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FEATURED Q&A

How Are Fuel Prices Putting Pressure on Bolsonaro?

Brazilian President Jair Bolsonaro has expressed frustration that he is being blamed for fuel-price increases undertaken by state oil company Petrobras. // File Photo: Brazilian Government.

Q Brazilian President Jair Bolsonaro in October twice floated the idea of privatizing state oil company Petrobras. He brought up the possibility as he expressed frustration that he was being blamed for fuel-price increases. Bolsonaro is facing high political pressure over the higher fuel prices, especially from truckers who are among his most loyal supporters and who are threatening to strike, developments that come amid rising inflation in Brazil. How politically charged is the fuel price situation in Brazil, and to what extent are consumers likely to push back? Will Petrobras increase prices further in the months ahead? Is Bolsonaro likely to go ahead with the privatization of Petrobras, and to what extent is there support for the initiative in Congress?

A Cleveland Jones, professor and researcher at the National Institute of Oil and Gas at the State University of Rio de Janeiro: "Petrobras has always been much more than Brazil's national oil company. Even after its monopoly position in the oil and gas industry in Brazil ended in 1997, Brazilians continued to view it, and the government continued to treat it, as a vehicle for national energy policy. During the Lula and Rousseff governments, it financed untenable policies of regional development and fuel price controls. Thus, it is no surprise that now, when high fuel prices are hurting many sectors of the Brazilian economy, which overly depends on road transportation, there is a temptation to again use it to restrain fuel price increases. Given President Bolsonaro's weakened political position, his once timid forays

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TOP NEWS

OIL & GAS

Ecuador Output to Surpass 580,000 bpd Next Year: Energy Minister

Ecuadorean Energy Minister Juan Carlos Bermeo said the government expects crude production to reach 583,000 barrels per day (bpd) in 2022.

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OIL & GAS

Petrobras Posts $5.34 Billion Profit for Third Quarter

Brazil's state oil company posted a higher-than-expected profit of $5.34 billion for the third quarter. Just hours before, President Jair Bolsonaro blasted Petrobras for being too profitable.

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POWER SECTOR

Guyana Turning to Gas, Hydropower to Meet Demand

President Irfaan Ali said Guyana would build a new gas-field plant and expand the country's hydropower capacity in order to meet an expected upsurge in power demand over the next five years.

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Ali // File Photo: Guyanese Government.

OIL AND GAS NEWS

Dutch Bank ING to Stop Financing Oil Trade in Peru

Dutch lender ING will no longer finance the trading of oil and gas in Peru over concern about the industry's impact on Indigenous people in the country's Amazonian region, Reuters reported Thursday, citing a company policy document. The move comes after a similar decision earlier this year to stop financing oil trade in Ecuador, an announcement ING made in January alongside Switzerland's credit Suisse and France's BNP Paribas. The Dutch bank does not directly finance oil and gas exploration and production in. Peru, but it has previously financed those who move it out of the country. "Indigenous people living in the Sacred Headwaters of the Amazon in Ecuador and Peru have called on banks to stop financing oil development in the region, as it poses a threat to them and the surrounding ecosystem," the new policy said. "We have financed the trading of oil from the region, but decided in the beginning of 2021 not to enter into new contracts for exports from Ecuador and decided in November 2021 not to enter into contracts for exports from Peru," it added. A spokesman for ING told Reuters the bank had updated its policy but declined to give any details about ING's financial exposure in the region. "Measures such as these are good headline-makers but marginally helpful at best," Jose L. Valera, partner at Mayer Brown, told the Energy Advisor in a **Q&A** published Feb. 12, following the banks' initial announcement about Ecuador. "Oil production in the Amazon region presents very serious issues, and the best way to mitigate or eliminate them is by addressing the root cases," Valera added.

> **Indigenous people living in the Sacred Headwaters of the Amazon ... have called on banks to stop financing oil development..."**
>
> **— ING**

Petrobras Beats Estimates in Posting $5.34 Bn in Profit

Brazilian state oil company Petrobras on last week posted above-expectation profit of 31.14 billion reais ($5.34 billion) for the third quarter, Reuters reported. A Refinitiv poll had estimated profits well below that figure, at 20 billion reais. Petrobras' earnings before interest, taxes, depreciation and amortization, or EBITDA, reached 60.74 billion reais. One-off items drove the increase in net income, with divestments and a win in a major tax dispute helping as well, Reuters reported. The company earlier this year backtracked on a decision made at the beginning of the Covid-19 pandemic to revise down its long-term projections for Brent prices, which drove up the value of its assets. Without nonrecurring items, quarterly net income would have been 17.37 billion reais, Petrobras said. Just hours before the quarterly reports were made public, President Jair Bolsonaro blasted Petrobras, saying it was too profitable and would have to contribute more to society. "It should be a company that makes a profit that isn't so high as it has been lately," Bolsonaro said during his weekly live broadcast on social media, the wire service reported. The president has been involved in a spat with the company, twice this month floating the idea of privatizing it. Bolsonaro has expressed frustration that he is being blamed for fuel price increases that are part of company policy and which he has tried to stop. The president is facing strong political pressure over the high fuel prices, especially from truckers, who are among his most loyal supporters, The Rio Times reported. Truckers on Monday demonstrated against the high fuel prices, but they did not cause any major disruptions, the Infrastructure Ministry said, adding that no federal roads or ports were blocked, Reuters reported.

NEWS BRIEFS

Brazil's Ceará State Signs Deal With White Martins for Green Hydrogen Plant

The government of Brazilian state Ceará has signed a memorandum of understanding with White Martins, a subsidiary of multinational firm Linde, to build a green hydrogen plant within the Pecem industrial and port complex, Renewables Now reported Monday. The news came days after the Ceará government announced that European consortium Transhydrogen Alliance is looking into the development of a $2 billion green hydrogen project at Pecem. [Editor's note: See related **Q&A** in the March 19 issue of the Energy Advisor.]

Spain's Solarpack Secures 252 MWp of Solar Power in Colombia's Auction

Spanish solar energy company Solarpack has announced it had won power purchase agreements for two solar projects of a total of 252 megawatt-peak (MWp) in Colombia's renewables auction last week, Renewables Now reported. Solarpack is one of nine companies that won 15-year power purchase agreements in the tender. Solarpack said it had secured the contract at higher prices than the average weight of 155 Colombian pesos per kilowatt-hour.

Argentine Crude Output Hits All-Time Monthly Record in September

Argentina's crude production reached 532,566 barrels per day in September, the highest-ever monthly amount, according to a report by private firm Regional Investment Consulting, or Ricsa, MercoPress reported last week. The record production was driven by a 10 percent increase in output from the Vaca Muerta shale oil and gas formation, which is producing about 33 percent of the country's total, according to the report.

Ship agency Cargonave said in a statement that Monday's trucker protests were unlikely to gain traction because they lacked support from all trucker unions. The agency added that Brazil's largest ports were operating normally on Monday.

Ecuador's Oil Output to Surpass 580,000 bpd in 2022: Bermeo

Ecuador will produce more than 580,000 barrels per day (bpd) of oil next year, Energy Minister Juan Carlos Bermeo told Argus Media in an interview published last Friday. The minister said the government expects crude production to average at least 515,000 bpd this year, increasing to 583,000 bpd in 2022 following the Ishpingo heavy oil field's start of operations. "We expect 40,000 bpd of additional production compared with the July level of 486,000 bpd, bringing it to 526,000 bpd by December," Bermeo said. "We are doing everything we can to reach this target," he added. Through the first nine months of the year, the Andean nation produced 493,600 bpd, according to regulatory data, Argus Media reported. The government of President Guillermo Lasso, who took office in May, has set a goal of doubling output to one million bpd by the end of his four-year term. State oil company Petroecuador is expected to begin production at the Ishpingo field in the first quarter of next year, the oil minister said, adding that the field is expected to produce 67,000 bpd in 2022. Though the firm already has an environmental license for Ishpingo, it is facing opposition by environmental and Indigenous groups over the project, Argus Media reported. Bermeo also said the country is preparing to relaunch this month a tender to operate the Esmeraldas oil refinery. "Everything is ready, including the terms of reference and the model contract," he said, adding that what is pending is Lasso's final approval. The 110,000-bpd Esmeraldas refinery is the largest of three facilities run by Petroecuador. It is currently operating almost at full capacity, processing an average of 85,000 bpd from January to September 2021, a 21 percent increase from the same period a year earlier, according to company data, Argus Media reported. The state oil company last month modified the terms and conditions of oil transactions in a bid to offset the increasing difficulty for buyers to obtain letters of credit from banks and insurers that are prioritizing climate concerns. Among other moves, the company will now accept counterparties' requisite guarantees from domestic banks backed by a triple-A rated foreign bank, and it also expanded the list of international banks that are able to issue guarantees. "This measure was taken because of the difficulty in obtaining letters of credit from some international entities as a result of restrictions on the sale of crude from the Ecuadorean Amazon," Petroecuador said in a statement, Argus Media reported.

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into fuel price intervention are again on the table, this time emboldened by a more populist stance as he fights to retain support. A privatization of Petrobras, despite involving huge sums (market cap of $65 billion) and requiring lengthy legislative approvals, would theoretically free the company from meddling by the government, which now has a controlling equity interest. Unfortunately, privatization will not ensure an end to populist attempts to interfere with the company's autonomy. The best that the market can realistically hope for, in relation to government policy, is a continuation of the status quo, which would allow Petrobras to continue to raise fuel prices while remaining a prolific cash cow to appease stakeholders through rich dividend payments ($6 billion in the latest quarter) and high royalty and other payments at federal, state and local levels."

A **Gabrielle Trebat, managing director for Brazil and the Southern Cone at McLarty Associates:** "Rising fuel prices, driven by inflation due to increased government spending, has hit the working classes the hardest, fueling public discontent, with nearly 70 percent of Brazilians blaming the government for their loss in purchasing power. The rise in gas prices has heightened political pressure on President Bolsonaro, especially with former President Lula criticizing Petrobras' fuel price increase as benefiting U.S. shareholders at the expense of working-class Brazilians. Lula is currently leading in the polls for the 2022 presidential. Fuel-price increases have hurt Bolsonaro's popularity among one of his most loyal bases—truck drivers—putting him in a difficult position between addressing demands of his base versus those of his economic team concerned about implications of fuel-price intervention on markets and fiscal discipline. While this week's truckers' strike was less severe than anticipated, the election outlook increases risks of intervention as truckers grow impatient. So far, Bolsonaro appears inclined to address the issue through subsidies instead of intervention, having announced monthly diesel assistance payments to 750,000 truck drivers and floating the idea that the government could use the company's dividends to curb increases or privatize it to shift blame for future price increases. However, opposition parties strongly disagree with privatization, and Bolsonaro may want to avoid tackling such a controversial issue during the campaign, especially with an already crowded legislative agenda. Meanwhile, Bolsonaro has pressured governors to reduce state taxes on fuel. A change to fuel pricing would require legislation that some members of Congress are considering; however, lawmakers are also sensitive to potential market impact. Petrobras will likely

> **"The election outlook increases risks of intervention as truckers grow impatient."**
> **— Gabrielle Trebat**

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POWER SECTOR NEWS

Guyana Turning to Gas, Hydropower to Meet Demand

Guyana will seek to meet an expected upsurge in power demand by building a new gas-field plant and expanding the country's hydropower capacity in a step to reduce its dependence on fossil fuels for electricity, President Irfaan Ali said last week ahead of the United Nation's COP26 climate conference, Reuters reported. Power demand in the South American nation is expected to triple in the five years alongside high economic growth driven by the country's oil boom. The government's proposed thermoelectrical and hydropower projects are to supply electricity to people living along the country's coast, while solar power is envisioned to meet Indigenous communities' demand. "Cheaper electricity will be supplied, and that supply can increase fivefold with emissions staying essentially flat," Ali said in announcing the country's low-carbon initiative, the wire service reported. The government also plans to upgrade Guyana's transmission and distribution lines. The announcement comes as an ExxonMobil-led consortium ramps up production off Guyana's coast, where the company recently discovered nearly 10 billion barrels of recoverable oil resources, Reuters reported. The country is producing as many as 120,000 barrels per day (bpd), and it is expected to add another 220,000 bpd with a new production facility by the end of next year. By 2024, a third production facility is expected to boost output by an additional 220,000 bpd. Critics have blasted the oil project for potential environmental damages, including by calling Guyana a

> **"Cheaper electricity will be supplied, and that supply can increase fivefold with emissions staying essentially flat."**
> — Irfaan Ali

THE DIALOGUE CONTINUES

Will López Obrador's Energy Reforms Succeed in Mexico?

Q **Mexican President Andrés Manuel López Obrador on Sept. 30 sent lawmakers a bill that would guarantee 54 percent of the electricity market to state-owned utility Federal Electricity Commission, or CFE, a move he says would keep prices low for consumers and end special treatment for private power firms. The legislation would also reportedly reserve any future mining of lithium for the state as well as transfer independent energy regulators' functions to the CFE and the Energy Ministry. How likely is Mexico's Congress to approve the reform, and what would its main effects be on the country's power sector and for consumers in particular? Why is López Obrador pushing for the changes, and would the move strengthen the energy sector as he envisions? Could the changes lead to international arbitration against Mexico?**

A **Enrique Ochoa, former director of the CFE:** "If approved, this constitutional counter-reform would take Mexico's power sector 60 years into the past. It monopolizes the national power sector, as generation, dispatch, transmission, distribution, wholesale and power tariffs would be the sole responsibility of state-owned utility CFE. On enactment day, all existing private sector power contracts or permits would be canceled. This includes solar and wind farms built after public tenders following the 2013-14 energy reforms. Other affected investments are natural gas combined cycle plants, which are the byproduct of a power-sector legal reform in 1992. Overall, national and international investments worth $80 billion would be severely affected; some of which are financed by taxpayer-funded U.S. development banks. A transition phase would begin during which the CFE would own at least 54 percent of power generated, while as much as 46 percent would be power that private plants generate and sell exclusively to the CFE under new contracts. The wording of the Constitution could allow the CFE to generate 100 percent of the nation's power. An additional consequence of the counter-reform is the increase of dirty power, as CFE will need to burn more coal, fuel oil and diesel to meet demand. Green power would be substantially reduced. Therefore, generation costs and carbon-dioxide emissions would increase. The government has been consistent in its first three years, trying to roll back the energy reform passed during the previous administration. It has become more of an ideological debate than an economic one. Congress will discuss the proposal between Nov. 15 and Dec. 15. The current administration will push other political parties to join it in the vote. It requires a two-thirds majority in both houses of Congress, but Morena and its allies have only 55 percent. It is highly unlikely that the reform would strengthen Mexico's power sector. Despite the nationalistic rhetoric, CFE has experienced three years of real budget decrease. Having the responsibility to invest in all activities of the power sector, under a tight budget, is problematic to say the least. International arbitration will be a potential action from affected investors; the counter-reform violates several chapters of the USMCA, and the reforms would severely hinder Mexico's ability to comply with its Paris Agreement goals."

EDITOR'S NOTE: More commentary on this topic appears in the Q&A of Oct. 22 issue of the Energy Advisor.

NEWS BRIEFS

Mexican Judge Orders Jailing of Former Pemex Chief Executive Lozoya

A judge in Mexico on Wednesday ordered the former head of Mexican state oil company Pemex to jail as his case is decided, a year after he was extradited from Spain on corruption charges, the Associated Press reported. Emilio Lozoya led Pemex under former President Enrique Peña Nieto, who was in power from 2012 to 2018. Lozoya provided testimony about bribery and corruption involving legislators and former administration officials.

Commodities Traders File Suit Against Brazilian Coffee Producers

Commodities traders including Louis Dreyfus, Olam and Volcafe are filing suit against hundreds of Brazilian coffee farmers who did not deliver on pre-agreed sales, exposing the merchants to losses, Reuters reported today, citing sources and documents. A 60 percent price surge this year has prompted some farmers to default on sales, affecting coffee supply that was already being disrupted by shipping delays and reduced availability of labor, according to the report. Farmers are reportedly defaulting on pre-agreed sales in a bid to re-sell the coffee at current higher prices.

Chilean Presidential Candidate Boric Tests Positive for Covid-19

Center-left Chilean presidential candidate Gabriel Boric said Wednesday that he has tested positive for Covid-19 and would self-isolate, Reuters reported. The announcement came less than three weeks before the country's election. Boric is running just behind far-right candidate José Antonio Kast in recent polls, and surveys indicate the two could face each other in a runoff in December.

"ticking carbon bomb," Argus Media reported. Guyanese activists filed suit against the project earlier this year over environmental concerns.

POLITICAL NEWS

U.S. Congress Passes Measure to Increase Pressure on Ortega

The U.S. House of Representatives on Wednesday approved legislation, which the Senate previously passed, to increase pressure on Nicaraguan President Daniel Ortega amid his widespread crackdown on the country's opposition, Agence France-Presse reported. The House passed the legislation, known as the Renacer Act, in an overwhelming vote of 387-35 with strong bipartisan support. The Senate approved the measure in August and passed amendments to it on Monday. The bill now goes to President Joe Biden for his signature. The Renacer Act calls for coordination with Canada, the European Union and Latin American and Caribbean countries on imposing sanctions against people obstructing free elections in Nicaragua and also against those committing human rights abuses in the Central American country, AFP reported. It also broadens supervision of loans to Nicaragua from international financial institutions and calls for reviewing Nicaragua's participation in the free-trade agreement involving the United States, Central America and the Dominican Republic. Also, the legislation adds Nicaragua to a list of countries subject to visa restrictions, and it requires additional intelligence reports on activities of the Russian government in Nicaragua, including reports on sales of Russian military equipment to Nicaragua, AFP reported. The U.S. Congress' approval of the legislation came just ahead of Nicaragua's planned presidential election on Sunday. Ortega is running for a fourth consecutive term, and his government since late May has pursued and imprisoned or forced into exile nearly any potential candidate who could pose a serious challenge to him. "With Ortega and [First Lady and Vice President Rosario] Murillo there is no future for Nicaragua; rather they regressed by rejecting the path of democracy," Lucía Pineda Ubau, journalist at 100% Noticias in Nicaragua, told the daily Latin America Advisor before the House of Representatives' passage of the Renacer Act. "They bet on repression to sustain power." Congress' passage of the legislation also came as a group of human rights organizations, including Amnesty International and Human Rights Watch, condemned Sunday's planned elections, saying they "do not guarantee human rights." The human rights groups cited an atmosphere of repression, forced disappearances and restrictions on civil and political rights, AFP reported.

ECONOMIC NEWS

Four Latin American Countries to Join Marine Reserves

Four Latin American countries on Tuesday announced the creation of a new initiative that will join their marine reserves in the Pacific Ocean into one interconnected protected area, The Guardian reported. Through the Eastern Tropical Pacific Marine Corridor (CMAR) initiative, Panama, Ecuador, Colombia and Costa Rica will join their protected territorial waters to create a vast area of more than 500,000 square kilometers (200,000 square miles) that would be free from fishing. The countries' marine reserves in the area together make one of the world's most important migratory routes for sea turtles, whales, sharks and rays. The move comes amid growing pressure to protect rare marine species and commercial fishing populations against foreign fishing fleets that hurt the region's marine biodiversity, as well as to thwart illegal, underreported and unregulated fishing by local communities, The Guardian reported. The countries' joint announcement came as world leaders are convening in Glasgow this week for the U.N. COP26 climate conference. Notably, neither Brazilian President Jair Bolsonaro nor Mexican President Andrés Manuel López Obrador attended the conference.

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continue readjusting fuel prices until the elections, but the risks of intervention will grow if the economic scenario deteriorates and social demands increase."

A **Mark Langevin, senior advisor to Horizon Client Access:** "President Jair Bolsonaro is sagging in the polls as food and fuel prices rise, casting greater doubt over his political future. Petrobras' recent round of wholesale gasoline and diesel price increases coupled with the news of higher-than-expected third quarter earnings prompted Bolsonaro to exhort that the company was 'too profitable' and that its privatization would lead to lower fuel prices. Stockholders are happy, but Brazilian motorists and truckers are increasingly upset with prices at the pump and demand government action. In response, the National Finance Policy Council (Confaz) approved a resolution that freezes the nominal level of federal- and state-collected value-added tax (ICMS) on fuels for 90 days, from Nov. 1 to Jan. 31, 2022. While the measure does not prevent future fuel price hikes, it will partially mitigate the impact on motorists' pocketbooks. In a similar move, the Chamber of Deputies passed legislation that would establish a fixed nominal value (based on the prior 12-month average price) for the ICMS on fuels for a year-long period. The 11/20 bill is under consideration in the Senate, but a growing number of governors oppose limiting this recurrent revenue stream during the fiscal fallout of Covid-19. The overall push to control fuel prices has further disrupted Petrobras' troubled efforts to tender several of its refineries and deepened the political divide between the president and the current Petrobras management team, led by Bolsonaro-loyalist Joachim Silva e Luna, who has refused to attend to the president's political imperative. Earlier this year, Bolsonaro sacked the last Petrobras CEO over the pricing issue and could remove Silva e Luna in the coming months if prices continue to rise and the probability of his re-election falls."

> **"Bolsonaro ... could remove Silva e Luna in the coming months if prices continue to rise..."**
>
> **— Mark Langevin**

[The Embassy of Brazil in Washington declined to comment for this issue of the Energy Advisor.]

Advisor Video

Technology's Role in Latin America's Economic Recovery

A Latin America Advisor interview with Karim Lesina, Chief External Affairs Officer at Millicom

PLAY

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