LATIN AMERICA ADVISOR

ENERGY ADVISOR

A WEEKLY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

September 3, 2021

FEATURED Q&A

Will Brazil Become a Major Global Oil Supplier by 2025?

Brazil's pre-salt fields are expected to significantly increase the country's crude oil production in coming years. // File Photo: Brazilian Government.

Q **Brazil is expected to supply about 23 percent, or the equivalent of 1.3 million barrels per day, of global offshore crude oil and condensate production by 2025, according to a report released in August by data and analytics company GlobalData. The outlook is based on planned and announced projects in Brazil that are set to start operations in the next five years as well as early-stage projects that are expected to get approval for development soon. What is the outlook for Brazil's crude production in the medium and long terms? What potential benefits and drawbacks would becoming a key player in global oil supply bring to the Brazilian economy? To what extent does political risk ahead of the 2022 presidential elections factor into medium- and long-term forecasts for the oil sector, and what other challenges might hamper expected positive trends?**

A **Anelise Lara, former chief refining, gas and power officer at Brazilian state oil company Petrobras:** "The outlook for oil production is quite favorable. Brazil continues to have an increasingly significant lead in offshore oil production, particularly in the pre-salt province. So far, about 50 percent of this area has been acquired through ANP auctions. There is still a very significant area to be auctioned, and part of the area that has already been auctioned is still in the exploratory phase. Conditions are set for oil production to increase in the medium and long terms. Brazil should be strengthened as an important player in the global oil market. For the Brazilian economy, along with agribusiness and iron ore, oil is expected to represent

Continued on page 3

TOP NEWS

RENEWABLES

Bolivia Selects Firms for Lithium Pilot Project

Bolivia's government announced last week it had selected nine companies to carry out pilot tests for direct lithium extraction in the country. Lithium is a key element of batteries used for electric vehicles and other products.

Page 2

POWER SECTOR

Ecuador's CELEC to Revamp Idle Power Plants

Ecuadorean state power company CELEC said it will earmark $80 million to revamp two thermal power plants as erosion puts the Coca Codo Sinclair hydroelectric plant at risk.

Page 3

OIL & GAS

Ecopetrol Board Approves Issuance of New Shares

Colombian state oil company Ecopetrol, led by Felipe Bayón, could issue new shares that may reduce the state's ownership of the firm over the next five years.

Page 2

Bayón // File Photo: Colombian Government.

OIL AND GAS NEWS

Brazil's Petrobras in Talks With 3R Over Polo Potiguar Sale

Brazilian state oil company Petrobras and 3R Petroleum Óleo e Gás are in talks over the billion-dollar sale of one of Petrobras' refineries and dozens of oil fields, the state firm said Aug. 27 in a securities filing, Reuters reported. Petrobras said 3R had submitted the best bid in a public tender for 26 assets, known collectively as Polo Potiguar and located in the northeastern state of Rio Grande do Norte, InfoMoney reported. Polo Potiguar includes 23,000 barrels per day (bpd) of onshore and shallow-water oil production, according to 2020 bidding documents, as well as the 39,600-bpd Potiguar Clara Camarão Refinery, Reuters reported. The deal would have a value of between $1.1 billion and $1.3 billion, according to the filing. Negotiations are still ongoing, and corporate approvals would be necessary once a deal is reached, Petrobras said. Petrobras also sometimes launches a final rebidding round once bilateral talks are finalized, in which competitors can submit offers of any value under the same terms agreed upon during the negotiations. If completed, the transaction could be transformational for 3R by more than doubling the company's oil production and bolstering it as one of Brazil's top independent producers, competing with firms such as Enauta Participaçoes and PetroRio, Reuters reported. For Petrobras, a successful transaction would be a key step in the company's move to divest noncore assets with the aim of reducing debt and focusing on deepwater oil production in the pre-salt fields.

The transaction would have a value of between $1.1 billion and $1.3 billion.

Ecopetrol Board OKs Issuance of Shares Over Next Five Years

The board of Colombian state-owned oil firm Ecopetrol on Aug. 27 approved the possible issuance of shares that could lead to a reduction of the country's stake in the company to a minimum of 89 percent over the next five years, according to Ecopetrol, Reuters reported. The state currently controls 88.49 percent of the company, which said that any funds raised from the issuance of shares would go toward projects aimed at boosting organic growth, inorganic growth opportunities and debt reduction. "In a development of a potential issue or issues which could take place under the program, the nation would maintain at a minimum 80 percent of the subscribed and circulating capital of Ecopetrol," the statement said. "The program would be valid for five years, during which time Ecopetrol could carry out one or various share emissions with the specific aim of financing the execution of corporate strategy and energy transition plan," it added. Any issuance would depend on favorable market conditions, the company said, adding that the board's approval does not oblige it to actually issue the shares. Ecopetrol posted a net profit in the second quarter of approximately $970 million, driven by strong sales and a weak comparative base. The firm's second-quarter performance was "the best ever recorded in the history of Ecopetrol," the company said in a statement." The strength of Ecopetrol Group's results in the quarter and year to date, despite a challenging situation derived from the public order situation and the health emergency associated with the third peak of the Covid-19 pandemic, reiterates our capacity to generate sustainable value, to quickly and timely respond to environment conditions," CEO Felipe Bayón said in a statement when the second-quarter results were announced. Ecopetrol is Colombia's largest company. It produces most of the Andean nation's oil, and it also owns the country's two most important refineries as well as most of the pipeline networks.

NEWS BRIEFS

Bolivia Selects Nine Firms to Carry Out Lithium Pilot Production Projects

Bolivia's government announced last week it had selected nine companies to carry out pilot tests for direct lithium extraction, Argus Media reported. It is the country's latest push toward starting large-scale production of the mineral, which is a key element in batteries needed for electric vehicles and other products. The government had launched an international call for proposals to participate in the lithium project in the salt flats of Uyuni, Coipasa and Pastos Grandes. Bolivia has the second-largest lithium resource in the world, according to Energy Minister Franklin Molina.

Brazil's Installed Solar Power Generation Capacity Reaches 10 GW

Brazil's installed solar power generation capacity has reached 10 gigawatts (GW), domestic solar power association ABSOLAR announced last week, Renewables Now reported. Distributed generation leads with 6.5 GW of installed capacity, while large-scale solar plants, also known as centralized solar power, make up the remaining 3.5 GW, according to ABSOLAR data. Solar plants have brought around $10 billion in investments to the country and created some 300,000 local jobs since 2012, ABSOLAR said.

Japan's Inpex Sells Oil & Gas Assets in Venezuela to Local Group: Report

Japanese oil firm Inpex has sold two Venezuelan oil and gas assets to Caracas-based Sucre Energy Group, Reuters reported last week, citing three people familiar with the deal. Sucre bought Inpex's 70 percent stake in the Gas Guarico natural gas partnership with state oil company PDVSA, as well as a 30 percent stake in the Petroguarico oil joint venture, the sources said.

POWER SECTOR NEWS

Ecuador's CELEC to Revamp Idle Power Plants as Backup

Ecuadorean state power company CELEC said Aug. 26 that it will earmark $80 million to revamp thermal power plants that are currently offline in order for them to provide backup electricity supply as erosion puts the Coca Codo Sinclair hydroelectric plant at risk, Reuters reported. The funds will go toward buying spare parts, tools and machinery to revamp operations at the Esmeraldas I and Esmeraldas II power plants, BNamericas reported. CELEC also said the money will help recover approximately 426.5 megawatts (MW) of thermoelectric generating capacity by 2022, with 125 MW coming online as soon as November following investments at the country's oil-fired Esmeraldas I plant, according to the report. "With these actions, we will guarantee electrical service for Ecuadoreans in the hypothetical case of an operational outage at the Coca Codo Sinclair hydroelectric plant as a consequence of the headward erosion of the Coca rivers," Gonzalo Uquillas, the chief executive of CELEC, said in a statement. The country will also spend $100 million on structures in a bid to prevent the Coca River from reaching the 1,500-MW facility, which supplies one-third of the Andean nation's power, Reuters reported. In related news, the government of President Guillermo Lasso recently unveiled a new electricity plan for 2031, with updates that allow for the incorporation of around 1.4 gigawatts of nonconventional renewable energy capacity in addition to what was already scheduled to start operations by the end of the planning period, Renewables Now reported. New projects including smaller hydropower stations as well as wind, solar and biomass-based plants are expected to bring about $2.2 billion in private capital, according to the Ministry of Energy and Nonrenewable Natural Resources. The country also recently announced it is preparing an investment summit in November that will offer opportunities that could bring some $7.7 billion in invest-

FEATURED Q&A / Continued from page 1

an increasingly relevant force in the global commodity market. For the country, this means more taxes and greater availability of capital for the government to invest in infrastructure and issues including education, health, job creation and security. The expansion of fossil-fuel production can have negative consequences in terms of future regulations to minimize the impact of global warming. One way to reduce this risk is to increase energy efficiency in oil exploration and production operations and develop carbon capture and sequestration technologies. Brazil is well positioned; about 45 percent of the country's energy matrix comes from renewable sources. The reforestation and preservation of the Amazon should also be an increasingly relevant part of the climate agenda and of country planning. The 2022 elections do not pose risks to the expected increase in oil production. The exploration and production industry in Brazil is already quite mature. The monopoly in this area was extinguished more than 20 years ago, and several international oil companies already operate in the country. In recent years, several small and medium-sized companies have begun to operate in the market of mature onshore and offshore fields. In the short and medium terms, we will also have increased production in these areas. During the last 20 years, different governments have always respected signed contracts and the legislation in force."

A **Arthur Deakin, co-director of Americas Market Intelligence's energy practice:** "Despite the global push to cut carbon emissions, oil companies are not yet ready to abandon their core business if they see profitable opportunities on the horizon. 'Big Oil' will continue to focus on jurisdictions with cleaner crude, lower breakeven costs, higher recovery rates and investor-friendly regulations. Guyana, Brazil and Suriname are players that fall under this bracket. But Brazil has an extensive track record and industrial base that makes it a 'safer' bet for investors. It should come as no surprise that Brazil's oil production will grow 75 percent this decade, adding more crude production than any other country outside of the United States and OPEC through 2026. With its agriculture sector booming, and industrialization declining, the growth in oil exports will accelerate the country's dependence on commodity exports. Although this brings in much-needed U.S. dollars to the economy, it exposes Brazil to commodity cycles that can quickly trigger recessions. Brazil will also be dependent on the goodwill of external trade partners, who will impose stricter demands on environmental safeguards. Ahead of the 2022 elections, Bolsonaro's erratic tactics to undermine the judiciary and question the electoral process are hurting investor confidence. High fuel prices and inflation are also negatively affecting the president's approval ratings. Although Bolsonaro will continue to subsidize local energy costs, if global oil prices continue to rise, Bolsonaro will have limited options to mitigate price increases for Brazilian consumers. This may lead to another desperate intervention in Petrobras, leading to further investor pullback and a delay in meaningful energy projects."

A **Paulo Valois Pires, partner at Schmidt, Valois, Miranda, Ferreira & Agel Advogados in Rio de Janeiro:** Prospects for Brazil's crude production in the medium and long terms are highly positive. According to the Brazilian 'Empresa de Produção Energética—EPE,' oil-proven reserves will be of around 35 billion barrels, and crude oil production will reach four million barrels per day (bpd) by 2025, most coming from the pre-salt. The increase in oil output will be concentrated in the giant Búzios, Atapu, Itapú and Sépia fields. Petrobras' focus on [re-salt production should continue to open new opportunities outside the [re-salt polygon for independent operators and project companies backed by private equities. Of

Continued on page 6

ments in the energy, nonrenewable natural resources, transportation, logistics and road infrastructure sectors, BNamericas reported last week.

CFE Seeking Private Partners to Build, Operate Gas Pipeline

Mexican state utility CFE is seeking formal expressions of interest from private companies to construct and operate a natural gas pipeline and floating liquefied natural gas, or FLNG, terminal, Natural Gas Intel reported Monday. The pipeline, which would be able to carry 500 million cubic feet per day (cf/d) of gas, would connect the city of Chinameca in Veracruz state to the Salina Cruz seaport in Oaxaca, where the 430 million cf/d FLNG terminal would be located. CFE would sell gas procured through its extensive pipeline network to the FLNG operator under a 25-year take-or-pay contract, and the operator would have exclusive rights to market liquefaction capacity and liquefied natural gas produced at the plant, NGI reported, citing auction documents. The operator would also have full ownership of the projects and would be liable for all associated risk, in exchange for "security and certainty" in the supply of gas, the company said, NGI reported. Mexican President Andrés Manuel López Obrador has made strengthening state companies including CFE a cornerstone of his presidency. In February, the utility published its 2021-2025 business plan, with estimated investments of about $3.12 billion this year in a bid to overhaul its generation capacity. "Perhaps the most important aspect of CFE's 2021-2025 business plan is that it makes clear what was already widely assumed: the state-owned utility seeks to enhance its dominant

CFE would sell gas to the terminal operator under a 25-year contract.

ADVISOR Q&A

What Would Help Haiti Prepare for Future Disasters?

Q A powerful earthquake left more than 2,000 people dead and more than 100,000 homeless in Haiti just days before a tropical storm pummeled the country with heavy winds and rain, complicating rescue efforts. The pair of natural disasters struck the country on the heels of a political crisis following the assassination of President Jovenel Moïse in July. To respond to the latest disasters, how should the international community modify its aid plans of action based on lessons learned after the catastrophic earthquake in 2010? Are the objectives of current efforts focused on short-term humanitarian aid, or are they long-term initiatives to prepare for future natural disasters? How feasible is it for Haiti to proceed with its presidential election in November, as planned?

A Francois Pierre-Louis, professor of political science at Queens College, City University of New York: "More than 10 years ago when Haiti was hit by a catastrophic earthquake that killed more than 250,000 people and destroyed the country's main infrastructures in Port-au-Prince, the world poured its heart out for the Haitian people. Billions of dollars were pledged through international organizations to help it rebuild. Former U.S. President Bill Clinton led the recovery effort with the mantra 'Build it back better.' In 2010, Haiti had a functioning parliament, a legitimate president and was beginning to recover from years of economic decline, but it was not successful in rebuilding itself. The Haitian people never benefited from the aid that was given as most of it went back into the pockets of the very institutions that had pledged to rebuild the country. Haiti is in even worse shape today. However, it is a welcoming sign that the interim government has decided to coordinate all the aid that has been promised in this disaster. However, it has no capacity to enforce that decision. This time, the international community should coordinate with the government to assure that the aid goes directly to those affected instead of relying on intermediaries to dispense it. It is impossible to plan for long-term initiatives without a legitimate government because long-term planning requires major institutional reforms. Unfortunately, Haiti finds itself in a situation in which historical bad governance, corruption and impunity have prevented it from creating conditions for long-term planning. This forces it to focus primarily on short-term humanitarian aid that can never solve the country's chronic problems. Holding a presidential election in November was already a long-shot effort given the many crises that the country is facing. The earthquake has made it impossible for elections to be held in November. However, the interim government should not use it as an excuse to postpone the elections longer than needed because, without a legitimate government, the country will never recover from this disaster and other foreseeable catastrophes."

> **"It is impossible to plan for long-term initiatives without a legitimate government..."**
> **— Francois Pierre-Louis**

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

NEWS BRIEFS

Costa Rica's Ruling Party Ratifies Ramos as Presidential Candidate

Costa Rica's ruling Citizen Action Party late on Monday ratified former Economy Minister Welmer Ramos as its presidential candidate for upcoming elections next February after more than a week of vote-counting, Reuters reported. Ramos, 60, won 48 percent of the 16,500 votes in the open primaries the party held on Aug. 22. Currently a member of the Legislative Assembly, Ramos was economy minister from 2014 to 2017 under former President Luis Guillermo Solís. More than 20 candidates are expected to run in the 2022 election.

At Least 29 Killed When Bus Plunges From Cliff in Peru

A bus traveling along Peru's Central Highway in the Andes region plunged off a cliff early Tuesday, killing at least 29 passengers, authorities said, Reuters reported. Sixty-three people were on the bus, according to a police official. The bus fell from the highway, which connects Lima to much of the central Andes, near the town of Matucana, and it is the second such incident in Peru in a matter of days. A bus carrying mining workers fell off a cliff in the Andes on Friday, killing 16 people.

Salvadoran Lawmakers OK $150 Million Fund for Bitcoin Conversions

El Salvador's Legislative Assembly on Tuesday approved the creation of a $150 million fund to smooth conversions from Bitcoin to U.S. dollars ahead of its adoption of the digital currency as a legal tender on Sept. 7, Reuters reported. The measure will "financially support the alternatives that the state provides" to allow users to make the conversion, said a congressional document market position by avoiding competition from private players," Pedro Niembro, senior director at Monarch Global Strategies, told the Energy Advisor in a **Q&A** published Feb. 19.

POLITICAL NEWS

Opposition Parties End Boycott of Venezuela Elections

Venezuela's principal opposition parties on Tuesday announced they would participate in local and state elections this November, ending a three-year boycott of elections organized by the government of President Nicolás Maduro, The Washington Post reported. The announcement is a major shift in their strategy to wrest power from Maduro, whom they see as an illegitimate leader following presidential elections in 2018 that were widely denounced as fraudulent. While acknowledging the likelihood that the regional elections in November would be again rigged against them, opposition leaders in part see them as an opportunity to re-establish an electoral base and to lay the groundwork for future votes. Meanwhile, Maduro sees the opposition's participation as an important step in building international legitimacy, according to the report. On national television Tuesday night, Maduro said he was "going to sit down in my armchair, with popcorn, to watch Juan Guaidó vote on November 21st. I will applaud, because we made it, we included him in the democratic process again." Guaidó since 2019 has claimed to be the country's legitimate president and has been the international face of the opposition. "If the Guaidó forces as well as those guided by Henrique Capriles and other opposition elements can forge a useful electoral strategy and can overcome their rivalries to campaign with a shared vision … they have a good chance to win significant number of governorships and mayoralties," Abraham F. Lowenthal, professor emeritus at the University of Southern California, told the daily Latin America Advisor in a **Q&A** published Aug. 20.

ECONOMIC NEWS

Chile's Central Bank Hikes Interest Rate by 75 Basis Points

Chile's central bank announced Tuesday that it would hike its benchmark interest rate to 1.5 percent from 0.75 percent, as the country's rapid Covid-19 vaccination rollout helps it resume economic activity and inflation ticks upward, Reuters reported. It is the country's largest rate increase in two decades, Bloomberg News reported. The move surprised all analysts in a Bloomberg News survey, all of whom expected a smaller raise. In a statement, the central bank's board said that emergency stimulus packages amid the pandemic had stronger effects than expected, driving an "extraordinary dynamism" in private consumption. The central bank said the decision came as its members acknowledged the need to avoid "an accumulation of macroeconomic imbalances that, among other consequences, could lead to a more persistent increase in inflation," it said in the statement, Bloomberg News reported. "The board decided to intensify the withdrawal of monetary stimulus," the central bank added. The bank also said financial market volatility in Chile continued because of the further potential for new withdrawals by Chileans from their privately held pension savings, a move that central bank chief Mario Marcel had warned could drive up inflation and overheat the economy, Reuters reported. In July, consumer prices were up 0.8 percent, and rolling annual inflation reached 4.5 percent, its highest level since March 2016, the wire service reported. The central bank last month raised the rate to 0.75 percent after an extended period of having it at 0.5 percent at the peak of the pandemic.

The 75-basis point hike was Chile's largest rate increase in two decades.

FEATURED Q&A / Continued from page 3

course, all of this will depend on future Brent prices, assuming around $70-$80 per barrel. The first effect will be a sharp increase in the government take due to the growing production. Secondly, the attraction of attention and investments from the offshore industry will benefit the whole domestic economic chain supply. Finally, such a strategic offshore global position brings an unprecedented latitude and could leverage major Brazilian foreign affairs and diplomatic trade goals in the medium term. As to drawbacks, one could cite a potential growth of political influence over Petrobras and an increase of producing states' economic dependence on oil revenues. Despite potential presidential candidates' rhetoric from right to left, it seems the next government will not hamper the nation's commitment to exploiting the pre-salt fields. However, we could expect debates and eventual changes on local content policies as well as royalties' allocation among the states."

A **Daniel Szyfman, partner and lead of the Infrastructure & Energy practice at Machado Meyer Advogados:** "GlobalData captures Brazil's midterm outlook well. It shows that Brazil is about to 'collect the profits' of the successful greenfield auctions held in the past three to four years, many of them focused on ultra-deepwater areas. The long term is also promising, given that 1.) Brazil has other greenfield auctions scheduled—including the second round of the transfer of rights auction, with two premium pre-salt areas; 2.) the legal framework for E&P licensing is very well established and stable, with positive changes (from the investor perspective) in the past four to five years; and 3.) Brazil has not yet created decarbonization-type restrictions or financial burdens (such as taxes on emissions). The benefits include the usual: generation of wealth, jobs and tax revenues, favorable trading balance (an increase in exports) and accessible sources of power generation, particularly when gas reserves are discovered. There is no drawback per se. While of course the energy transition discussions are rapidly growing on a global scale, Brazil is

> **"Brazil is about to 'collect the profits' of the successful greenfield auctions held in the past three to four years..."**
> **— Daniel Szyfman**

also very strong in the renewables market—both in terms of installed capacity and a framework to generate more investments in these sources. The political scenario is a constant source of attention for both foreign and domestic investors in Brazil. The period preceding elections (including for governors and nearly all lawmakers at both federal and state levels) is more complicated. The next election presents a very challenging scenario: there is increasing polarization, tension between powers and big chances of the justice system having to make pivotal decisions. For the oil sector, there are always points to look out for: rules for upcoming auctions, public policy issues and changes in law risk. In practice, international players have been making long-term investment decisions over the past few years, which signals that they see a positive outlook for Brazil in the long term."

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

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

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

Leticia Chacón
Reporter
lchacon@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