tons of carbon dioxide emissions per year, the government said. Investment in the project totaled $1.3 billion.

## Colombia Officially Launches Third Auction For Renewables

Colombia has officially launched the third call for tenders to install nonconventional renewable energy projects, Renewables Now reported Monday. The Ministry of Mines and Energy said the auction will be held before Oct. 31. Although rules and conditions for the tender had been announced earlier this year, the ministry now said that the winning projects will begin delivering contracted electricity on Jan. 1, 2023. The delivery date had previously been set for Dec. 1, 2022.

added. Fracking remains a point of contention and has played a role in massive protests that have taken place across Colombia since the end of April, which have hit the country's oil production. "Governability and stability will be key ingredients in re-establishing energy sector investor confidence," John Padilla, managing director at IPD Latin America, told the Energy Advisor in a **Q&A** published June 11. "Fracking epitomizes the situation, as more than 10 blockades have taken place during the past month in the area where Ecopetrol is pursuing its pilot project and highly organized anti-fracking groups continue to demand a fracking ban," he wrote. However, "there is little expectation that the government will vigorously advocate for fracking at this stage, despite the country's desperate need for revenues, employment and economic activity," Padilla added.

**POWER SECTOR NEWS**

# López Obrador Still Seeking Changes to Power Sector

Mexican President Andrés Manuel López Obrador said last week that he is considering sending a bill to Congress for a constitutional change in the power sector, in favor of state utility CFE, Reuters reported. However, following the June 6 midterm election, the ruling Morena party and its allies do not have sufficient votes for a constitutional reform. Morena's coalition held onto control of the country's Chamber of Deputies, but it was unable to retain a supermajority. It now lacks the two-thirds majority needed to make changes to the constitution, which would be required for the power system overhaul that López Obrador is seeking. "If [the measures are] necessary, I'll present them even if they do not pass or are rejected," López Obrador said at his regular news conference. "We have to solve the problem of lack of support for the CFE," he added, saying the utility has been "destroyed" under the energy reform that opened up the country's energy sector to private and foreign investment. López

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measures for the resilience of our portfolio at lower oil prices as a fundamental factor for our future competitiveness. The concept of resilience of the oil and gas portfolio also involves operating with low carbon intensity at our facilities. For this reason, we stressed the low carbon factor in our decision-making processes, intensified emission monitoring in our value chain and maintained an emphasis on technological preparation for future renewable energy businesses. So far, we have taken a series actions to reduce carbon in our processes, which involve reduced flaring of natural gas, reinjection of carbon dioxide and energy efficiency gains. We launched 10 sustainability commitments with the objective of minimizing greenhouse gas (GHG) emissions, increasing carbon capture and storage and water reuse, in addition to seeking innovations to deal with scope 3 emissions and the search for new sources of energy. We continue the trend of reducing our total GHG emissions, totaling 56 million $tCO_2e$, a reduction of about 5 percent in relation to 2019 and compatible with our goal of reducing this total by 25 percent by 2030, when compared to 2015."

A **Guy Edwards, former co-director of the Climate and Development Lab at Brown University:** "The ruling against Shell was the first time that the courts ordered a company to comply with the Paris Agreement. One immediate consequence was Shell's CEO announcing on June 9 an acceleration of plans to cut emissions. Activists are hopeful that the ruling could spark others. They have good reason to be optimistic: A U.N. report found that the number of cases urging governments and corporations to improve efforts stands at more than 1,500 cases in 38 countries, including a new lawsuit just filed against Guyana's government. Elsewhere, the IEA has a clear message that to achieve the Paris 1.5 degree goal, there can be no new oil and gas fields approved or new coal-fired power stations built. With various countries embarking on plans to expand fossil fuel production, Latin America's fossil fuel industry is at risk of becoming stranded this decade. As Europe and the United States look toward carbon neutrality by 2050, the region, which exports half of its oil production, is acutely exposed to asset stranding. Given the dependence of some countries on fossil fuels, the potential for severe political and economic disruption should not be ignored. While some Latin American national oil companies are making progress on improving energy efficiency, most efforts are inadequate. Ecopetrol's announcement that it will aim to reach net-zero emissions by 2050 is a welcome step, yet the credibility of this goal is questionable when the company says fossil fuel production will continue for decades. As an increasing number of peer-reviewed papers by scholars in the Climate Social Science Network and elsewhere document efforts by oil companies and others to obstruct and delay efforts to decarbonize, Latin American countries face tough choices: dig in or embrace an orderly and just clean energy transition. The prospects are positive: The ILO and IDB show that while the transition to a net-zero economy would terminate millions of jobs linked to fossil fuels, the region could create 15 million net new jobs by 2030 in renewable energy, among other areas."

A **Benigna Cortés Leiss, nonresident fellow in Latin American energy at the Baker Institute and former general director of Chevron Energía in Mexico:** "Global pressure for oil companies to shift away from fossil fuels doesn't address the fact that the world economy is recovering from a pandemic that brought it to a halt and that demand for oil products plummeted in 2020. As economies start recovering around the world, the demand of all sources of energy will increase. Major oil companies, rather than radically shifting away from fossil fuels, are managing their carbon-emission reductions

**Continued on page 6**

Obrador has long claimed the reforms favor private interests. The current law, however, gives preference to dispatching the lowest-cost power onto the grid. This has often worked in favor of renewable sources operated by private firms over the CFE's use of costly fuel oil at several of its largest plants, Reuters reported. Also last week, López Obrador floated the idea of aligning with the opposition for major reforms, Argus Media reported. "If we wanted to have a qualified majority, a two-thirds majority, we could reach an agreement with lawmakers from the PRI [opposition party], or any other party," the president said. "We do not need that many more for a constitutional reform." Former President Enrique Peña Nieto, a member of the PRI, strongly supported and oversaw the energy overhaul in 2014. "AMLO has made a point to consolidate a variety of functions under state-controlled institutions, and his current proposals in the energy sector exemplify this," Greg Ahlgren, partner at Diaz, Reus & Targ, told the Energy Advisor in a **Q&A** published April 16. "It seems that Mexico is now seeking to return to a model that prospered 50 years ago," Ahlgren added. [Editor's note: See related **Q&A** on the results of Mexico's midterm vote in the June 9 issue of the daily Latin America Advisor.]

## Brazil Eying Decree That Could Lead to Power Rationing

Brazil's government is preparing a temporary decree that could bring electricity rationing as the country grapples with its worst drought in almost a century, Reuters reported Monday, citing a draft of the measure. The decree, which would need to be approved by Congress, would create a commission that could decide on more drastic measures to control the use of electricity if there are shortages that could hurt the country's economic recovery. President Jair Bolsonaro has not approved the decree but was set to meet with cabinet ministers on Monday to discuss it, according to the report. The Mines and Energy Ministry said in a statement that the government and state agencies are working "incessantly" to guarantee energy security and avoid any rationing of power this year in what the ministry called "a critical juncture." The South American nation's worst drought in at least two decades has left water reservoirs that supply energy operating well below typical output and forcing the country's electricity generators to turn to more expensive thermal production, which has driven up costs, Folha de S.Paulo reported last month. About 64 percent of Brazil's electricity comes from hydroelectric dams that rely mostly on rainfall, José Goldemberg, former environment minister, and Roberto Kishinami, energy

# ADVISOR Q&A

## Is Embracing Bitcoin the Right Move for El Salvador?

**Q El Salvador's ruling party-controlled Legislative Assembly on June 8 passed a measure proposed by President Nayib Bukele to designate Bitcoin a legal tender, making the Central American nation the first in the world to do so. What are Bukele's goals in making Bitcoin one of El Salvador's official currencies, and what are the major benefits and drawbacks? What implications does the move have on remittance flows, anti-money laundering efforts and the U.S. dollar, which is El Salvador's main currency? What potential consequences could formalizing the cryptocurrency have on the country's program with the International Monetary Fund? What does the measure mean for businesses operating in El Salvador?**

**A Julia Yansura, program manager for Latin America and the Caribbean at Global Financial Integrity:** "El Salvador's GDP contracted nearly 9 percent in 2020 during the Covid-19 crisis, and full recovery is not expected until 2023. Meanwhile, external debt is rising. In this difficult economic context, the country is trying to find solutions. President Bukele has said Bitcoin will promote financial inclusion, facilitate remittances and attract investment to the country. Some of these make more sense than others. It's unlikely that Bitcoin, which is complex and volatile, will be a financial inclusion pathway for average Salvadorans who find existing options with banking, community credit unions or mobile money too complicated or costly. Moreover, for migrants sending remittances, Bitcoin is too complicated to be attractive. I do think the move will attract investment to El Salvador, but not without significant risks. While El Salvador's security situation has improved somewhat, the country remains vulnerable to organized crime and drug trafficking. El Salvador will need to be extremely careful to avoid the wrong types of investment. Attracting international tech entrepreneurs is one thing; attracting international money launderers or tax evaders is another. If things go wrong, the Bitcoin experiment could be very costly to the country's security as well as its image, causing other investors, businesses and financial institutions to perceive heightened AML/CFT risks, particularly at the Bitcoin-to-dollar conversion point. As the country updates its regulatory framework in preparation for Bitcoin, it would do well to evaluate its overall AML/CFT system and address existing weaknesses in light of the big changes that lie ahead."

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

NEWS BRIEFS

## Three Injured in Car Bombing at Colombia Military Base

A Colombian soldier was in intensive care and two U.S. military personnel were lightly injured after a car bombing in the city of Cúcuta that is believed to have been set off by leftist guerrillas, Colombian Defense Minister Diego Molano said Wednesday, Reuters reported. The car bombing on Tuesday occurred at a military base near the border with Venezuela. General Luis Fernando Navarro said the leading theory suggests the National Liberation Army, or ELN, rebels were responsible for the attack.

## Nicaraguan Authorities Arrest Bank Executive as Crackdown Widens

Nicaraguan authorities late on Tuesday arrested a prominent banker as the government crackdown against opposition figures expands beyond political leaders or potential challengers in the upcoming November election, the Associated Press reported. Luis Rivas Anduray, the executive president of Banco de Producción, was detained late on Tuesday. Police said Rivas was under investigation for inciting foreign interference and seeking military intervention, charges similar to those issued against 13 leaders of the political opposition who have been arrested since early June.

## Brazil's Central Bank Hikes Key Interest Rate 75 Basis Points to 4.25%

Brazil's central bank on Wednesday hiked its benchmark Selic interest rate by 75 basis points to 4.25 percent, as widely expected, Reuters reported. Growth in Latin America's largest economy has been stronger than previously forecast, and inflation has been running above the central bank's target. Policymakers said they would normalize the policy rate "to a level considered neutral."

coordinator at Instituto Clima e Sociedade, told the Energy Advisor in a **Q&A** published May 28. The drought has left reservoirs in the southeast region, where 70 percent of storage capacity is located, with only 33 percent of its maximum storage capacity to face the upcoming dry season, they wrote. However, "shortage of energy is unlikely to happen in the near future, but higher prices are expected," Renato C. Zambon, professor at the University of São Paulo, wrote in the same edition. "Measures to manage the drought include the transfer of energy between regions, the increase of thermal dispatch, intensifying campaigns for energy savings and speeding up the expansion of the system," he added.

POLITICAL NEWS

## Poor Welds Faulted in Deadly Collapse of Mexico City Metro

A preliminary report investigating the collapse of a Mexico City elevated subway line that killed 26 people in May said faulty infrastructure was the main cause behind the incident, the Associated Press reported. Released Wednesday, the report by Norwegian certification firm DNV identified as a main cause the poor welds in studs that joined steel support beams to a concrete layer that bolstered the track bed. The city government had hired DNV to look into the incident, in which a slate of the elevated line fell to the ground, bringing down two subway cars. The report also said there were not enough studs and that the concrete poured over them may have been defective. Additionally, DNV said the welds between stretches of steel beams also appeared to have been badly finished. "The studs showed deficiencies in the welding process," the report said. The elevated metro collapse stirred up political controversy in Mexico City as some of the ruling party's leading politicians have been linked to the incident. Current Foreign Minister Marcelo Ebrard was mayor of Mexico City when the construction of the metro line that collapsed was finalized. Current Mayor Claudia Sheinbaum is also affiliated to the ruling Morena party. "The evaluation of the political and technical decision-making in the construction and operation of this line has brought the current government into scrutiny, with Mexico City being the key political and social bulwark of [President Andrés Manuel López Obrador's] power," Vanessa Rubio-Márquez, a former Mexican senator, told the daily Advisor in a **Q&A** published May 12.

ECONOMIC NEWS

## World Bank Rejects El Salvador's Request for Help With Bitcoin

The World Bank on Wednesday said it had rejected El Salvador's request to help it implement the rollout of Bitcoin as legal tender in the Central American nation, citing environmental and transparency risks, Reuters reported. "We are committed to helping El Salvador in numerous ways including for currency transparency and regulatory processes," a World Bank spokesperson told the wire service. "While the government did approach us for assistance on Bitcoin, this is not something the World Bank can support given the environmental and transparency shortcomings," the spokesperson added. Earlier on Wednesday, Salvadoran Finance Minister Alejandro Zelaya said the government had asked the multilateral organization for technical assistance in the implementation of the Bitcoin rollout. The country's ruling-party controlled Legislative Assembly last week approved a proposal submitted by President Nayib Bukele to formalize the cryptocurrency. "President Bukele has said Bitcoin will promote financial inclusion, facilitate remittances and attract investment to the country," Julia Yansura, program manager for Latin America and the Caribbean at Global Financial Integrity, told the daily Advisor in a **Q&A** published Tuesday. However, the "complex and volatile" cryptocurrency is "unlikely" to be a financial inclusion pathway for average Salvadorans who find existing digital banking options too complicated or costly, she added.

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through different approaches, influenced to a great extent by their home governments' policies. Some are participating in the electricity generation business, acquiring and/or partnering with solar and wind companies to electrify the economy with renewables and support electric vehicles. This transformation requires new infrastructure that the region will have difficulty in prioritizing. Other companies are focusing on reducing their own emissions, pursuing low-carbon portfolios with high returns and promoting technologies such as carbon capture and hydrogen development. Latin America and the Caribbean represent a relatively small share of global primary energy consumption, at 6 percent and 4 percent of global carbon emissions. The region is already at the forefront of using renewable energy, generating more than half of its electricity from hydro, solar, wind and biomass power. In fact, countries such as Chile are positioned to contribute to the global emission reduction as a potential exporter of green hydrogen. The European court rulings' effects would depend on how applicable their enforcement is in the region. The companies operating in the region will transition away from fossil fuels according to their own strategies. However, countries with large national oil companies, such as Brazil and Mexico, are likely to continue producing hydrocarbons. Their challenge will be how to mitigate their emissions. Petrobras and Pemex's paths are likely to be very different, as Petrobras is listed on the NYSE and its focus has been exploration and production in ultra-deep water, while Pemex has been focusing on self-sufficiency in shallow water."

A **Chris Cote, oil and gas industry lead at MSCI ESG Research:** "The success of Engine No. 1's campaign to get three new directors onto ExxonMobil's board, along with majority-supported shareholder proposals to set climate targets that go beyond intensity reductions for operational emissions at Chevron, ConocoPhillips and Phillips 66, indicate that investors want oil and gas companies to take climate risk seriously. This has been clear for European companies in the past, with Shell, TotalEnergies and Equinor, among others, setting relatively ambitious climate targets. That sentiment, which implicitly asks companies to diversify their business beyond oil and gas, has now reached some U.S. industry peers. Latin America's major oil and gas companies, national and private, have not set climate targets that address their scope 3 (value-chain) emissions. Instead, those that do have targets, such as Petrobras and Ecopetrol, have focused on reducing the intensity of their operational emissions—just as Chevron and other U.S. companies had before this year's annual general meetings. It's not clear that investors will hold Latin America's oil and gas companies to the same standard as their U.S. peers just yet. Many Latin American countries, which have a higher dependence on fossil fuel revenues in their national budgets, have set less ambitious climate targets than the United States or Europe. This could limit policy pressures, such as a price on carbon, on heavy emitting sectors such as oil and gas, which in turn could reduce the ambition of climate targets. Indeed, the pressure on U.S. and European companies may present an opportunity, at least in the medium term, for national oil companies, despite the global nature of climate change and its inherent risks."

[Editor's note: In a statement to the Energy Advisor, a Shell spokesperson wrote: "Urgent action is needed on climate change, which is why we have accelerated our efforts to become a net-zero emissions energy company by 2050, in step with society, with short-term targets to track our progress. We are investing billions of dollars in low-carbon energy, including electric vehicle charging, hydrogen, renewables and biofuels. We want to grow demand for these products and scale up our new energy businesses even more quickly. We will continue to focus on these efforts and fully expect to appeal the disappointing court decision."]

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