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FEATURED Q&A

Will Bolivia Become South America's 'Energy Heart'?



Bolivian Hydrocarbon Minister Luis Sánchez touted the success of the country's energy sector last month, saying the nationalization of its natural resources were to thank. // File Photo: Bolivian Government.

Q Bolivian Hydrocarbon Minister Luís Sánchez last month lauded the country's achievements in the gas and hydrocarbon sectors, saying the country could become South America's "energy heart," thanks in part to the nationalization of its natural resources. Also last month, however, an official from Brazil's mines and energy ministry said his country wants to start a pilot project next year to explore the possibility of tapping unconventional oil and natural gas reservoirs in an effort to become more energy independent. Brazil is one of Bolivia's main natural gas importers. What is the outlook for Bolivia's energy sector, and has the nationalization of oil and gas been as successful as the government says? Will Brazil continue to be a main importer of Bolivian gas? How will Bolivia's energy sector fare as unconventional energy sources become more popular in Latin America?

A Iván Rebolledo, a managing partner at TerraNova Strategic Partners LLC, and president at the Bolivian-American Chamber of Commerce: "Indeed, Evo Morales' government was successful in forcefully renegotiating contracts with the hydrocarbons sector at the outset of his presidency, mistakenly referred to as nationalization. These actions led to very significant changes in royalty distribution and exponential gains for the Bolivian treasury, which in turn helped implement numerous cash transfer programs and other initiatives that helped in social development. According to recent World Bank figures, annual GDP growth has hovered around 4.8 percent since 2010, while extreme poverty has gone from 36 percent to 17 percent. Unfortunately, from that early period to the present, the government has

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TOP NEWS

OIL & GAS

Ecopetrol to Focus on Unconventional Deposits

Colombian state oil company Ecopetrol plans to focus its exploration efforts on unconventional deposits in the central and northern regions of the country.

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RENEWABLES

Colombian Gov't Issues 'Green Bond'

Colombia has issued a 200 billion Colombian peso green bond, which aims to support projects that will help mitigate the effects of climate change.

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OIL & GAS

Peña Nieto's Office Denies Campaign Received Bribes

Mexican President Enrique Peña Nieto's confidant and the former head of state oil company Pemex, Emilio Lozoya, allegedly received bribes from Odebrecht between 2012 and 2014, according to a statement from a former Odebrecht executive.

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Peña Nieto // File Photo: Mexican Government.

OIL & GAS SECTOR NEWS

Ecopetrol to Focus on Unconventional Deposits in Colombia

Colombian state oil company Ecopetrol plans to focus its exploration efforts on unconventional deposits in the central and northern regions of the country, CEO Juan Carlos Echeverry said, Reuters reported Monday. The plan is a bid to increase the country's reserves. Echeverry said the Magdalena Medio region appears to have significant reserves of light crude. The company will also continue to develop its mature fields, and it plans to explore offshore in the Caribbean, the United States, Mexico and Brazil. Ecopetrol is also evaluating companies for a possible purchase. Magdalena Medio is an area in Colombia where the La Luna and Tablazo geological formations converge, and it's possible that there are 30 billion barrels of new oil in that region that have



Echeverry // File Photo: Ecopetrol.

yet to be discovered, Echeverry said. "After the United States and Vaca Muerta in Argentina, our non-conventional play seems to be the most substantial in terms of oil in the Western Hemisphere," he said. He added that experts estimate that there are between 2.5 billion and 7 billion barrels of recoverable oil in the region. At the end of last year, Ecopetrol had approximately 1.6 billion barrels of oil equivalent in its reserves, which is equivalent to approximately 6.8 years of consumption. Ecopetrol produces more than 60 percent of Colombia's oil, and works in Brazil, Peru, the United States and Mexico, as well.

Petrobras Sees 68% Drop in Q2 Profit

Brazilian state-owned oil company Petrobras saw its second-quarter net profit drop by 68 percent year-over-year to 292 million reais, or about \$92.3 million, the company said Thursday in a filing, MarketWatch reported. Revenue was down 6.1 percent to 67 billion reais, due to lower fuel sales in the domestic market. The

Lower sales and a higher tax bill were partially to blame for low earnings.

company said lower sales and a higher tax bill were partially to blame for the drop in earnings. Chief Executive Officer Pedro Parente also pointed to "nonrecurring factors" that significantly affected the number, including rulings in tax cases that forced Petrobras to pay 6.23 billion reais. Petrobras also had to provision 818 million reais due to a dispute over an offshore drilling vessel. Aside from the nonrecurring factors, executives said the company saw a decent second-quarter result. Free cash flow was positive for the ninth-consecutive quarter, Parente said. Petrobras has total debt of \$113.84 billion as of June 30, down from \$115.12 billion at the end of the first quarter. Earnings before interest, taxes, depreciation and amortization decreased by 6.6 percent to 19.09 billion reais in the second quarter.

Peña Nieto's Office Denies Campaign Received Bribe Cash

The office of Mexican President Enrique Peña Nieto on Tuesday denied that bribes from Brazilian construction conglomerate Odebrecht were funneled into his 2012 presidential campaign, Reuters reported. Brazilian newspaper

NEWS BRIEFS

Vestas to Provide 424 MW Worth of Wind Turbines to Mexico's Reynosa Project

Danish wind turbine company Vestas Wind Systems won a contract from Mexican energy company Zuma Energía to provide 424 megawatts worth of wind turbines for the Reynosa wind park, which is set to be Mexico's largest wind energy project, Bloomberg reported Wednesday. Each of the turbines Vestas is providing will have 3.45 megawatts of capacity. The order also includes a 15-year service contract, and the delivery of the turbines is slated for this year, with commissioning next year.

Brazilian Prosecutors to Probe Sale of Argentine Unit of Petrobras

Brazilian prosecutors are planning to investigate the sale of the Argentine subsidiary of Brazilian state oil company Petrobras as part of the larger Operation Car Wash corruption probe, a lawyer representing some Petrobras shareholders said Wednesday, Reuters reported. Petrobras sold its 67.2 percent stake in Petrobras Argentina for \$892 million last year to Argentine power company Pampa Energía. The sale has already come under scrutiny, because Petrobras had bought the unit from energy conglomerate Pérez Companc in 2002 for the much higher price of \$1 billion, plus \$2 billion in debt.

Venezuela-Cuba Trade Falls 70% Since 2014

Trade between Cuba and Venezuela has fallen by 70 percent since 2014, due to Venezuela's inability to meet oil delivery contracts and purchase goods as the country struggles with low oil prices and an economic crisis, Reuters reported Tuesday. Merchandise trade with Venezuela fell from \$4.2 billion in 2015 to \$2.2 billion in 2016, the Cuban National Statistics Office said.

O Globo reported over the weekend that Peña Nieto's confidant and the former head of state oil company Pemex, Emilio Lozoya, had allegedly received bribes from Odebrecht between 2012 and 2014, citing a statement from a former Odebrecht executive. Civil society

“We will prove that Emilio Lozoya did not receive a single cent of those supposed \$10 million that they paid as a bribe.”

— Javier Coello Trejo

group Mexicans Against Corruption produced a further report, citing bank documents, alleging that payments had been made to Lozoya while he was serving as a senior official for Peña Nieto's campaign. “It is absurd, irresponsible and in bad faith to link the campaign of President Enrique Peña Nieto in 2012 with the investigations that are carried out today in the Odebrecht case,” the president's office said in a statement. The office added that Mexican electoral authorities had supervised campaign spending and had not detected any illegal activity. Last year, Odebrecht admitted it had paid \$10.5 million in bribes in Mexico, though the details of the bribes have not been made public. On Tuesday, lawmakers from the Morena political party, which was founded by leftist opposition presidential candidate Andrés Manuel López Obrador, filed a complaint with the Mexican attorney general's office, asking that Lozoya be investigated for the corruption allegations. “They gave him the chance to administer a state company, and he used it for illegal enrichment,” said Morena lawmaker Rocio Nahle. Lozoya has denied wrongdoing. Lozoya on Sunday wrote on Twitter that he was never corrupt, and seemed to suggest that the allegations were being made by others under investigation in the corruption scandal in exchange for lessening their own sentences. “We will prove that Emilio Lozoya did not receive a single cent of those supposed \$10 million that they paid as a bribe,” Lozoya's lawyer, Javier Coello Trejo, said Monday.

RENEWABLES NEWS

Colombian Gov't Issues ‘Green Bond’

Colombia has issued a 200 billion Colombian peso, or approximately \$66.7 million, green bond, which aims to support projects that will help mitigate the effects of climate change, Renewables Now reported Friday. Banco de Comercio Exterior de Colombia, or Bancoldex, issued the five-year bond, with technical support from the Inter-American Development

Bank. “We are adding efforts so that the countries of the region can raise private funds in key areas, while contributing to the development of their financial markets helping in the structuring of instruments in their own currencies,” said the head of the IDB's connectivity, markets and finance division, Juan Ketterer. Bancoldex said the funds raised from the bond issue will go to financing sustainable construction, cleaner production, energy efficiency and renewable energy projects. Pension funds, institutional investors, government entities, multilateral organizations, insurance companies, businesses and the public all have the right to purchase the bonds.

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been unsuccessful in attracting significant investment in the hydrocarbons or overall extractive industries sectors, mainly due to excessive country risk and political upheav-

“Morales is clearly interested in turning Bolivia into the energy hub of the Southern Cone.”

— Iván Rebolledo

al. Additionally, Bolivia has renounced most bilateral investment treaties, making most investors wary. Over the past two years, we have seen Petrobras, Total, and Gazprom announce multi-billion dollar exploration projects, as well as a few smaller independents with a robust risk appetite to operate. Morales is clearly interested in turning Bolivia into the energy hub of the Southern Cone, with particular interest in Brazil and Argentina. YPF, the state oil company, recently announced a \$30 billion investment plan to enhance its overall operations, vis-à-vis an increase in its current gas reserves from 10.5 trillion cubic feet to 18 trillion Tcf by 2025. This greater capacity requires expertise and foreign investment, as well as acumen in exploration, which is lacking at

YPFB. As Brazil has developed its own energy alternatives, including its pre-salt fields, it recently announced its intent to cut, by half, its purchase of Bolivian natural gas. Bolivia has been focusing on the unconventional energy market and recently created the ministry of energy as a stand-alone entity away from the ministry of hydrocarbons, which is focusing on renewables (wind, hydro, geo-thermal) and has attracted a few international partners and investors, such as Germany and France. However, much more has to be done in this sector, with a stronger commitment from the government.”

A Carlos Echazu, energy economist and lawyer: “The nationalization process of Bolivian oil and gas was very successful.

The government used the proceeds for new infrastructure projects, boosting investment and growth. In the last 10 years, a wide range of sectors—transportation, electricity, natural gas and telecommunications—have all benefited from higher public investment. Additionally, public resources obtained from exporting natural gas to Brazil and Argentina were used to finance cash transfers programs that reached poor households. High prices of oil and gas from 2005 to 2014 and an increase in taxes and royalties allowed the government to increase its income and finance these important projects

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POLITICAL NEWS

Pence Urges Latin American Countries to Split With N. Korea

U.S. Vice President Mike Pence on Wednesday urged the governments of Brazil, Peru, Chile and Mexico to break relations with North Korea, Reuters reported. "The U.S. places great importance on the ongoing diplomatic isolation of the Kim regime and we strongly urge Chile



Pence // File Photo: White House.

today, and we urge Brazil, Mexico and Peru to break all diplomatic and commercial ties to North Korea," Pence told reporters alongside President Michelle Bachelet in Santiago, one of Pence's stops on a visit to South and Central America. None of the countries Pence mentioned announced immediate plans to break ties with North Korea. Last week, U.S. President Donald Trump said North Korea would face "fire and fury" if it threatened the United States, prompting the Asian country to say it was considering a plan to fire missiles at Guam. North Korean leader Kim Jong Un later delayed a decision to fire at the U.S. territory.

At Least 37 Killed in Venezuela Prison Clashes

At least 37 prisoners were killed as inmates clashed with security forces in a small prison in Venezuela's southern Amazonas State, the state's governor said Wednesday, Reuters re-

ported. The clashes began Tuesday night in the prison in Puerto Ayacucho, the state capital, when fighting began between armed inmates and the jail guards, said Gov. Liborio Guarulla, the Associated Press reported. Inmates had seized control of the facility weeks ago, the governor said. He added that after the fighting erupted, security forces stormed the facility in an effort to restore order. "At midnight, special

forces showed up, and through the night we heard gunfire and explosions," said Guarulla. In addition to the inmates who were killed, 14 prison guards were also injured, according to the office of Venezuela's chief prosecutor. "There was a massacre," Guarulla said on Twitter, Reuters reported. "The morgue is totally overwhelmed," he said later in an interview. The death toll was the worst in a Venezuelan

ADVISOR Q&A

Why Is Ecuador's Rafael Correa Attacking His Successor's Policies?

Q **Ecuadorian President Lenín Moreno on Aug. 3 stripped power from Vice President Jorge Glas over corruption allegations that emerged in connection with the Odebrecht corruption scandal. Glas has denied wrongdoing and has accused Moreno of betraying former President Rafael Correa's trust and legacy. In recent weeks, Correa has grown increasingly critical of Moreno, attacking his economic policies and willingness to work with the opposition. How will the disputes among Ecuador's top politicians affect the country's political stability and Moreno's ability to legislate? What is behind Correa's disparaging comments against his one-time ally? How important is it for Moreno to have Correa's backing?**

A **Daniela Chacón Arias, city councilor of Quito:** "Many Ecuadoreans are welcoming President Moreno's stance against corruption and the actions he has taken to advance the investigations around the several corruption allegations of the Correa era. Most of the corruption scandals allegedly occurred under former President Correa's commission to Glas to manage the so-called 'strategic sectors,' such as oil, mining and hydroelectric power, among others. Stripping power from Glas was a bold but concordant move with Moreno's

declarations against corruption. All of the fingers point to Glas, as the president himself said, and therefore there is a need to proceed with the investigations and have the National Assembly and the prosecutor do their jobs, regardless of the high rank of the investigated official. Nonetheless, due to Correa's grip on power for 10 years, there is little trust that either branch of government will act on corruption allegations. Most of the public institutions are still led by former collaborators of Correa. Therefore, the internal disputes seem like a cry to retain power, and they could definitely affect the country's political stability and Moreno's government. The National Assembly is divided between Correa's and Moreno's allies, but the country does not know how those forces will play out, especially when it comes to making tough decisions, such as the impeachment of Glas or passing the legislation needed to overcome the economic crisis and the hyperpresidentialist model Correa created. This childish partisan dispute must come to an end so the country can focus on what is necessary and important."

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

NEWS BRIEFS

At Least Seven Killed as Attackers Storm Guatemala City Hospital

At least seven people were killed Wednesday when gunmen stormed into Guatemala City's Roosevelt Hospital, one of the country's largest medical facilities, in an attempt to free an imprisoned gang member, the Associated Press reported. Another 12 were wounded. The jailed gang member, who had been taken to the hospital for tests, vanished during the melee. Five members of the Mara Salvatrucha gang were arrested, according to the National Civil Police.

Peru's Kuczynski Asks Striking Teachers to Return to Work

Peruvian President Pedro Pablo Kuczynski on Wednesday asked striking school teachers to return to work and reject violence, after the teachers clashed with police while protesting for higher wages, Reuters reported. One of Kuczynski's campaign promises had been to raise the wages of school teachers, and the protests, some of which have been happening for more than two months, have contributed to the president's low approval rating.

Colombia's Economy Shows Better Growth Than Expected

Colombia's economy showed better-than-expected growth during the second quarter, due in part to a rebound in construction and retail output, the Financial Times reported Tuesday. The economy grew by 0.7 percent in the second quarter, compared to a 0.3 percent contraction in the first quarter. GDP grew 1.3 percent in the second quarter year-on-year, up from the 1.2 percent growth rate year-over-year in the first quarter. Construction was Colombia's best-performing sector during the second quarter.

prison since 2013, when a prison riot left 61 people dead, the AP reported. Venezuela has approximately 30 prisons, and in many of them, criminal gangs traffic in guns and drugs and also plan crimes to be committed outside the prisons. Many Venezuelan prisons suffer from overcrowding.

ECONOMIC NEWS

U.S., Mexico, Canada Begin NAFTA Renegotiation Talks

The renegotiation of the North American Free Trade Agreement, or NAFTA, began on Wednesday in Washington with representatives from U.S. President Donald Trump's administration delivering criticism to their Canadian and Mexican counterparts, saying the agreement has disadvantaged the United States, The New York Times reported. Behind closed doors, Trump administration negotiators sought concessions from the other two member states. "We feel that NAFTA has fundamentally failed many,



Lighthizer // File Photo: White House.

many Americans and needs major improvement," said U.S. Trade Representative Robert Lighthizer, who is leading the U.S. delegation of negotiators. The representatives from Canada and Mexico publicly emphasized their commitment to North American trade and touted the benefits of the agreement, but denied that the current agreement was targeted at disadvantaging the United States. The three countries have planned for a new round of negotiations every three weeks, with the goal of finishing changes to the deal by the end of the year. The United States and Mexico have national elec-

tions scheduled for next year, and it is not clear how the ruling parties of either country will fare in their respective national votes. During the opening news conference, Lighthizer said trade deficits would be of primary importance to the United States. Last year, the United States had a \$55.6 billion trade deficit with Mexico, which the Trump administration has said is evidence that Mexico is taking advantage of the United States in the trade deal. Lighthizer added that while trade has been more balanced with Canada, the United States has run a trade deficit with Canada too. Such deficits "can't continue," Lighthizer said.

Peruvian Finance Minister Lowers Growth Forecast

Peruvian Finance Minister Fernando Zavala on Monday revised down his growth expectations for 2018, saying the country's economy is likely to grow between only 3.8 and 4 percent next year, down from his April estimate of 4.5 percent, due to effects from flooding earlier this year as well as the fallout from a graft scandal, Reuters reported. He added that the government will make "all possible efforts" to ensure that the country's economy sees 2.8 percent growth by the end of this year. He projected that private investment would grow by 3.5 percent this year. In June, the economy likely grew by 3.6 percent, Zavala said. June's growth likely helped GDP increase by 2.4 percent in the second quarter of this year, he added, Peruvian state news agency Andina reported. Peru's primary sector GDP increased by 8.6 percent in June, whereas non-primary activities increased by 2 percent. Zavala attributed the GDP growth to greater business and consumer confidence. He added that if metal prices increase in the near future as projected, mining exploration and investment would likely increase as a result. In related news, Peruvian President Pedro Pablo Kuczynski saw his approval rating fall by five points to a record low in August as the economy continues to lag and as labor strikes break out across the country, Reuters reported Sunday. Kuczynski's approval rating fell to 29 percent in August from 34 percent in July.

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and social programs. Nevertheless, natural gas reserves have been depleted. About 55 percent of Bolivia's gas production goes to Brazil, 30 percent to Argentina and nearly 20 percent is for domestic consumption. Therefore, investment in exploration is key to keeping the pace of exports. Among the main challenges for new investment are the low prices of oil and gas. Given the international context, there is no guarantee that energy prices will rebound to the high levels observed before 2014. Low prices are also a threat for unconventional oil and gas production, because these technologies need higher prices to become profitable. Brazil may have to find other alternatives to reduce its dependence on gas imports. An alternative for Brazil, however, is to focus on energy security rather than energy independence; one possibility is to work with Bolivia to find new reserves. Petrobras could sign an exploration contract with YPF, and if successful, this endeavor would be favorable for both countries."

A **Mauricio Medinaceli, energy economist:** "The last official reserves certification was in 2013, and at that moment proved reserves reached 10.45 trillion cubic feet (Tcf), and currently annual consumption of reserves is between 0.8 Tcf and 0.9 Tcf, which means that the relation of reserves to production is, to say the least, fragile. The last 10 years in Bolivia were dedicated to exploring the reserves discovered before the so called 'nationalization' process, with little exploration investment. So, from the hydrocarbons perspective and with the current certified reserves, Bolivia at the moment doesn't have the muscle to become a secure supplier in the future. Regarding the so called 'nationalization' process, the only tangible thing that nationalization did was increase government participation in wellhead gross revenues from 50 percent to 65 percent. The rest is still the same as before 2006; Bolivia still exports more than 80 percent of its national natural gas produc-

tion, the internal market still has subsidized prices and the private operators still work in the country under a new exploration and production contract signed with state energy company YPF. Brazil will continue to be a main importer of Bolivian gas, but I believe with different conditions, against Bolivia's interests, regarding take-or-pay volume, prices and terms. In the future, Argentine gas will become a major competitor for Bolivian natural gas in particular, though for the moment Argentina still demands gas from Bolivia. But in 2016, Bolivia couldn't send the contractual volumes agreed."

A **Alvaro Rios, partner-director at Gas Energy Latin America:** "Bolivia has plenty of natural gas potential, and recently some new exploration by the private sector is beginning to take place that will produce results between 2018 and 2021, if geology is favorable, of course. This came as new incentives were introduced in 2016. However, Brazil is also launching a massive exploration campaign with strong incentives and a new more open and more competitive regulation framework for natural gas. This is not only for unconventional gas, but also for associated gas offshore and mainly pre-salt gas, for which Brazil has to solve infrastructure and carbon issues. But companies will, sooner or later, want to monetize gas molecules. With Argentina in the same process of giving incentives and new more competitive regulatory framework, mainly in Vaca Muerta, Bolivia's natural gas will have to compete not only with more gas produced regionally but also with more flexible LNG. Bolivia has a developed process and transportation infrastructure, and there is room for Bolivia in both markets. However, contracting processes will be more complex, contracts will be shorter-term and we believe they will be under different pricing structures."

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

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