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FEATURED Q&A

Why Is Argentina's Output of Natural Gas Still Lagging?



Argentine President Alberto Fernández last year announced a "Gas Plan" to incentivize natural gas production in the South American nation. // File Photo: Argentine Government.

Q 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 this month. While the country's oil production has strongly rebounded from stalling levels last year amid the pandemic, gas output has continued to lag despite the government's so-called Gas Plan, which aims to incentivize natural gas production. What accounts for the Argentine oil sector's fast recovery this year? Why has natural gas production failed to rebound in the same way, and what does that mean for the country's electricity supply and the broader economy? To what extent has the government's Gas Plan been effective, and what else can President Alberto Fernández's administration do to help increase gas output?

A Tomás Lanardonne, partner and manager of the Neuquén office of Martínez de Hoz & Rueda in Argentina: "The short answer as to what accounts for Argentina's oil production recovery is a large inventory of drilled but uncompleted wells (DUCs) in the province of Neuquén that was waiting for the post-lockdown consumption rebound, plus relatively good prices (although approximately \$10/barrel lower than export parity). The government delayed the implementation of the Gas Plan (it was expected in September but finally occurred at the end of December), thus postponing rig procurement, budget planning intra-JVs and spud dates. When rigs were finally ready to drill, or in the course of drilling, a one-month social blockade in Neuquén

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TOP NEWS

OIL & GAS

U.S. Extends Measure That Protects Citgo From Bondholders

The U.S. government extended a measure that protects the assets of U.S.-based refiner Citgo from seizure by bondholders who want to collect on unpaid debts from Venezuelan state-owned oil firm PDVSA, Citgo's parent company.

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RENEWABLES

Atlas, Unipar Sign Solar Power Purchase Deal

Brazilian chemicals company Unipar has signed a solar power purchase agreement with Atlas Renewable Energy, Atlas said in a statement.

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OIL & GAS

Brazil's Bolsonaro Signs Law to Allow Sale of Shares in Eletrobras

Brazilian President Jair Bolsonaro last week signed a law that allows for the privatization of state power utility Eletrobras.

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Bolsonaro // File Photo: Brazilian Government.

OIL AND GAS NEWS

Bolsonaro Signs Law Paving Way for Sale of Eletrobras Shares

Brazilian President Jair Bolsonaro last week signed a law that paves the way for the privatization of state utility Eletrobras, Reuters reported. The move is part of Bolsonaro's agenda to reduce the size of the state. The law allows Eletrobras to raise new equity in the private market to dilute the state's current 61 percent stake in the entity. The government expects to raise about 25 billion reais, or \$4.8 billion, from the sale of its shares, a process that is expected to conclude by next January. The government also hopes the move will bring lower energy prices in the South American nation as well as new investment in power generation. However, the law has sparked concerns among climate change and land rights activists because it includes provisions to construct a new natural-gas power plant in Brazil as well as backs a new power line over Indigenous lands, Reuters reported. Labor leaders have also expressed concern over the privatization, arguing that the move might lead to a loss of jobs at the company, which directly employs about 13,000 people.

PDVSA's Citgo Has 'No Plans' to Export LPG to Venezuela

Venezuelan state company PDVSA's U.S.-based refiner Citgo said it has no immediate plans to provide liquefied petroleum gas, or LPG, to the Andean nation, Argus Media reported last week. The company's comments followed the Biden administration's move to lift U.S. sanctions on LPG imports to Venezuela. The Treasury Department's Office of Foreign Assets Control, or OFAC, last week announced that it would authorize Venezuela to import LPG from the United States and other sources. The Andean nation used to be self-sufficient in LPG

but as production has declined, it resorted to U.S. suppliers until the administration of former U.S. President Donald Trump imposed oil sanctions on Venezuela in 2019. Though LPG sales were not explicitly outlined in the sanctions, market overcompliance and PDVSA's own dire financial situations have since driven down LPG supply even further. About 90 percent of Venezuela's population uses LPG for cooking, Argus Media reported. "We are aware that OFAC recently issued General License 40, authorizing certain transactions involving the exportation of LPG to Venezuela," Citgo said. "At this time, Citgo has no plans to engage in this activity," it added. Other U.S. product traders have also said they are unlikely to resume LPG supply to Venezuela despite the Biden administration's move.

U.S. Extends Measure Protecting Citgo From Bondholders

The U.S. government on Tuesday extended a measure that protects Citgo's assets from bondholders who are seeking to collect on unpaid debts from Venezuelan state-owned oil company PDVSA, which owns the U.S.-based refiner, Reuters reported. PDVSA's 2020 bond, has a majority stake in Citgo Holding, the refin-

It is the correct decision in defense of the interests of Venezuelans."

— Carlos Vecchio

er's parent company, as collateral. However, the holders of that bond will be unable to exercise rights to that stake before Oct. 21, according to a license issued by the U.S. Treasury's Office of Foreign Assets Control, or OFAC. The administration of then-U.S. President Donald Trump issued the measure that protects Citgo's assets after it recognized Venezuelan opposition leader Juan Guaidó as the South American country's legitimate president. As part of its efforts to unseat Venezuelan President Nicolás Maduro, the United States had blacklisted

NEWS BRIEFS

Brazil's Vale Receives Permit to Import LNG for Company's Industrial Uses

Brazil's National Agency of Petroleum, Natural Gas and Biofuels, or ANP, last week granted permission to miner Vale to import liquefied natural gas for its own industrial uses, according to S&P. The energy regulator has authorized the company to import 1.66 cubic meters of gas equivalent per day to use for heating of Vale's industrial ovens, according to the country's official gazette. There are no restrictions on where Vale can import the LNG from, but it must be delivered to Brazil by sea.

Ecuador Raises Targeted Capacity in This Year's Renewable Energy Tender

Ecuador's government on Sunday announced it had increased the targeted capacity in this year's renewable energy tender to 500 megawatts, up from 200 megawatts previously, Renewables Now reported. The tender process is ongoing and expected to close in early August, according to the available timeline. It includes concessions for the construction and operation of several small, hydro, wind, solar and biomass power projects.

IEnova Inks Deal With BP for First Carbon-Neutral LNG Cargo in Mexico

BP last week signed a deal with U.S.-based Sempra Energy's Mexican subsidiary, IEnova, to deliver its first carbon-neutral LNG cargo to the Energía Costa Azul liquefaction facility in Mexico, Argus Media reported. The agreement is part of BP's strategy to become a net-zero emissions firm by 2050. Under the deal, a specified amount of carbon credits corresponding to the estimated emissions associated with that shipment will be withdrawn from a Mexican afforestation project under BP's vetted portfolio.

PDVSA and transferred control of Citgo to Guaidó's government. In a posting on Twitter, Guaidó's ambassador to the United States, Carlos Vecchio, thanked the administration of U.S. President Joe Biden for extending the measure that protects the Citgo assets. "It is the correct decision in defense of the interests of Venezuelans," Vecchio said in the tweet. Allies of Guaidó are seeking to challenge the validity of PDVSA's 2020 bond in U.S. courts, Reuters reported. An initial court ruling upheld the validity of the bond, but the opposition is appealing that decision. Last December, a court sided with the opposition in prohibiting creditors from seizing shares of Citgo until the court hears the opposition's appeal. Despite the initial court ruling last year, the U.S. government has "signaled a strong commitment to protect Citgo," Francisco Monaldi, a fellow in Latin America energy policy at Rice University, told the Energy Advisor in a **Q&A** published last October.

RENEWABLES NEWS

Atlas, Unipar Sign Solar Power Purchase Agreement

Brazilian chemicals company Unipar has signed a solar power purchase agreement with Atlas Renewable Energy, Atlas said in a statement Monday. The energy supply will be



Russomanno // File Photo: LinkedIn Page of Mauricio Russomanno

sourced from Atlas' Lar do Sol-Casablanca II photovoltaic plant, which is to be built in the municipality of Pirapora in Minas Gerais state. The solar plant will occupy approximately 700

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routes (triggered by different stakeholders, including health workers) fully interrupted drilling of gas wells. Still, gas production ramped up during June and July (in excess of 125 million cubic meters per day), slightly above 2020 winter months, based on a mix of new conventional, tight and shale gas wells drilled by producers entering the Gas Plan scheme. Unfortunately, this is insufficient to save importing costly LNG (the last cargoes were purchased at approximately \$11 per metric million British Thermal Units.) The Gas Plan has been very effective in attracting short-term de-risked investments in conventional, tight and shale gas fields. It is a good sign to 'contractualize' gas demand from distribution companies (residential demand) and with CAMMESA (power plants) for four years. But to set the ground for a shale gas boom in Argentina, both for domestic and export purposes (mainly through LNG), the government needs to provide aggressive and generous incentives for the hydrocarbons industry. Absent this, we will not see major investments in the Argentine shale gas industry."

A Gerardo Rabinovich, vice president of the Instituto de la Energía "General Mosconi" in Buenos Aires: "Natural gas is Argentina's principal source of power (53 percent of the energy supply), and the behavior of its main variables (production and

prices) has direct impacts on the country's energy economics and on the macroeconomy. According to the official statistical information processed by the IAE 'General Mosconi,' natural gas production in May fell 2.6 percent vis-à-vis the same month last year, when the effects of the Covid-19 pandemic were in full force. Considering the

“ In May, the consumption of gas oil to produce electricity increased by 50 times, as compared to the same month of 2020.”

— Gerardo Rabinovich

last 12 months, the drop in production is of slightly less than 10 percent. This contrasts with a 13 percent increase in demand in May. As a result, there is a worrying lag in the reaction of supply and demand, which has forced an increase in the imports of natural gas and diesel. In May, the consumption of fuel oil to produce electricity increased by 50 times, as compared to the same month of 2020. Therefore, the cost of producing electricity grew by 90 percent, to about \$70 per megawatt-hour. Accumulated subsidies in the first five months of the year to cover for the difference between production costs and prices has surpassed \$1.8 billion. The

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hectares, will have an installed capacity of 239 megawatt-peak and will have 460,000 solar panels, said Atlas. The facility also will have bifacial module technology, which uses the sun's reflection on the panels' front and back sides. The plant is expected to generate enough energy for two of Unipar's factories in Brazil. The annual power generation of the plant is expected to be equivalent to the consumption of 261,662 households. It will also avoid the release of about 40,500 metric tons of carbon dioxide annually, based on the greenhouse gas protocol methodology of the World Resourc-

es Institute. Unipar's chief executive officer, Mauricio Russomanno, said his company's agreement with Atlas is a step toward greater sustainability. "This is one more move towards sustainable solutions that improve the company's efforts in the search for energy matrices from renewable sources, guaranteeing access to the essential input for our operation and generating greater competitiveness through self-production," said Russomanno. "The total amount of generated energy destined to Unipar will be enough to produce chlorine for the water treatment to over 60 million people."

POLITICAL NEWS

Henry Sworn in as Haiti Prime Minister, Replacing Joseph

Ariel Henry was sworn in Tuesday as Haiti's prime minister, replacing Claude Joseph, who had been leading the country following the assassination earlier this month of President Jovenel Moïse, the Associated Press reported. Moïse had tapped Henry, a neurosurgeon, as prime minister the week of the assassination, but at the time, Henry had not yet been sworn in. Henry called for unity and vowed to meet with different sectors of the country in order to build consensus. "The task that awaits us is complex and difficult," said Henry, the AP reported. "I'm from a school that believes in dialogue." The new prime minister also has promised to establish a provisional consensus government in order to lead the country until it holds elections. Henry said he would help re-establish security, order and confidence in the government in addition to fighting corruption, spurring the economy, creating a credible elections system and making Covid-19 vaccines available to all Haitians, the wire service reported. Henry added that he was relying on Haitians to work together in order to confront the country's challenges. "All Haitians have to unite to fix the crisis," he said, The Wall Street Journal reported. "I'm not a magician." Henry also thanked "sister nations," though he didn't identify them, for working with the Caribbean nation in its investigation following Moïse's killing on July 7. [Editor's note: See related [Q&A](#) in the July 9 issue of the Advisor.]

Pedro Castillo Declared Peru's President-Elect

Peru's National Elections Jury on Monday declared leftist school teacher Pedro Castillo the country's president-elect, more than six weeks after the razor-thin June 6 runoff election, El

THE DIALOGUE CONTINUES

Will Petrobras Sell its Refineries by the Year-End Deadline?

Q Brazilian state oil firm Petrobras is close to selling its first refinery after antitrust watchdog Cade in June approved the state oil company's \$1.65 billion deal with Abu-Dhabi's state-owned investment fund, Mubadala. However, the lengthy negotiating process between the two parties has raised concerns that the oil company will not be able to close planned sales of an additional seven refineries by the end of this year, the deadline Petrobras and Cade set for the transactions. What is the state of Petrobras' planned refinery sales? Is the company likely to meet the Dec. 31 deadline, and what implications would missing it have for the company's broader divestment plans and financial situation? How well has Petrobras weathered the Covid-19 pandemic?

A Ilan Arbetman, equity research analyst at Ativa Investimentos: "Due to the complexity of the operations, Petrobras may not be able to deliver the sale of the refineries by year-end and might have to postpone the deadline. However, the important thing is maintaining financial diligence during the sales process. Petrobras continues on the right path, as we can see by its move to suspend processes in which it receives commitments that do not meet the company's financial interests, such as in the case of Repar. Receiving fair financial promises and conducting the processes well is more important than the deadline. Currently, the company's refineries are complementary to each other, as they were built in a condition where Petrobras was monopolist. Thus, it is normal for their valuation to contain a discount arising from the difficulty in operating them individually. Despite these difficulties, the plants are naturally

cash-generation assets, and demand for them should exist, especially given a more stabilized exchange rate and Brent prices. For Petrobras, even though the refineries are good assets, their partial sale is positive as the company's current margins in exploration and production are higher. Regarding

Petrobras will possibly not be able to deliver...
— Ilan Arbetman

the pandemic, the company acted quickly to minimize its effects. It put 62 platforms on pause, minimized the breakeven period for project acceptance and, given the weakness in demand arising from the sale of oil products in during the first months of the pandemic in Brazil (especially the second quarter of 2020), the company increased its share of production going toward exports, taking advantage of its oil quality. With a less dysfunctional scenario since the third quarter of 2020, the company has been returning its oil to refineries, an activity that gives it greater margins than exports, and it has been working with a refining activity level of around 78-81 percent. We believe that, as the company's refineries are ancient and somewhat inconsistent with the current quality of oil extracted mainly from its deep and ultra-deep water fields, the sale of the refineries will also optimize the company's refining chain, which will contribute to optimizing its results."

EDITOR'S NOTE: More commentary on this topic appears in the Q&A of the July 16 issue of the Energy Advisor.

NEWS BRIEFS

At Least One Killed in Haiti Protest Ahead of Moïse's Funeral

At least one person was killed Wednesday in the northern Haitian city of Cap-Haïtien amid protests against the assassination two weeks ago of President Jovenel Moïse, Reuters reported. Demonstrators took to the streets in the city, where a ceremony was held in memory of the slain president, who will be laid to rest there on Friday. Moïse's widow Martine, who was wounded in the attack, attended Wednesday's remembrance, dressed in black.

Former Panamanian President Martinelli Faces Second Trial

Former Panamanian President Ricardo Martinelli, 69, went on trial for a second time Wednesday over charges that he tapped the phones of opponents and journalists, the Associated Press reported. Martinelli, who led Panama from 2009 to 2014, was acquitted of similar charges in 2019 and described the proceedings Wednesday as a "political trial that was already decided," according to the report. Meanwhile, two of Martinelli's sons are currently in prison in Guatemala awaiting extradition to the United States on money laundering charges.

Brazil's Bolsonaro Vows to Veto Electoral Fund

Far-right Brazilian President Jair Bolsonaro said on Tuesday that he would veto a proposed 5.7 billion real (\$1.09 billion) taxpayer-paid electoral fund, Reuters reported. The fund mechanism was set up in 2017 in the wake of graft scandals and a ban on corporate donations to campaigns. Bolsonaro's veto stance is likely to place him at odds with centrist lawmakers whose congressional support has protected him from impeachment proceedings the president faces, according to Reuters.

Comercio reported. The election authority's announcement followed its rejection of the final five appeals filed by the Popular Force party of Castillo's rival, right-wing former legislator Keiko Fujimori. Castillo won the election 50.13 percent to Fujimori's 49.87 percent, a margin of just over 44,000 votes, according to the elections jury. In his first speech as president-elect, Castillo urged Fujimori not to put up "more obstacles" in the "journey to move the country forward." Fujimori's numerous unfounded allegations of fraud in the election could threaten Castillo's hold on the presidency, Ursula Indacochea, director of the Judicial Independence Program at the Due Process of Law Foundation, said in a Q&A published Thursday in the daily Latin America Advisor.

"Fujimori continues to claim that his victory is illegitimate, and her congressmen have already announced the creation of a parliamentary commission to investigate the alleged fraud, which will continue to fuel citizen polarization and could culminate in attempts to remove Castillo in the medium term," said Indacochea. "Without significant support in Congress, the outlook for Castillo is challenging." Castillo must build political alliances in order to "survive the months to come," she added.

ECONOMIC NEWS

Argentina's GDP Grows 13.6% in May

Argentina's real GDP grew by 13.6 percent in May as compared to the same month last year, state statistics agency INDEC said in a report released Wednesday. The figure is less than the 17.5 percent growth that a survey of economists conducted by Bloomberg News had forecast. It also showed a 2 percent decline from April. A surge in Covid-19 cases and subsequent business and mobility restrictions likely held back growth only temporarily, experts say. "Seasonally adjusted data suggest the economy lost further momentum at the margin," Goldman Sachs economist Alberto Ramos told clients in a research note Wednesday. "Activity is expected to recover in June-July in tandem with the improving Covid backdrop and

increasing mobility," he added. The sectors that grew most were the manufacturing, wholesale trade and retail industries, while only the agriculture, livestock and forestry sector declined in May. Meanwhile, in a separate report released Wednesday, INDEC said that exports reached \$6.98 billion in June, the highest level since June 2014, with a surplus commercial trade balance of \$1.07 billion. Relatively high global commodity prices and strong demand from Argentina's trading partners helped boost the surplus, economists said.

Colombia's Duque Presents Tax Plan to Lawmakers

Colombian President Iván Duque formally presented a \$3.97 billion tax reform bill to Congress on Tuesday, the country's independence day holiday, Reuters reported. The measure would raise 15.2 trillion pesos per year for state coffers, which is significantly less than the 23.4 trillion pesos the government had sought in an April proposal that was later withdrawn in the wake of deadly protests and national strikes. Of the total of 15.2 billion pesos, businesses will contribute 69 percent of the taxes collected, while 31 percent will come from new cuts in public spending, as well as a crackdown against tax evasion, El Tiempo reported. Wary of inciting more riots, the finance ministry has emphasized the new bill will not affect most taxpayers, according to Reuters. However, thousands of protesters joined in marches in the Andean nation's main cities Tuesday while Duque outlined the bill to Congress, the Associated Press reported. Protesters said the new plan does not do enough to boost spending on education and job creation in Colombia, where the economy contracted 7 percent last year and pushed an additional 3 million people into poverty, according to the national statistics department data, the Associated Press reported. On Wednesday, Colombian police announced they had arrested 70 people during the protests the previous day, Agence France-Presse reported. Fifty people were injured in the demonstrations, police added.

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2021 budget targets will be widely exceeded as a result, with energy subsidies potentially representing 2.4 percent of GDP. Argentina's energy management has not found solutions to this problem. The subsidies plans have not been successful so far, plunging the economy and the industry into an extremely dangerous uncertainty. The government must specify an energy plan to inform the industry of where it wants to lead it."

A **Ignacio Rooney, principal for Latin America at Wood Mackenzie:** "Oil production in Argentina has rebounded in 2021 mainly because of demand recovery and higher prices in international markets. Argentina's gas sector reacted differently, as it focuses on addressing domestic demand. Not having significant opportunities to allocate volumes in global and regional markets, gas producers rely primarily on internal volumes and prices. The objective of the Gas Plan was to ensure supply to the residential and power generation segments over the next four years. For these expectations, it worked. The aim of the Gas Plan was not to turn Argentina into a year-round gas exporter. Although producers will deliver 2021 volumes later than regulators would have preferred, conditions are in place for the years to come if authorities are reliable in paying subsidies

to producers and sustain an attractive regulatory framework. Argentina will continue to rely on gas imports from Bolivia and on LNG to address demand peaks, placing pressure on Argentina's trade balance as LNG prices

“ Argentina will continue to rely on gas imports from Bolivia and on LNG to address demand peaks...”

— Ignacio Rooney

recover. In the short term, the country will burn more liquid fuels in the power segment to cover for delayed gas production recovery. Additionally, Bolivia has set a cap to volumes it could ship to Argentina. Thinking longer-term, gas producers need to understand what will happen after 2024 and to what extent market conditions will justify investments in new wells and transportation and processing infrastructure. These investments could finally open the doors for Argentina to become a net gas exporter.”

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

LATIN AMERICA ENERGY ADVISOR

is published weekly by the
Inter-American Dialogue ISSN 2163-7962

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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

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LATIN AMERICA ADVISOR

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