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FEATURED Q&A

What Does Castillo Envision for Peru's State Oil Company?

New President Pedro Castillo has vowed to expand state oil company Petroperú to help it compete with the private sector. // File Photo: Peruvian Government.

Q **In his first move as Peru's mines and energy minister, Iván Merino met with state oil company Petroperú's unions and vowed to aggressively expand the firm. The action came just days after President Pedro Castillo's inauguration speech, in which he pledged the company would become fully integrated and compete with the private sector under his government, though he did not detail how he would finance the changes. What role has Petroperú played in Peru's oil and gas sectors in recent years? How does Castillo envision the company changing during his administration, and what does he plan to do to achieve it? What will a stronger Petroperú mean for competition and the private sector, and what will increased state participation mean for the Andean nation's oil and gas outlook?**

A **Carlos Herrera Descalzi, dean of the College of Engineers of Peru:** "Petroperú serves roughly half of Peruvian demand for petroleum derivatives (250,000 barrels per day), especially in remote areas that private companies do not reach. In the 1990s, the privatization of Petroperú did not culminate in opposition from professional and union groups. Petroperú kept its refineries, the North Peruvian pipeline (which connects fields in the northern jungle to the coast) and its fuel storage facilities. It lost its fields and gas stations. Between 2004 and 2015, Congress issued laws that allow Petroperú to intervene in the entire hydrocarbons chain, but the laws' provisions have not materialized. In his inaugural speech, President Castillo proposed the vertical integration of Petroperú, relying on its own resources and without

Continued on page 3

TOP NEWS

RENEWABLES

Ecuador Updates 2031 Electricity Plan to Include New Renewables

Ecuador's energy ministry has updated the country's 2031 electricity plan to allow for the incorporation of around 1.4 gigawatts of nonconventional renewable energy capacity.

Page 2

OIL & GAS

PDVSA Gives Up DR Refinery in Debt Swap Deal

Venezuelan state oil firm PDVSA has given up the 49 percent stake it had in a Dominican refinery as part of a swap deal to restructure its debt.

Page 2

OIL & GAS

Brazil, Argentina in Talks on Vaca Muerta Pipeline

Brazil is in talks with Argentina to construct a billion-dollar pipeline connecting Argentina's massive Vaca Muerta shale oil and gas formation to southern Brazil, President Jair Bolsonaro said.

Page 2


Bolsonaro // File Photo: Brazilian Government.

OIL AND GAS NEWS

Brazil, Argentina in Talks for Gas Pipeline From Vaca Muerta

Brazil is in talks with Argentina to construct a billion-dollar pipeline connecting to Argentina's massive Vaca Muerta shale oil and gas formation, Brazilian President Jair Bolsonaro said last week, Reuters reported. In his weekly live broadcast to supporters on social media, Bolsonaro said the gas pipeline is one of the options his government is considering as a means to reduce the price of gas in Brazil. "We are in negotiations with Argentina. Gas from Vaca Muerta. It will happen one day, because it is not easy to start importing gas, you need pipelines," Bolsonaro said. Argentina's ambassador to Brazil, Daniel Scioli, last year proposed the idea of constructing a pipeline in discussions with Bolsonaro and Brazilian Mines and Energy Minister Bento Albuquerque, the wire service reported last year. "We are at the exploratory stage. Both governments want to go ahead with the project," an unnamed source at the Argentine embassy told Reuters then, adding that "there have already been some contacts with investors." The pipeline would be 1,430 kilometers long and connect the Vaca Muerta gas reserves in Argentina's Neuquén province to the countries' border at Uruguaiana in Brazil's Rio Grande do Sul state and then to the city of Porto Alegre, where it would connect to southern Brazil's gas distribution network. In an interview last year with Brazilian newspaper Valor Econômico, Scioli said the pipeline makes sense for both countries as Brazil is looking for cheaper gas while Argentina securing a large market such as Brazil could increase investor interest in Argentina to expand Vaca Muerta. "This is our binational project," Scioli told the newspaper. "Brazil needs the gas, and we need the markets and investments." Bolsonaro did not detail how the project, which is expected to take three years to construct, would be funded nor how advanced talks are. Experts have estimated that building the pipeline could cost around $3.7 billion for Argentina and $1.2 billion for Brazil's section, Reuters reported.

At Least Five Killed in Fire at Pemex Platform in Gulf

At least five people were killed in a fire at one of Mexican state oil company Pemex's offshore platforms in the Gulf of Mexico on Sunday, the Financial Times reported today. The 80-minute fire, which was set off by an explosion at Pemex's E-Ku-A2 platform, cut the company's production by about 420,000 barrels per day (bpd) due to a lack of natural gas to reinject into the crude fields, Reuters reported, citing a company document. "Right now, the platform is still not operating, so they can't continue to extract oil," Octavio Romero, the CEO of Pemex, said in a press conference on Monday. "The wells are closed. And we hope to resume production as soon as possible," he said, adding that the 125 wells that are currently offline at the platform should restart operations within "days." The fire was the second at a Pemex offshore platform in less than two months, prompting concern about the company's safety protocols, Reuters reported. "It was not a good weekend," Mexican President Andrés Manuel López Obrador said during his daily press conference on Monday, in reference to the deaths at the Pemex facility. The company said the fire did not occur because of a lack of investment in maintenance, pointing out that it recently increased the budget for those purposes, the Financial Times reported.

PDVSA Gives Up Dominican Refinery in Debt Swap Deal

Venezuelan state oil firm PDVSA has given up the 49 percent stake it had in a Dominican refinery as part of a swap deal, the Dominican Republic's finance ministry and Venezuela's oil minister said in separate statements Aug. 19, Reuters reported. As part of the bondholder

NEWS BRIEFS

Brazil Contracts 1.3 Billion Liters in Biodiesel Auction

Brazil contracted approximately 1.2 billion liters in the country's 81st biodiesel tender, the Petroleum, Natural Gas and Biofuels Agency, or ANP, said Tuesday, Renewables Now reported. The average price of 5.66 reais per liter in the auction brought a cumulative value of nearly 7.32 billion reais, or $1.37 billion. Forty-five producers offered approximately 1.53 billion liters of biodiesel in the auction, which is set to cover domestic supply starting Sept. 1 through Oct. 31.

Ecuador Updates 2031 Electricity Plan to Include New Renewable Capacity

Ecuador's Ministry of Energy and Nonrenewable Natural Resources has updated its 2031 electricity plan to 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 Monday. The additional capacity is expected to come from smaller hydropower stations as well as wind, solar and biomass-based plants, which are expected to bring about $2.2 billion in private capital.

Argentina's Vaca Muerta to Reach Production of 235,000 bpd by Year-End

Argentina's massive Vaca Muerta shale oil and gas formation will be producing 235,000 barrels per day (bpd) by the end of the year, the government of Neuquén, where it is located, said Monday, Ámbito reported. The announcement came after Vaca Muerta output reached 202,257 bpd in July, a 17-year high and a 27 percent increase from a year earlier amid pandemic-related restrictions. [Editor's note: See related Q&A in the Feb. 26 issue of the Energy Advisor.]

deal, PDVSA subsidiary PDV Caribe exchanged its shares in the Refidomsa refinery on the Dominican Republic's coast for bonds held by a firm called PATSA, a unit of Dominican cocoa company Grupo Rizek. The Dominican finance ministry described Grupo Rizek as a "facilitator" in the transaction as PDVSA struggles to restructure billions of dollars in debt that the oil firm and the Venezuelan government have defaulted on. PATSA then immediately resold the shares to the Dominican government, which already owned the remaining 51 percent stake in the refining facility, for $88.1 million. The figure is far below the $135 million that PDVSA paid for the minority stake in Refidomsa in 2010. However, the Venezuelan company has neither sent crude to the refinery nor received refined products from the plant for several years, according to the report. "With this transaction, the Dominican state once again controls 100 percent of the refinery's subscribed capital and has absolute control of this very important company within the state's assets," said Finance Minister Jochi Vicente, Dominican Today reported. He added that the government had been in contact with the U.S. Treasury's Office of Foreign Assets Control to ensure the deal did not violate U.S. sanctions against PDVSA, saying it received "no objection" from the U.S. administration. Venezuelan Oil Minister Tareck El Aissami said on Twitter that the deal helped Venezuela and PDVSA to reduce their outstanding debt, without providing details. "This transaction demonstrates the firm commitment of the Bolivarian Republic of Venezuela and PDVSA to comply with their contractual obligations, despite criminal external restrictions," El Aissami wrote, referring to U.S. sanctions.

Mexico Hasn't Issued New Pemex Trading Bans: Ministry

The Mexican government denied reports that it had issued new trading bans for state oil company Pemex after an interview with Energy Minister Rocío Nahle was published last week in which she said Vitol and Trafigura have been

FEATURED Q&A / Continued from page 1

public subsidies, with reasonable profits and without abusing the consumer. He hopes to be able to regulate transport prices and their impact on the costs of transportation fees and food. The plan assumes that the margins that Petroperú would obtain from participating in the upstream and its commercialization will allow lower end-prices. It also seeks Petroperú's participation in the natural gas sector. The proposal could be viable if it is carried out efficiently, with suitable personnel and consultations. The strengthening of Petroperú should not mean risk for its private competitors, neither in the commercialization aspect nor in the upstream subsector. To participate in upstream, the company will require partners that contribute technology and capital. If any risk exists for the private sector, it resides in the demands posed by social profitability."

A **Jaime E. Luyo, academic director of the PhD Energy Program at Peru's National University of Engineering:** "State-owned oil company Petroperú in recent years has basically developed refining and supplying activities of fuels and petroleum derivatives, contributing with a more competitive price offer than private agents in the wholesale market. However, it does not have its own service stations or taps, and it has no influence on final prices for the end consumer. President Pedro Castillo has announced that he will seek to strengthen Petroperú by progressively participating in the exploration and exploitation of Peruvian oil and natural gas fields, transportation, refining and in the final retail marketing of derivatives at affordable and fair prices, as well as with the upcoming inauguration of the new Talara Refinery. The new facility will have the capacity to process 95,000 barrels of crude oil per day as well as cleaner fuels, which will reduce imports. All of this will require an articulated effort with the company's workers and the communities surrounding the firm's operations, among other social actors. The plan will also need to consider the participation of private investment within the social profitability approach. In the energy sector, we have been promoting for years the reform and modernization of the electricity subsector, to avoid previous crises manifested in the distortion and abrupt rise in power prices in the wholesale market, with 50 percent dependence on thermoelectric generation and natural gas and one of the highest rates in the South American region, which currently affects millions of residential consumers and others in the regulated market. This reform will include improvements such as: design and implementation of a new electricity market model, with the transformation of the short-term wholesale market, including the capacity and complementary services markets and the response to demand; opening up competition in the retail market; introducing commercialization, distributed generation and the participation of renewable energy sources and storage, prosumers and smart grids; the electrification of transport; and making institutions in charge of the regulation and operation of the market more efficient, effective and independent. This reform, the electrification of the poorest rural and isolated localities, the massification of Camisea gas in the central and southern regions of the country—all within the concept of social inclusion—in addition to the reinforcement of Petroperú will all be a part of the current government's short- and medium-term plans for the energy sector."

A **Anthony Laub, founding partner of Laub & Quijandría:** "Petroperú refines and markets around 40 percent of all liquid hydrocarbons in Peru and operates the Talara Refinery, which is being revamped with an investment of more than $5.5 billion. It also 'operates' oil blocks 64 and 192, in association with private companies. Additionally, Petroperú operates the North Peruvian Pipeline, which allows the transportation of

Continued on page 6

barred from doing business with state-owned trading firm PMI until at least 2024 because of graft accusations, Argus Media reported. The Energy Ministry told the news service that state oil company Pemex will only work with firms that have not been accused of corruption but added that it has not formally issued any new bans. A formal prohibition would require the approval of the public sector ministry as well as a notice published in the country's official gazette. The clarification came after Bloomberg News on Aug. 20 published an interview with Nahle, in which she was cited as saying the ministry had banned trading with Dutch energy company Vitol and Switzerland-based Trafigura because of corruption allegations. "Those who are carrying out corruption shouldn't be in Mexico," Nahle said. "We are working to leave a country with good practices," she added. Vitol did not respond to Bloomberg News' request for comment, while Trafigura said it strongly rejected any allegation or suggestion of corruption. "We see no basis for new business to be suspended," Trafigura said. Pemex's commercial arm last month suspended business with Trafigura amid investigations into graft accusations. Vitol in May reached an agreement in the United States to pay nearly $164 million to settle charges of participation in a million-dollar bribery scheme in Mexico, Brazil and Ecuador. Mexico has also announced that it will launch a separate investigation into Vitol's operations in the country.

POLITICAL NEWS

Brazil's Bolsonaro Seeks Impeachment of High Court Justice

Brazilian President Jair Bolsonaro on Aug. 20 asked the country's Senate to impeach Supreme Court Justice Alexandre de Moraes, the Associated Press reported. Bolsonaro's attempt to remove Moraes from office came after the justice opened an investigation of Bolsonaro's release of a sealed federal police report to the media that Bolsonaro said supported his

ADVISOR Q&A

Does Peru Need Higher Taxes in the Mining Sector?

Q Peru's new finance minister, Pedro Francke, told Reuters Aug. 9 that the government can raise mining taxes without diminishing the sector's competitiveness. The government heavily relies on taxes from the mining sector, and President Pedro Castillo has vowed to implement more social programs to help the poor. How much could the government seek to raise mining taxes, and how much success will it have at getting such a hike through Congress? How strong are the Peruvian government's finances, and to what extent are mining tax increases needed for the country's fiscal stability? Is Francke right that increased taxes in the sector would not harm Peru's competitiveness and ability to attract investment?

A Ricardo Labó, mineral economist and former vice minister of mines of Peru: "Compared to previous taxation changes in Peru's mining sector, this time there is still uncertainty on when and how those changes will happen. Finance Minister Francke recently announced that he will send Congress a proposal before the end of the year, with approval expected next year. However, the government has released no details other than what was announced during the campaign: changing the mining royalty scheme, creating an additional tax or modifying the income tax rate. Peru's mining tax burden is already around 47-50 percent. Any change needs to be carefully assessed in terms of its impact on competitiveness, which does not only depend on taxation. If a proposal hasn't been made, how can the government be so sure that it won't affect competitiveness? So far, the government has been consistent in starting to apply what its platform mentions. In terms of taxation, the plan states that the government's share from mining should rise to 80 percent. The Perú Libre party's founder and secretary general has reconfirmed this in recent media interviews. However, the government hasn't approached mining companies to start any discussion about this topic. By this time

> **"For now, the increase in metals prices will help the government avoid more fiscal deficits, but the minerals markets are volatile..."**
>
> **— Ricardo Labó**

of the year in 2011, then-President Ollanta Humala's government had already delineated the structure of the royalties and the Special Mining Tax, and by September, Congress had already approved those changes. The current government has started to make announcements that will require it to increase its budget to fulfill its populist promises. For now, the increase in metals prices will help the government avoid more fiscal deficits, but the minerals markets are volatile, and high prices won't last forever. What the government really needs to focus on is improving the management of the mining taxes already being paid; the execution record of the regional governments' budgets is less than 60 percent, so giving them more resources won't solve the issues the country needs to address."

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

NEWS BRIEFS

Brazil's Cosan Enters Mining Sector Through Venture With Paulo Brito

Brazilian energy group Cosan has entered the mining sector in a joint venture with a unit of Paulo Brito Group, the controlling shareholder of Aura Minerals, to explore for and transport iron ore, Reuters reported Monday, citing a securities filing. Cosan said it will co-control the new company alongside Paulo Brito Group. Former Vale and CSN executive Juarez Saliba de Alevar is slated to head the new joint venture, which will own exploration rights for mining assets in three minerals projects.

Maúrtua Tapped as Peru's Foreign Minister

Peruvian President Pedro Castillo appointed career diplomat Óscar Maúrtua as the country's new foreign minister, replacing a leftist professor who resigned after severe criticism regarding comments he made years before taking the role, Reuters reported. Maúrtua, who previously served as foreign minister in the early 2000s under President Alejandro Toledo, was sworn in on Aug. 20.

Mexico, U.S. Begin Consultation Over Auto Sector Rules

Mexico on Aug. 20 launched a formal consultation process with the United States over the interpretation and application of rules outlined for the auto sector in the United States-Mexico-Canada Agreement, or USMCA, Reuters reported. Mexican Economy Minister Tatiana Clouthier said in a letter that the Mexican government noticed that the United States has a different interpretation of the rules of origin for vehicles than do Mexico and Canada, which have a more flexible reading of the provisions, according to the report. Clouthier said Mexico wants to avoid or resolve a possible dispute. The USMCA came into effect in 2020.

claim that Brazil's electronic voting system is susceptible to fraud, Reuters reported. Moraes also launched an investigation of Bolsonaro over his attacks on the country's Supreme Electoral Court, which has said Brazil's electronic voting system is accurate. Bolsonaro, who is expected to seek re-election next year, has raised doubts about the voting system as his disapproval rating has risen to the highest level of his presidency. A poll conducted this month by XP/Ipespe showed that 54 percent of Brazilians rated him as "bad" or "terrible," up from 52 percent last month, Bloomberg News reported Aug. 17. His popularity also fell to 23 percent of respondents who rated him "good" or "great," down from 25 percent in July. Bolsonaro has also previously clashed with Supreme Court justices since early in the Covid-19 pandemic, when the justices ruled that Brazilian governors and mayors, not the president, have the authority to impose restrictions in order to curb the spread of the novel coronavirus, the AP reported. "For a long time, the justices Alexandre de Moraes and Luís Roberto Barroso have gone beyond constitutional limits with actions," Bolsonaro wrote Aug. 14 in a posting on Twitter. In seeking Moraes' impeachment, Bolsonaro alleges that the justice has pursued investigations in a partisan and anti-democratic manner, the AP reported. Senate President Rodrigo Pacheco now must decide whether there is enough evidence against Moraes to open a probe that could lead to his impeachment. Pacheco told reporters, however, that he does not see grounds to impeach Moraes, Reuters reported. Brazil's Senate has never taken such action against a Supreme Court justice, and it is unlikely to do so now, Paulo Calmon, a political science professor at the University of Brasília, told the AP.

Haiti's National Police Deploy More Units to Protect Aid

Haiti's National Police force said Monday that it had dispatched more units south of Port-au-Prince in order to protect aid shipments destined for victims of the country's recent earthquake, the Associated Press reported. The National Police's announcement came a day after powerful gang leader Jimmy Cherizier, also known as "Barbecue," vowed to help communities hurt by the 7.2-magnitude quake, which struck on Aug. 14, killing more than 2,200 people. Gangs in the area have disrupted aid shipments, including by hijacking aid trucks, forcing aid to be sent to the area by planes and helicopters and delaying the delivery of food and supplies. Desperate residents have also looted trucks filled with food, The Wall Street Journal reported. Additionally, two physicians, including a surgeon treating victims of the earthquake, were kidnapped in Port-au-Prince, and members of a Colombian search-and-rescue team departed Haiti on Sunday over fears for their safety, the newspaper reported.

ECONOMIC NEWS

El Salvador Won't Mandate Use of Bitcoin: Bukele

Salvadoran President Nayib Bukele confirmed on Monday that the use of Bitcoin as legal tender in the country will not be mandatory. In a post on Twitter, Bukele said the government would not require anyone to receive the digital currency as a form of payment. "If someone wants to continue to carry cash, not receive a sign-on bonus, not win over customers who have Bitcoin, not grow their business and pay commission on remittances, they can continue to do so," Bukele wrote. The president did not reference Article 7 of the Bitcoin Law, which is set to come into effect in September and stipulates that all economic actors in El Salvador must accept Bitcoin as a form of payment when offered by the person acquiring goods and services, CoinDesk reported. Ernesto Sanabria, a spokesman for Bukele, told the website that "the president has been clear in saying that the use of Bitcoin is not mandatory," but he did not detail whether Article 7 would be eliminated or otherwise modified. Bukele has said the recognition of Bitcoin as legal tender will be groundbreaking for financial development and inclusion.

FEATURED Q&A / Continued from page 3

oil extracted from the jungle. The pipeline is more than 45 years old, carries only a fraction of the total volume of its design capacity and urgently requires improvements to guarantee its operation, with a needed investment of around $2 billion. Petroperú faces financial rigidities derived from the revamping of the Talara Refinery, as the current cost overruns initial estimates by well more than $3 billion, and economic results of recent years have been meager. It is unknown if the resources to be required for Petroperú to participate in new projects, such as the South Peruvian Gas Pipeline (SITGAS), the massification of natural gas (distribution through pipelines) or the incursion into the E&P of hydrocarbons, will be with the company's own funds, public resources, debt or public-private associations. Petroperú's participation in a liberalized market such as that of hydrocarbons is a threat to free competition, since it is used as a de facto price regulator and as an entity that responds to political needs and not to market conditions. It lacks a strong corporate governance. Increasing Petroperú's presence in the oil and gas chain does not guarantee a raise in production nor an improvement in efficient new infrastructure or a better service to final users. We fear that will be used mainly for political reasons.

A **Paola Carvajal, senior manager at Roland Berger:** "The integration of Petroperú into the upstream sector has been under discussion under different administrations before. Still, it did not happen because of limited economic and technical resources as well as strategic reasons. Peru has not been able to add new hydrocarbon reserves since 2013, and production has been declining. Oil production peaked at 175,000 barrels per day (bpd) in 2014 and fell yearly to reach 131,000 bpd in 2020. Similarly, natural gas reached 1.35 billion cubic feet (bcf) per day in 2016 and declined to 1.17 bcf last year. So, one of the critical questions without a clear answer is: what is the attractiveness for Petroperú to integrate upstream as a business opportunity? The global energy industry is under profound transformation. Peru, as a natural gas exporter, will need to face the challenges of the accelerated energy transition in several importing markets. In addition, Peru is in the process of assessing the national emission reduction target currently set at 40 percent by 2030. National oil companies such as Petroperú could play a critical role in accelerating the local market transformations, leveraging natural resources and pushing the development of new sustainable markets. The expansion of Petroperú will demand substantial economic resources in the short term; therefore, it is critical to ensure that the investment is used most strategically for supporting economic growth and the future of the Peruvian energy sector."

A **Álvaro Ríos, managing partner of Gas Energy Latin America:** "Without a doubt, Petroperú's role will expand, notably due to the characteristics of the new government and because Petroperú—as it is currently structured and because it is competitive—can do so. Undoubtedly, it will start upstream activities and will take on blocks that have expired or pending concessions, mainly in oil in the north of the country. We also believe that it will expand its activities in natural gas, and that will be a fundamental step to bring natural gas to the south of Peru as well as in its massification in that region in the next five to 10 years. At the same time, Petroperú will face a series of challenges to bring the Talara Refinery online as well as to find strategies to bring more life to the North Peruvian pipeline. Let's hope the new government leaves Petroperú with corporate management and does not politicize it."

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

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