LATIN AMERICA ADVISOR

ENERGY ADVISOR

A WEEKLY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

July 9, 2021

FEATURED Q&A

What Does the Future Hold for Peru's Oil & Gas?

Socialist Pedro Castillo, whose party has called for nationalizing mining and hydrocarbon assets as well as power plants, is expected to be Peru's next president. // File Photo: TV Perú.

Q **Socialist Pedro Castillo is expected to win Peru's presidential election following a tight-knit race against right-wing rival Keiko Fujimori and a delay in the official announcement over Fujimori's fraud allegations. The platform of Castillo's Perú Libre party calls for nationalizing mining and hydrocarbon assets, as well as power plants, although Castillo has recently tempered that position, saying he is not planning nationalizations or expropriations. What can Peru's energy sector expect of a Castillo presidency? To what extent will Perú Libre's more radical proposals become policy, and what role will Congress and courts play in balancing the party's more radical positions? What are the major implications of Castillo's energy priorities, not only for Peru's economy and for businesses operating there, but also for the country's progress away from fossil fuels as energy sources?**

A **Pedro Francke, economic advisor to Pedro Castillo, and Humberto Campodónico, professor at Universidad Nacional Mayor de San Marcos:** "Candidate Pedro Castillo has said that there will be no nationalizations or expropriations of companies, including in the mining and hydrocarbons sectors, during his time in office. In the mining sector, which is seeing a significant rise in metal prices, he has proposed that the Peruvian state participate in this extraordinary income, either through a royalty, an extraordinary tax or an income tax. In the hydrocarbons sector, the recovery of sovereignty over the destination of natural resources is important. The gas export contract for Block 56 will be renegotiated, as will the mechanisms for the export

Continued on page 3

TOP NEWS

OIL & GAS

Mexican Gov't Grants Pemex Control of Disputed Deposit

The Mexican Energy Secretariat granted state oil company Pemex control of a major shared oil find over the private consortium that made the discovery in 2017.

Page 2

OIL & GAS

Argentina Natural Gas Output Risks Deficit

Argentina's natural gas output might sink into a deficit that could reach $1 billion due to local natural gas shortfalls.

Page 3

OIL & GAS

Major Firms to Start Drilling in Colombia: Mesa

Colombian Energy Minister Diego Mesa said in an interview that international oil companies including Royal Dutch Shell, ExxonMobil and Repsol are focusing on the Andean nation's offshore potential. The firms are set to start drilling there this and next year.

Page 2

Mesa // File Photo: Colombian Government.

OIL AND GAS NEWS

Major Firms to Start Drilling in Colombia This, Next Year: Mesa

Some of the world's largest oil companies have plans to start drilling in Colombia this and next year, Energy Minister Diego Mesa told Bloomberg News in an interview published July 1. Mesa said Royal Dutch Shell is set to start drilling off the coast of the Andean nation this year, while ExxonMobil and Spain's Repsol, in addition to Colombian state oil company Ecopetrol, plan to do so in 2022. "International oil companies are more focused on the offshore potential," Mesa said in the interview. "They are working on getting the rigs for next year." Spokespeople for Exxon and Repsol did not immediately respond to the news service's request for comment. Companies including Brazilian state firm Petrobras have found oil and gas in Colombia's deep water, but none of the fields have begun production. Exploration and development offshore Colombia is crucial for the country to reverse dwindling oil and gas reserves and strengthen energy security in the near future, according to the report. Output in the Andean nation has fallen in recent months, in part because of roadblocks set up during massive, nationwide anti-government protests. Production dropped below 700,000 barrels per day (bpd) in the second week of May, the lowest level since 2009. Likewise, amid the pandemic, average oil production last year fell 12 percent from the previous year to 781,3000 bpd. The energy minister expects production to rebound in coming months and reach an average of 790,000 bpd for the year. The hike in oil prices this year has encouraged more onshore drilling, Mesa said. In related news, earlier last week Mesa announced that Colombia is planning to launch a plan to develop the production and use of hydrogen as an energy source, Mesa told Reuters in an interview. The government in September is set to publish a road map for the next 30 years establishing the production, use and export of hydrogen, Mesa said. Colombia has the sixth-largest quantity of renewable water resources in the world, which Mesa said would put it in an ideal position to produce green hydrogen, which is made by splitting water. Mesa added it would also produce blue hydrogen, which is made when natural gas is split into its component parts, according to the report. "There is significant interest from some companies from Germany" in developing green hydrogen in Colombia, Mesa told Bloomberg News. "They have been very active about looking at the potential of Colombia to supply green hydrogen," he added. Mesa also told the news service that Colombia expects to award renewable energy contracts in October for projects with at least 5 megawatts of capacity to supply industrial users and large companies starting in 2023. [Editor's note: See related **Q&A** on Colombia's oil sector in the June 11 issue of the Energy Advisor and a **Q&A** on President Iván Duque's renewable energy policies in the Dec. 4 issue of the Energy Advisor.]

Mesa expects oil production to rebound to 790,000 barrels per day this year.

Mexican Gov't Grants Pemex Control of Zama Discovery

Mexico's government has designated state oil firm Pemex to run a major shared oil find over a private consortium led Houston-based Talos Energy, which first discovered the crude and has largely invested in the deposit, The Wall Street Journal reported Monday. The Energy Secretariat handed Pemex management control of the so-called Zama joint development after the two companies failed to come to an agreement. Talos, which made the oil discovery in 2017, argues it should be the operator of the development. It was the first major oil discovery by foreign companies in Mexico since the 2014 energy reforms that opened the sector to

NEWS BRIEFS

Brazil's Northeast Region Hits Records for Wind, Solar Power Generation

Brazil's northeast region last week registered new records of wind and solar power generation of 10,856 megawatt peak and 681 average megawatts, respectively, Renewables Now reported, citing data from the National Electric System Operator. At the time of peak generation, electricity from the region's wind parks met 96 percent of demand at the time. Meanwhile, solar power during peak generation only reached 6.4 percent of the region's needs.

India's IOC Buys Crude From Guyana's Liza Field as it Diversifies Options

India's largest state-controlled refiner, IOC, has acquired crude from Guyana's Liza field as part of a broader strategy to expand its purchase options, IOC Chairman Shrikant Vaidya said last week, Argus Media reported. "We have procured one Suezmax of Guyanese Liza crude," Vaidya said, adding that IOC is the first Indian state refiner to buy crude from the South American nation. IOC is looking at buying more Liza crude "if the economics work," as the company usually seeks new grades to increase the number of available crude procurement options, a source told Argus Media.

Petrobras Raises $2.3 Bn From Secondary Offering in BR Distribuidora

Brazilian state oil company Petrobras raised 11.4 billion reais ($2.3 billion) from a secondary offering of its remaining 37.5 percent stake in BR Distribuidora, a move that could pave the way for more refinery sales, Argus Media reported last week. Petrobras' board of directors priced individual BR Distribuidora shares at 26 reais each, according to a securities filing. Shares started trading on the São Paulo exchange B3 on July 2, according to the report.

foreign and private investment. The Talos-led consortium initially won the exploration and production contract in a 2015 oil auction. The deposit is believed to hold some 700 million barrels of oil and is thought to overlap into an adjacent block that Pemex owns, Reuters reported. Talos said in a statement that it was "very disappointed" by the secretariat's decision, adding that it would look into all legal and strategic options to maximize value for its shareholders at Zama, the wire service reported. The company and its partners have invested nearly $350 million in the project and have drilled four exploratory wells so far. Pemex has not started drilling on its side of the shared deposit. The government's decision comes as President Andrés Manuel López Obrador continues his attempt to reverse key parts of the energy reform. [Editor's note: See related **Q&A** in the June 25 issue of the Advisor.]

Argentina's Natural Gas Output Risks Sinking Into Deficit

Argentina might sink into an energy deficit that could reach $1 billion due to local natural gas shortfalls that have forced the country to turn to more costly imports of liquefied natural gas, or LNG, Reuters reported last week. While Argentina's oil production has strongly rebounded from stalling levels last year amid the pandemic, gas output has continued to lag. Oil output recovered faster thanks to policies including a higher local so-called "criollo barrel price" that protected producers, according to the report. However, a domestic price freeze on gas, which is used for cooking and heating, pushed firms away from natural gas production, Reuters reported. Former energy officials and analysts told the wire service that government efforts to revive gas output came too late for winter demand, which drove a need to import LNG. "It was too late to get the gas for the [Southern Hemisphere] winter," José Luis Sureda, the country's former secretary of hydrocarbon resources, told Reuters. "All of 2020 there was no activity," he added. Natural gas production in the first two months of this year fell by

FEATURED Q&A / Continued from page 1

of this gas, in which the Peruvian state does not currently participate. Moreover, a National Natural Gas Massification Authority will be established to promote the construction of a national network of pipelines and a single policy of subsidies and prices at the national level, which does not exist now. Likewise, the government will promote the modernization and strengthening of Petroperú, with its entry into oil exploration and production (upstream) in Block 192 and Block 64, both owned by the company, as well as in the Talara blocks, which are close to maturity. Special interest will be placed in the modernization of the Nor Peruano pipeline. This policy will scrupulously respect the environment, as well as the rights of Indigenous communities. Peru is a signatory of COP-15 and, last December, the new National Adaptation Plan was approved for Peru to comply with being a carbon-neutral country by 2050. Pedro Castillo's government will promote the energy transition by relaunching renewable energies (mainly solar and wind power). To do this, it is essential to have a long-term energy plan to change the current energy matrix. Finally, it should be noted that the government will promote the participation of the private sector in all areas of mining and energy policy. In both fields, there are bills already being discussed that will be analyzed by our government for their proper implementation."

A **Eleodoro Mayorga, oil and gas consultant and former minister of energy and mines in Peru:** "A growing number of analysts agree that Castillo will be proclaimed president amid a dramatic polarization of social classes in Peru. A majority of Congress will radically oppose his proposals. Castillo has issued conciliatory messages about preserving macroeconomic policy and not proceeding with expropriations and nationalizations. In general, Castillo and his supporters have advanced the idea of governing for the poor. The only project they have mentioned is the Gasoducto al Sur. Neither his political party's original ideology nor his recent statements provide a coherent vision to face the energy sector's problems, which have accumulated during a decade of inaction. From the outset, those who take the reins of the sector are going to come up against the harsh reality of rising costs of fuel imports and the accumulation of lots without operators with environmental liabilities and social conflicts that are difficult to resolve. This will force them to decide on a course of action. It is expected that, to gain popular support and deal with Congress, they will not fall into the temptation of subsidizing fuels, nor extreme measures on environmental protection that would leave oil and gas reserves underground while pleasing Indigenous and anti-industry activists, nor naïvely copying the Bolivian gas development model and renegotiating contracts with tax-collection goals beyond reasonable levels. More than in any other sector, populism in energy would be suicide. The first problem the new government must overcome is the lack of a medium- and long-term strategic plan that allows prioritizing, and more importantly financing, projects required to undertake the energy transition, taking advantage of the country's enormous primary resources. The second is the capacity of public institutions and companies in the sector both to formulate policies and execute them. The hope remains that the new government will act with caution, without falling into provocations and with technical support."

> **"More than in any other sector, populism in energy would be suicide."**
> **— Eleodoro Mayorga**

Continued on page 6

nearly 11 percent as compared to the same period last year, to 115 million cubic meters per day, Natural Gas Intel reported earlier this year, citing the energy secretariat.

Ecuador, Colombia Energy Ministers Discuss Cooperation

Ecuador's new energy minister, Juan Carlos Bermeo, met with Colombian Energy Minister Diego Mesa last week to discuss cooperation between the two countries with the aim of boosting their energy and mining sectors, EFE reported, citing Ecuador's energy ministry. In the meeting, the two officials discussed policies needed for an energy transition and the strengthening of the hydrocarbons sector while considering sustainability, efficiency, competitiveness and transparency, the Ecuadorean ministry said. They also discussed good business practices and good corporate governance as well as ways to promote "transformation and innovation," Bermeo said, EFE reported. Ecuadorean President Guillermo Lasso tapped Bermeo to head the energy and nonrenewable resources ministry last month.

Argentina Seeking to Sanction Oil Firms Near Falkland Islands

Argentina's government has begun a process of sanctioning several international firms that it says are illegally drilling for oil in an area near the disputed Falkland Islands, which are run by Britain but over which the South American nation also claims sovereignty, Reuters reported. Argentine Energy Secretary Darío Martínez said Wednesday that the government would seek sanctions against U.K.-based Chrysaor Holdings, Harbour Energy and Israeli firm Navitas Petroleum. The country between 2011 and 2015 already sanctioned eight other firms. Reuters could not immediately reach the companies for comment. "The companies are not authorized to operate nor have they requested any type of authorization," Martínez said at a press conference. He also said they were operating with illegal licenses from the "illegitimate authorities of the Falkland Islands. Argentina and Britain long clashed over the islands, which the South American country calls Malvinas and claims as part of its territory. The dispute led to a short war in 1982 in which 255 British troops and about 650 Argentine soldiers were killed, Reuters reported. Argentina's cur-

ADVISOR Q&A

Will Protests Heat Up in Colombia in Coming Months?

Q Anti-government protests in Colombia could grow in the second half of this year if the government and lawmakers fail to adequately address economic and social demands, Francisco Maltés, the president of the Central Union of Workers (CUT), said recently. Protest leaders suspended marches earlier in June as they worked on proposals to present to Congress for the legislative period beginning July 20. What types of legislation surrounding economic and social demands have the best chances for passage after Congress reconvenes? How likely are protests to continue and grow in Colombia in the coming months, and what political, social and economic consequences would such demonstrations bring for the country, as well as its businesses and investors? What safeguards exist in Colombia to prevent excessive use of force by police responding to protests?

A Sandra Botero, professor in the School of International, Political and Urban Studies and director of the Desafíos Magazine at the Universidad del Rosario in Bogotá: "The discontent among important sectors of the Colombian population will continue to brew, even if the economy begins to show some signs of recovery, because the problems are serious, and the government refuses to open spaces for discussion or initiate reforms. Duque's government is politically weak (the president is extremely unpopular and does not control his coalition in Congress), and the presidential campaign is underway. In this context, the government's strategy in the short term is to deny the discontent and the human rights violations committed by security forces, instead waiting for the mobilizations to die out on their own, in the hopes of creating minimal disruptions for the ruling party candidate. The problem with this approach is that, in the long term, it leaves the root causes unaddressed and creates a ticking time bomb. In the second half of the year, we are likely to see sporadic bursts of protests and continued conflict at local levels. Barring any extraordinary events, the momentum for massive national mobilizations is dwindling, temporarily. We are likely to continue seeing a response from the government that relies on the excessive use of force for two reasons. The first is a long-entrenched institutional culture among security forces and many elites, which understand militarized response as the most appropriate way to deal with citizen protests. The second is the way in which that institutional culture has been empowered and reinvigorated by the central role and wide latitude police have been given in enforcing lockdowns and other measures that curtail civil liberties amid the Covid-19 pandemic."

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

NEWS BRIEFS

Díaz Granados Named New Head of CAF Development Bank

Sergio Díaz Granados, a Colombian, will be the next head of CAF Development Bank of Latin America, according to a statement published on the institution's website on Monday, Bloomberg News reported. Díaz Granados, who is currently Colombia's executive director at the Inter-American Development Bank, beat Argentine Christian Asinelli in the vote, which took place in Mexico. CAF's former president, Luis Carranza, resigned in March a year ahead of his term's official end.

El Salvador's Attorney General Seizes Some Opposition Assets

The attorney general's office in El Salvador said Friday that it had seized some assets of conservative opposition party ARENA as part of what it called an attempt to recover embezzled funds from a donation by Taiwan between 2003 and 2004, Reuters reported. Specialized officials, and police agents guarding them, raided the party's main headquarters and seized two buildings and 17 vehicles. The attorney general's office also froze about a total of $3.9 billion in funds that ARENA received per vote in the February legislative election.

Uruguay Eyes Bilateral Trade Deals Independent of Mercosur Bloc

Uruguay plans to proceed with negotiations to reach bilateral trade agreements independently of the Mercosur bloc, Foreign Minister Francisco Bustillo said Wednesday, MercoPress reported. Mercosur, which also includes Brazil, Argentina and Paraguay, currently has strict rules that require member countries to reach a consensus among themselves before any one country can establish preferential tariffs with a third party or bloc.

rent government of President Alberto Fernández has recently ramped up rhetoric over the islands, appointing a Malvinas minister and saying it would redraw maps to emphasize the country's claim over the Falklands at schools, as well as lobbying at the United Nations. Last month, the government granted state energy firm Integración Energética de Argentina, or IEASA, a permit to explore for oil and gas off the coast of the country's Patagonia region, near the Falkland Islands, Cronista reported. However, the area is near but outside the disputed territory.

POLITICAL NEWS

Police Kill Four Suspected Assassins of Haitian President

Haiti's police chief said Wednesday that authorities had killed four people suspected of taking part in the assassination of President Jovenel Moïse and captured two others, the Associated Press reported. The police chief, Léon Charles, said late in the day that the suspects were killed and captured in an apparent hostage-taking situation, adding that three police officers who had been taken hostage were freed, the wire service reported. The country's interim prime minister, Claude Joseph, said Haitian police and military were in charge of security in the country. After Moïse's assassination early Wednesday morning at his residence, Joseph declared a "state of siege," saying he did not want the country to "plunge into chaos," CNN reported. He said the decision was made Wednesday morning at an extraordinary council of cabinet ministers. A state of siege closes Haiti's borders and temporarily imposes martial law, with Haiti's National Police and the military empowered to enforce the law. "Please stay calm and let the authorities do their work. We don't want the country to plunge into chaos. This is a very sad day for our nation and for our people," Joseph said in an on-camera statement, vowing to "bring the killers of the president to justice." Haiti's first lady, Martine Moïse, was wounded in the attack and was flown to Miami for treatment. Video from WPLG Local 10 television in Florida showed Martine Moïse on a stretcher being taken out of a plane and wheeled into a private ambulance at Fort Lauderdale Executive Airport. She was being treated for severe injuries, the television station reported. The president's killing is expected to bring more chaos to Haiti, which was already suffering from a rash of violence, soaring inflation and protests demanding that Moïse step down, accusing him of increasing authoritarianism, The Guardian reported. [Editor's note: See related **Q&A** in the May 5 issue of the daily Latin America Advisor.]

ECONOMIC NEWS

Brazil's Economy Minister Eyes 20% Tax on Dividends

Brazilian Economy Minister Paulo Guedes will push for the tax rate on dividends to be set at 20 percent in a government reform proposal sent to Congress, but sources close to him told Bloomberg News that negotiations with lawmakers might see that figure come down to 15 percent. The government's proposal of 20 percent has seen huge pushback from investors, which might end up pressuring the economy ministry to lower it to 15 percent, a person close to Guedes with knowledge of the matter told the news service. Brazil is one of the few countries in the world that exempts dividends from taxes, The Rio Times reported. Guedes has said the exemption benefits only the wealthy. "Nobody needs to be ashamed of being rich, but they need to be ashamed of not paying dividend tax," Guedes said during an online event last Friday. "Only Brazil and Lithuania have this deformation, which we are correcting," he added. The government two weeks ago sent an income tax reform package to Congress. The proposal calls for a 20 percent tax on dividends as well as a 5 percentage point reduction in corporate taxes for two years. Guedes has said the 20 percent rate is "quite moderate," adding that complaints are "natural."

FEATURED Q&A / Continued from page 3

A **Larry Gumbiner senior advisor for Latin America at West-Exec Advisors and president of Gumbiner Inter-American Strategies:** "Resource nationalism helped catapult Pedro Castillo to the verge of the presidency. He won handily in regions where mining and energy resources predominate. But Castillo is a political blank slate, with no governance experience and scant ideological formation beyond simple platitudes. His union with the Perú Libre Party of committed Marxist Vladimir Cerrón is a marriage of convenience formed for the election. Castillo's tack toward the center after the first round may reflect his real views or mere expediency to calm markets. He has brought aboard center-left economist Pedro Francke, walked back nationalization rhetoric and requested that Central Bank President Julio Velarde stay on. While clearly favoring an expanded state role in the economy, it is unlikely Castillo will have political space to move energy sectors sharply leftward. Mining is king in Peru, and he will not want to upset the model dramatically during a period of strong prices. Continued royalty flows will be needed to fund more expansive social projects and help pull Peru out of the Covid-generated recession. Furthermore, Perú Libre controls only 37 seats in the 130-seat Congress, limiting his capacity to enact radical reforms. Castillo has been silent on climate and a perfunctory nod to renewable technologies is the most to expect. If he needs to appease leftist constituencies, diverting gas exports to domestic consumption, which he threatened during the campaign, remains an option. We won't know for certain what a Pedro Castillo presidency will bring until he is in the House of Pizarro. But best bets are for a slight progressive shift rather than dramatic changes to the sector."

> **"Best bets are for a slight progressive shift rather than dramatic changes to the sector."**
> **— Larry Gumbiner**

A **Beatriz de la Vega, partner at KPMG Peru:** "The private sector in recent years has demanded regulations related to oil and gas, power and renewables. It requested an update of the Organic Hydrocarbons Law to become more attractive to new investment and provide incentives for investors. It has also proposed regulations to balance the provision of energy, adjustments in the energy matrix, development of distributed generation and electromobility. In the context of energy transition, the review of the country's strategic energy plan and the role of renewables in climate change goals was also on the agenda. Although Castillo's proposals consider sustainable goals and respect for the environment, there are no concrete proposals regarding increasing the share of renewable sources in the energy matrix. In general, there are no proposals as to the plan to balance the development of an internal market and incentives for investments using natural gas. In recent days, Castillo has had meetings with representative associations of the energy sector. It is expected that his energy policies, if he becomes president, would not only focus on renegotiating existing natural gas contracts, which could affect legal stability, but also on analyzing other potential sources of energy such as hydrogen. A significant increase in government take or an increase of income distribution from the energy sector will be a challenge because new laws about those matters will need to be discussed in Congress, where Castillo does not have majority. Domestic and international courts will be critical for the respect of existing contracting condition. In previous disputes, cases were resolved in favor of investors."

LATIN AMERICA ENERGY ADVISOR
is published weekly by the
Inter-American Dialogue ISSN 2163-7962

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter & Associate Editor
achacon@thedialogue.org

Latin America Energy Advisor is published weekly, with the exception of some major U.S. holidays, by the Inter-American Dialogue
1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

Subscription inquiries are welcomed at
ebrand@thedialogue.org