LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Tuesday, January 9, 2024

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THEDIALOGUE

FEATURED Q&A

Is Colombia's Ecopetrol Investing in the Right Areas?

Colombian state oil company Ecopetrol is expecting to invest as much as $6.7 billion this year. The company's Barrancabermeja refinery is pictured. // File Photo: Ecopetrol.

Q Colombian state oil company Ecopetrol in late November announced that it will invest between $5.7 billion and $6.7 billion and produce as much as 730,000 barrels of oil equivalent per day this year. Most of the spending will go toward oil production, though the company said it will use 42 percent of its expenditures for energy transition plans. What does the spending plan say about Ecopetrol's priorities? Is the company putting its investments into the right areas? To what extent does Ecopetrol's spending plan advance or hold back President Gustavo Petro's energy transition plans?

A Cecilia Aguillon, nonresident fellow at the Institute of the Americas: "Ecopetrol's 2024 investment plan shows that the company wants to jog rather than sprint toward decarbonization. The plan could be seen as 'the glass half empty' for climate. By assigning 42 percent of its expenditure to energy transition investments and the rest to growing its oil production, the company has made it clear that its priorities are short term profitability and shareholders' earnings. Given Colombia's economic challenges and the volatility of global fuel prices, it is understandable that Ecopetrol would prioritize investing in its profit-making fossil fuel business while shortchanging decarbonization efforts. The plan could also be seen as 'the glass half full' (42 percent full) for climate as it does call for investment growth in energy transition projects. However, this share of the budget also includes expenditures in natural gas supplies since Ecopetrol sees it as a bridge toward decarbonization, to the dismay of many environmentalists. To be fair, the company has been investing in renewable technologies for years

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TODAY'S NEWS

POLITICAL

Riots Erupt at Ecuadorean Jails After Gang Leader Disappears

Riots erupted in at least six prisons in Ecuador on Monday, a day after a notorious gang leader vanished from his cell in a penitentiary in Guayaquil.

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ECONOMIC

Cuba Increasing Fuel Prices by More Than 500%

Cuba's government on Monday announced a 500 percent increase in the price of fuel, hiking the cost of a liter of gasoline from 25 pesos ($0.20) to 132 pesos. The communist nation is mired in a deep economic crisis.

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POLITICAL

Guatemala's Arévalo Names Cabinet Members

Guatemalan President-elect Bernardo Arévalo announced his cabinet nominations on Monday, naming an equal number of men and women to ministerial posts.

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Arévalo // File Photo: Guatemalan Government

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POLITICAL NEWS

Riots Erupt at Ecuador Jails After Gang Boss Vanishes

Riots erupted in at least six prisons in Ecuador after a notorious gang leader vanished from the maximum-security wing of a jail in Guayaquil, BBC News reported today. Inmates have taken several prison guards hostage in some of the facilities and have threatened to kill them if the government deploys soldiers to take back control of the prisons, according to the report. President Daniel Noboa announced Monday that he had declared a 60-day state of emergency. "I have just signed a state of emergency decree so that the armed forces have all the political and legal support for their actions," said Noboa, Reuters reported. "The time is over when drug trafficking convicts, hitmen and organized crime dictate to the government what to do," he added. The riots and Noboa's state of emergency followed Sunday's disappearance of Los Choneros gang leader José Adolfo Macías Villamar, better known as "Fito." Macías was sentenced in 2011 to 34 years in prison for crimes including murder and drug trafficking. A government spokesman said Macías had learned that he was about to be transferred out of the La Regional prison, where he had a spacious cell that was decorated with various murals. Authorities have detained two prison guards on suspicion of helping him to escape. [Editor's note: See related **Q&A** in the Nov. 17 issue of the Advisor.]

Guatemala's Arévalo Names Officials to Cabinet Posts

Guatemalan President-elect Bernardo Arévalo on Monday announced his cabinet nominations ahead of his upcoming inauguration this Sunday, the Associated Press reported. Arévalo chose an equal number of men and women for posts in his cabinet—a first in the country's history—and notably appointed some young people from outside his party to important posts, the AP reported. Among the cabinet picks are also older political stalwarts such as career diplomat Carlos Ramiro Martínez, who will head the foreign affairs ministry and previously served as deputy foreign minister under the outgoing administration of President Alejandro Giammattei, the AP reported. Francisco Jiménez Irungaray is Arévalo's choice for his interior minister; he held the same position in the administration of former President Álvaro Colóm and was accused of corruption by a United Nations anti-corruption mission, although those allegations were later dismissed. Political analyst Cristhians Castillo of San Carlos University in Guatemala City told the AP that "even though this cabinet has many attributes, it shows that the Seed party, being a young party, has to give its officials to external sectors." Arévalo has faced opposition to his presidency, with the attorney general's office opening investigations into his conduct and challenging the results of the election. Arévalo promised Monday that nothing would prevent his inauguration, AFP reported. The president-elect denounced what he called a "slow-motion coup d'etat" and highlighted how the nation's Supreme Electoral Tribunal recognized the election as "validated, formalized and unchangeable," AFP reported.

ECONOMIC NEWS

Cuba Increasing Fuel Prices by More Than 500 Percent

Cuba's government on Monday announced a 500 percent increase in the price of fuel, hiking the cost of a liter of gasoline from 25 pesos ($0.20) to 132 pesos, BBC News reported. The announcement came as the island nation is grappling with a severe economic crisis and shortages of basic goods. Cuban Finance Minister Vladimir Regueiro said the price of diesel and other fuels would be similarly increased. Also, large consumers in residential areas will

NEWS BRIEFS

Haitian Judge Issues Arrest Warrants for 30 Politicians

A judge in Haiti has issued arrest warrants for over 30 government officials and other politicians accused of corruption, including former presidents and prime ministers, the Associated Press reported Monday. Notable figures accused of corruption in the warrants include former prime ministers Jean-Michel Lapin, Evans Paul, Laurent Lamothe and Jean-Henry Céant, along with former presidents Jocelerme Privert and Michel Martelly, the AP reported.

Lula Marks One-Year Anniversary of Riots

Brazilian officials gathered Monday to mark the one-year anniversary of the Jan. 8 riots, in which supporters of former President Jair Bolsonaro stormed the nation's presidential palace, Congress and Supreme Court in protest over Brazil's election, Reuters reported. President Luiz Inácio Lula da Silva joined other appointed officials and political leaders under a banner that read "Democracy Unshaken." Lula warned, "All those who financed, planned and executed the coup attempt must be exemplarily punished. There is no forgiveness for anyone who attacks democracy," Reuters reported.

Top U.S. Defense Official Visiting Guyana Amid Tensions With Venezuela

A top U.S. Defense Department official on Monday started a two-day visit to Guyana amid border tensions between the South American nation and neighboring Venezuela, Reuters reported, citing the U.S. Embassy in Guyana. The visit by Daniel P. Erikson, the U.S. deputy assistant secretary of defense for the Western Hemisphere, highlights the U.S. efforts toward "U.S.-Guyana bilateral defense and security partnership in support of regional stability" the embassy said.

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face a 25 percent increase in electricity prices, said Regueiro. "These measures are aimed at reviving our economy," Regueiro said on state television. In December, Economy Minister Alejandro Gil announced that the government would eliminate fuel subsidies. Cuba imports most of the fuel that it consumes. The country is also dependent on food imports. The country's production of food and supply of pharmaceuticals are down some 50 percent since 2018, Reuters reported in November.

BUSINESS NEWS

Energy Firms to Test CO2 Capture Technology in Brazil

A consortium of energy firms will test CO2 capture technology in an underwater oil field off the coast of Brazil, French energy company TotalEnergies announced Monday, Agence France-Presse reported. The test will take place in Brazil's Santos Basin at the Mero oil field, where Brazil's National Petroleum Agency estimates there are reserves of between eight and 12 billion barrels of crude. The Mero oilfield is operated by the Brazilian state-owned oil firm Petrobras in partnership with other foreign firms. Brazilian, British, French and Chinese energy companies will be collaborating in the test of high-pressure subsea separation (HISEP) technology, which seeks to reduce carbon dioxide emissions by separating CO2-laden natural gas from oil at the site of the undersea oil field, which is located at a depth of over 2,000 meters. TotalEnergies told AFP that the gas containing carbon dioxide would then be reinjected into the reservoir. TotalEnergies said the technology can reduce CO2 emissions while also "increasing the field production capacity," AFP reported. Nations agreed to transition away from fossil fuels in favor of renewable energy at the COP28 summit last month, and environmentalists have criticized HISEP technology as providing an excuse to continue oil production instead of focusing on phasing out fossil fuels.

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and plans to accelerate its deployment. Ecopetrol's president is even transitioning the company into a clean electricity producer and is looking at clean hydrogen as a future revenue source. By spending almost half of its budget on energy transition projects, Ecopetrol is making it clear that it is moving toward its 2050 decarbonization goals. Comparing the actions from the largest national oil companies in Latin America, Ecopetrol leads in energy transition efforts. Hopefully, its next investment plan will assign more than 50 percent toward decarbonization projects and sprint toward 100 percent soon after."

Theodore Kahn, senior analyst in the Global Risk Analysis team at Control Risks in Bogotá: "Ecopetrol's investment strategy for 2024 reflects a prudent balance between maintaining the company's core hydrocarbons business while also devoting significant resources to clean energy projects. In this sense, the plan represents continuity with the company's strategy in recent years (including before Gustavo Petro took office), which has put a growing focus on renewables, including a pilot project launched last year to produce green hydrogen based on solar power. It also underscores the crucial importance of Ecopetrol for Colombia's public finances, foreign exchange earnings and domestic energy security. The company accounts for more than 60 percent of oil production and will contribute an estimated $9.5 billion to state coffers over the next three years. As for Petro's energy transition plans, one is tempted to ask: what plans? The government has yet to provide clarity on key questions such as the future of oil and gas exploration contracts, its strategy to guarantee domestic gas supply amid falling reserves and its vision for promoting renewables. Instead, sector governance has been plagued by inconsistent statements, backtracking and changes at the helm of key public entities. Attempts to meddle in the electricity market, moreover, have spooked investors in renewable projects. A recently announced auction for new wind generation provides an opportunity for a reset, but the government will have to work to restore confidence. Deteriorating security conditions and tense relations with local communities have presented serious obstacles to energy projects—both in hydrocarbons and renewables—and will remain a key challenge for the sector in 2024."

John Padilla, managing director at IPD Latin America: "While President Petro continues to voraciously advocate for major global carbon dioxide reductions and climate change policies, his international public posturing contrasts with more mooted realities back home. Beyond Ecopetrol's 'TESG' strategy, a robust national energy transition plan remains anemic. No notable renewable energy capacity has been added under Petro's presidency, and companies like Enel and EdF Renewables have pulled out of key projects due to protracted permitting delays. Grupo Energía Bogotá's transmission line that will permit wind power generated in Guajira to be moved into the country's interior remains the focal point. An offshore wind bid round is also in the works. Yet, no new company or individual policies or incentives have been introduced to spur fundamental changes since the 2021 Energy Transition Law signed under former President Duque. And no diversification of the economy or government finances away from oil and gas and coal is being felt. Instead, oil and gas and mining are the only two productive

> **"No notable renewable energy capacity has been added under Petro's presidency.."**
>
> **—John Padilla**

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sectors that have been growing as the economy has stagnated over the past year. Hence, it is no surprise to see Ecopetrol's 2024 budget—around 90 percent of the 2023 budget—still heavily focused on exploration and production (62 percent of total, and 74 percent if you include refining and transport). And while its 2024 TESG investment will total $1.33 billion, only about $333 million is directed toward climate change, alternative energy use and air quality. That works out to about 5-6 percent of its budget, on par with international peers."

Andrés Duarte Pérez, equity research head at Corficolombiana: "Ecopetrol's investment plan assumes an exchange rate of 4,100 Colombian pesos to the U.S. dollar (8.9 percent less as compared to the 2023 plan, published a year ago) and a Brent average price of $75 per barrel (down 6.3 percent year-on-year), resulting in a 14.6 percent reduction of the price in Colombian pesos. I am using the figures in average annual terms of the announced ranges. Ecopetrol expects to obtain an EBITDA margin of around 38 percent (two percentage points less as compared to the previous plan) and a return on average capital employed of 9 percent (down one percentage point). We expect a capex execution of around 97 percent, above the 87.3 percent execution we estimate for the current year. The 9.3 percent year-on-year decrease (-0.4 percent in U.S. dollars) in total capex is congruent with the decline in foreign exchange and oil prices. Additionally, we expected changes in the various capex categories different from oil and gas exploration and production (upstream exploration and production). However, the 26.9 percent year-on-year decrease in upstream exploration and production (down 19.8 percent in dollars), a 28 percent decrease in oil (down 10.9 percent in dollars) and 22.1 percent decrease in gas (down 14.5 percent in dollars) seem too steep considering the increasing production costs, which increasingly depend on enhanced oil recovery techniques, the country's need to maintain self sufficiency in gas and oil and the urge to replace proven reserves, given that offshore gas will not contribute in the short or medium terms."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue ISSN 2163-7962

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