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FEATURED Q&A

Will Vizcarra's Government Boost Peru's Oil Sector?



Peruvian President Martín Vizcarra last month swore in his new minister of mining and energy, Francisco Ísmodes (L-R). // Photo: Agencia Andina.

Q Peruvian President Martín Vizcarra on April 4 swore in Francisco Ísmodes, a former mining executive, as minister of mining and energy. Ísmodes has made an effort to reach out to disgruntled stakeholders affected by energy projects, amid concerns from fishermen in the Lambayeque region over plans to drill for oil in the area. Last September, villagers in the Peruvian Amazon temporarily shut down at least 50 oil wells over pollution concerns. What is the outlook for Peru's hydrocarbons sector under the Vizcarra administration? What does Ísmodes need to do in order to deal successfully with community groups opposed to oil and gas projects? How important is the energy sector to the development of Peru's economy, which is heavily dependent on the mining industry?

A Jose L. Valera, partner at Mayer Brown LLP in Houston: "Peru's crude oil production is at a long-term low of 45,000 barrels per day. Not a single oil contract was signed during the administration of former President Ollanta Humala. The reasons for low investment in hydrocarbons in Peru include extreme opposition from local communities (of the 50 oil contracts in effect, 22 have suspended operations due to force majeure arising out of social conflicts and opposition from local communities), a hydrocarbons law with uncompetitive terms and the disrepair of and sabotage to the oil pipeline connecting the Loreto jungle to the coast. Former President Pedro Pablo Kuczynski tried to address all these issues, but except for awarding contracts in offshore areas to Anadarko and Tullow (which artisanal fishermen are opposing), nothing much was done during his tenure. President

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TOP NEWS

OIL & GAS

Vista, Jaguar Announce Joint Mexico Projects

Vista Oil & Gas and Jaguar Exploration and Production announced a joint venture for three projects in Mexico, two in Tabasco State and one in Veracruz.

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RENEWABLES

Brazil's Biodiesel Production Reaches 10-Year High for March

The country's biodiesel production reached 452 million liters in March. It was the highest level for that month in a decade.

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POWER SECTOR

Sterlite Eyes \$4 Bn in Investments in Brazil by 2022

Sterlite Power is planning to invest \$4 billion in energy projects in Brazil over the next four years. The company is planning to establish its Latin America headquarters in São Paulo, said the company's chief executive officer, Pratik Agarwal.

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Agarwal // File Photo: Sterlite Power.

OIL AND GAS NEWS

Peruvian Gov't Cancels Contracts With Tullow Oil

Peru's government on Wednesday canceled the approval of five offshore oil contracts awarded to London-based Tullow Oil, Reuters reported. President Martín Vizcarra cited insufficient consultations with coastal residents for canceling the contracts, which were approved by his predecessor, Pedro Pablo Kuczynski, shortly before he resigned earlier this year under pressure over a corruption investigation. Locals and international environmental groups worried that potential pollution from drilling would have put fisheries and whale breeding grounds at risk. "We want a country that develops investments with peace and tranquility, and that's done with a good start to a project," Prime Minister César Villanueva told reporters. Despite Kuczynski's approval, the contracts themselves were never signed, state energy promoter Perupetro said, but Tullow executives told Reuters the decision was "deeply disappointing."

Vista, Jaguar Announce Venture on Mexico Projects

Vista Oil & Gas and Jaguar Exploration and Production on Tuesday announced a joint venture for three onshore oil projects, two in Tabasco State and one in Veracruz, Mexican daily newspaper El Financiero reported. Under the deal, Jaguar is selling a 50 percent stake in the three onshore blocks to Vista for \$37.5 million, plus additional payments based on the future price of oil, Bloomberg News reported. Vista will operate the two blocks that are already under production, while Jaguar will operate the third area, an exploratory block. Jaguar, an upstart Monterrey-based oil company that Mexico's Grupo Topaz owns, won the three projects at auctions last year, Reuters reported. Mexico's oil regulator, the National Hydrocarbons Com-

mission, still must approve the joint venture in order for it to take effect. Last year, Vista became the first publicly traded oil firm in Mexico, four years after the country's landmark energy reforms, which ended decades of monopoly control of the sector by state-owned energy company Pemex. Vista has also eyed assets in Brazil and elsewhere for possible acquisition.

Slumping Venezuela Output May Pressure Oil Prices

Experts are expecting higher oil prices due to factors including Sunday's re-election of President Nicolás Maduro in Venezuela, where crude production has been falling in the crisis-wracked country, CNBC reported Monday. Maduro's re-election, which opposition groups and foreign governments criticized as a sham, brought on a new wave of sanctions by the U.S. government that bars U.S. companies and citizens from buying debt or accounts receivable from Maduro's government, The New York Times reported. Venezuelan crude oil supply already plummeted an average of 50,000 barrels per day in April, according to the International Energy Agency's (IAE) oil market report, The Wall Street Journal reported. The IEA also cautioned of a continued decline as additional sanctions may send the Venezuelan oil sector "deeper into crisis," squeezing the government's budget even further. "The risk that you could lose such a big volume of crude oil exports from the market is what is keeping prices ticking higher," Amrita Sen, chief oil analyst at Energy Aspect, told CNBC.

Echo Energy Reports Discovery of Gas Column in Argentina

Echo Energy, a U.K.-based upstream oil and gas company focused in Latin America, reported the discovery of a substantial gas column in the first of four well explorations it will carry out in Argentina, World Oil reported on May

NEWS BRIEFS

Colombia's Oil Production Sees Increase in April as Projects Restart

Colombian production of crude oil averaged 864,781 barrels per day in April, according to the Ministry of Mining and Energy. Production was 0.7 percent higher as compared to the same month last year and is up 1 percent from production in March. The increase came after six projects across the country re-opened operations after a pause due to technical difficulties. Cumulatively, crude production surpassed expectations, amounting on average to 851,241 barrels per day.

Bomb Attack Ruptures Ecopetrol's Transandino Pipeline

Assailants attacked Ecopetrol's 190-mile-long Transandino pipeline, rupturing it, the Colombian state oil company said May 16 in a statement. The pipeline was not operating at the time of the bombing, the company said. Ecopetrol did not blame any particular illicit group for the explosion, though the National Liberation Army has been known to orchestrate such attacks in the past, according to Reuters. A similar attack in April forced Ecopetrol to halt some operations.

Talos Energy Presents Drilling Plans for Zama Well in Mexico

Houston-based oil and gas company Talos Energy presented its plans for appraisal drilling in its Zama well to the Mexican government on May 18, according to Oil & Gas Journal. The Zama-1 well is located on Block 7 in the Sureste basin off Mexico's Dos Bocas port. Talos, alongside Britain's Premier Oil and Mexico's Sierra Oil and Gas, discovered the well's oil-bearing potential in July of last year, Reuters reported.

18. The ELM-1004 exploration well was drilled into the Lower Tobifera formation located off Argentina's southeastern coast. "[We] look forward to the arrival of the completion rig and subsequent testing in June," Fiona MacAulay, Echo's CEO, said in a statement, Rigzone reported.

POWER SECTOR NEWS

Sterlite Power Plans \$4 Billion in Brazil Projects by 2022

Sterlite Power is looking to invest \$4 billion in various energy projects in Brazil by 2022, The Economic Times reported Saturday. The electricity firm had won orders to build transmission lines in the South American country last year and has already pledged \$1 billion in power projects there. "We are open to expanding this in three to four times over the next three to four years," Sterlite CEO Pratik Agarwal told Reuters in an interview. The India-based power company is also planning to establish its Latin America headquarters in São Paulo as a first step toward future expansion in Brazil and eventually to other countries in the region, including Argentina, Chile, Mexico and potentially Peru, Agarwal said in the same interview. Sterling is already looking for a local team and an experienced executive to take over Brazilian operations and its expansion plans.

RENEWABLES NEWS

Brazil's Biodiesel Output Reaches 10-Year High for March

Brazil's output of biodiesel in March reached the highest level recorded for that month in 10 years, amounting to 452 million liters, the Ministry of Mines and Energy said Tuesday. In the first quarter of this year, Brazil's biodiesel

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Vizcarra, who took office in March, was previously a regional governor and in that capacity was instrumental in getting the buy-in from local communities for the development of large mining projects. The hydrocarbons sector has the potential to contribute far more to the development of Peru's economy than it does today. Petroperu is reaching agreements with native communities to help protect the oil pipeline and is raising the funds for the needed repairs. Congress is currently debating a bill to amend the hydrocarbons law. What is key now is the ability on the part of the government to reconcile positions among government, industry and local communities in order that hydrocarbon projects may be carried out. Ísmodes has the right credentials and background. He has worked for years on different projects leading on good corporate governance, social responsibility, strategic planning and project administration. President Vizcarra understands what it takes to develop mining and hydrocarbon projects in Peru and his pick of Ísmodes is a very informed one."

A Luis Fernández Pérez, general manager of Gas Energy Latin America Peru: "The outlook for the hydrocarbons sector with the new government under Martín Vizcarra is the same as it was two years ago under PPK. There is a lot of expectation for changes in regulations and laws, and especially for political decisions to turn Peru into an attractive country for investment in oil and gas. In the last 10 years, social conflicts and the lack of authority are the main problems that affect Peru's hydrocarbons sector. The major challenges facing the new minister are adopting fiscal and regulatory policy changes to reactivate the hydrocarbons sector, and also to work more closely with the different political sectors and communities in general, in order to clearly and firmly explain the importance and benefits of the oil and gas industry for the country. Peru produces around 50,000 barrels and consumes 250,000

barrels per day. It is necessary to change this situation. It's absurd that a country with enormous oil production potential has to import most of its oil instead of investing in exploration and extraction. Mining is and will be the most important activity in Peru,

“It's absurd that a country with enormous oil production potential has to import most of its oil...”

— Luis Fernández Pérez

and it's clear that Minister Ísmodes was chosen to take advantage of his knowledge and experience in the sector. There were no big new projects in the last five years, and now that metal prices are rising, it is a good time to bring new investments to Peru. Oil and gas is less important than mining, but it could grow in importance if exploration activities are increased."

A César Gutiérrez, director of utilitiesperu.com in Lima: "The hydrocarbons sector's participation in Peru's economy can be summarized in three points: not self-sufficient, steadily declining in production and representative of a meager 2 percent of GDP. This trilogy has successively motivated governments in the last 18 years to try to reverse the situation. However, they have encountered various difficulties, including the opposition of organized groups, many of them with justified reasons, as in the case of Amazon communities where there are enormous environmental impacts as a result of irresponsible business operations and a complicit state that did not require remediation. There is also growing opposition to hydrocarbons production by artisanal fishermen, who reject operations on the Zócalo

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ADVISOR Q&A

What Does Sunday's Election Say About Venezuela's Future?

Q Venezuelan President Nicolás Maduro was declared the winner of the country's presidential election on Sunday in a vote that Maduro's critics said was rigged in his favor. The vote was held as the Andean nation is plagued by food and medicine shortages, hyperinflation, a skyrocketing murder rate and an outmigration crisis. Was the election indeed a sham as the opposition and international critics of the government claimed would be the case? To what extent has the vote strengthened Maduro's grip on power? What can Venezuelans expect now? What actions should international governments and NGOs take in order to help the crisis-wracked nation?

A Michael Shifter, president of the Inter-American Dialogue: "It is hard to take Venezuela's recent presidential election seriously. As expected, the contest was indeed a sham. There were myriad irregularities reported and violations of basic standards for free and fair elections. The Venezuelan opposition and much of the international community got it right. The high abstention rate undercuts Maduro's claim to legitimacy and can be construed as a win for the opposition. That said, at least for the time being, Maduro's grip on power appears to be

secure. He retains control of all key institutions, including the Electoral Council, courts and media, and so far it is difficult to discern cracks in the ruling clique and the military sufficiently significant to pose a threat to his rule. To be sure, with a collapsing economy, Maduro's position is unsustainable, and eventually there will be a transition. However, his capacity to hold on should not be underestimated. The opposition is in a tough spot and lacks effective leadership. Although the oil sector is in free fall, it still produces almost 1.5 million barrels a day, allowing the country to limp along. Venezuelans should be ready for continued deterioration and heightened repression. U.S. sanctions are likely to escalate, though to date there has been virtually no impact on the regime's behavior. The international community should stand united in condemning the Venezuelan government and intensify and sustain political and diplomatic pressure for the restoration of democratic rule. The Venezuela crisis should get priority attention at the OAS General Assembly in early June."

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

production amounted to 1.13 billion liters, a 32 percent increase as compared to the same quarter last year. The increase was driven mostly by a new legal requirement mandating a minimum of 10 percent of biodiesel to be mixed with all diesel fuel sold directly to consumers, known as B10, the Ministry of Mines and Energy said in a statement. The B10 requirement is expected to continue to boost biodiesel production in Brazil, bolstering

demand by an estimated one billion liters by the end of the year, in comparison to last year. Biodiesel consumption is expected to total 5.3 billion liters this year, Biodiesel Magazine reported in March. Last year, 4.29 billion liters of biodiesel were sold in Brazil, making the country one of biodiesel's largest consumer markets, second only to the United States, according to Renewables Now. Brazil aims to increase the B10 requirement in retail diesel

from 10 to 15 percent by 2025, AgriCensus reported earlier this year.

POLITICAL NEWS

U.S. Expels Two Venezuelan Envoys in Tit-for-Tat

The United States on Wednesday ordered the expulsion of two Venezuelan diplomats in a tit-for-tat measure that followed Venezuelan President Nicolás Maduro's order to expel two U.S. envoys from Caracas the day before, Agence France-Presse reported. The State Department said that it had given the chargé d'affaires at the Venezuelan Embassy in Washington and the deputy consul general at the Venezuelan consulate in Houston 48 hours to leave the United States, The Hill reported. On Tuesday, Maduro expelled the chargé d'affaires and deputy chief of mission at the U.S. Embassy in Caracas, accusing them of "conspiring" against his government. The State Department rejected those allegations. Maduro's move followed new U.S. sanctions on Venezuela and criticism for the United States and other critics calling Venezuela's presidential election on Sunday, which Maduro won, a sham.

Talks Break Down Between Nicaraguan Gov't, Opposition

Nicaraguan Cardinal Leopoldo Brenes announced on Wednesday that talks between the government and civic and opposition groups over weeks of deadly protests against President Daniel Ortega's administration would be adjourned indefinitely due to lack of progress, the Associated Press reported. The talks, which began last week and were mediated by the Roman Catholic Church, reached a breaking point when the opposition reportedly called for changes in electoral laws that moved up the next election and barred presidential re-election.

NEWS BRIEFS

At Least Three Killed in Collapse of Movie Theater in Northern Argentina

At least three people were killed Wednesday when an old movie theater collapsed in the city of Tucumán in northern Argentina, BBC News reported. The building was under renovations when it collapsed. Workers were inside the building at the time, and some were trapped beneath rubble, authorities said. Local residents reported hearing an explosion when the building caved in, but firefighters said they were still investigating the exact cause of the collapse.

Four Former Guatemalan Military Officers Sentenced for War Crimes

Guatemala's highest court on Wednesday sentenced four former military officers to prison over war crimes committed during the country's civil war, Guatemalan newspaper Prensa Libre reported. The high-ranking officers were accused of rape and torture against Emma Molina Theissen, and the forced disappearance of her brother, Marco Antonio Molina Theissen, who is still missing. A fifth officer was found not guilty due to lack of evidence. The prison sentences range from 33 to 58 years.

Paraguay Officially Moves Israeli Embassy to Jerusalem

President Horacio Cartes on Monday opened Paraguay's new embassy in Jerusalem in a ceremony with Israeli Prime Minister Benjamin Netanyahu, Haaretz reported. Paraguay is the third country to move its embassy from Tel Aviv to Jerusalem this year, following the United States and Guatemala. Paraguayan President-elect Mario Abdo Benítez, set to be inaugurated in August, is expected to re-evaluate the decision to relocate the embassy.

tion. "The agenda leads us to one point: a coup d'état, because it is a map to change the government outside of the constitution and the law," said Foreign Minister Dennis Moncada, who led the government delegation at the talks, the AP reported. The announcement came as a new wave of violence against demonstrators by state police swept the streets of León and Madriz, Nicaraguan daily La Prensa reported on Thursday. The National Police used tear gas against protesters maintaining roadblocks, defying at least one of the recommendations submitted by the Inter-American Commission on Human Rights (IACHR) on Monday, according to La Prensa. The IACHR concluded that President Daniel Ortega's government gravely violated human rights in a crackdown response to mass protests that began in April.

ECONOMIC NEWS

Mexican Economy Gains Strength in First Quarter

Mexico's economy saw a seasonally adjusted 1.1 percent uptick in gross domestic product in the first quarter of 2018, compared to the previous quarter, the National Statistics Institute announced Wednesday. The figure represents the largest increase in GDP that Mexico has experienced in a year and a half, according to The Wall Street Journal, though it still lags behind the 1.3 percent growth estimated by Bloomberg analysts earlier this year. The service sector continues to be the main driver of economic growth, expanding 1.1 percent from the previous quarter. Agricultural and industrial production grew by 0.9 percent each, compared to the last quarter of 2017. The results mark the sixth consecutive month of expansion for the industrial sector, which includes mining, gas and manufacturing, Mexican newspaper El Financiero reported. "In the future, we hope that the engines of growth will rebalance, with higher contributions from manufacturing exports and less from services and private consumption," Alberto Ramos, Latin America economist for Goldman Sachs, told El

Financiero on Wednesday. Ramos added that the Mexican economy has proved to be more robust than expected in the context of the NAFTA renegotiation and upcoming presidential elections in July.

Jamaica's Poverty Rate at Six-Year Low

Jamaican Finance Minister Nigel Clarke said Tuesday that the island's poverty rate had fallen to 17.1 percent, a six-year low, the Jamaica Gleaner reported. A combination of rising employment, higher agricultural output and lower consumer prices has brought the poverty rate down 19 percent since 2015, according to the report. Data from the Planning Institute of Jamaica, or PIOJ, indicated that poverty in rural Jamaica has fallen by 30 percent. "This is great news for the people of Jamaica, as it speaks to

...Economic opportunity is expanding for more and more of our fellow citizens."

— Nigel Clarke

the fact that economic opportunity is expanding for more and more of our fellow citizens," Clarke said, speaking in the House of Representatives. Jamaica's economy expanded 1.2 percent in the first three months of this year, with the mining and quarrying industry growing by 25.5 percent, according to preliminary data released by PIOJ on Tuesday. For fiscal year 2017-18, however, the growth rate was lower, expanding by just 0.8 percent. Bank of Jamaica Governor Brian Wynter said earlier this week that Jamaica's market interest rates are at record lows and "still falling," while the government's fiscal performance remains strong, the state-run Jamaica Information Service reported. Wynter said he expects a modest acceleration in economic growth ranging between 1.5 and 2.5 percent per quarter over the next two years, with inflation contained at the lower end of the bank's target of 4-6 percent.

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Continental tectonic plate. The government's defense is insufficient and contradictory. The executive branch gives unconvincing explanations, and Congress sides mainly with the opposition. In this context, Martín Vizcarra's government is trying to conciliate necessary investment with social protest. My prognosis for the development of the government's attempt to broker a deal is pessimistic. Discourse by government officials does not generate either ascendancy or credibility. Furthermore, there is not enough political strength to impose rationality once it becomes necessary. We will continue on the same course of being a land that is not very auspicious for investment, despite good intentions."

A **Emilio Zúñiga, vice president of Latin Pacific Capital in Lima:** "The minister of mining and energy faces a big challenge since it has been a long time since we have seen a decisive political posture on several big mining projects and the passage of needed legislation to attract investment in the hydrocarbons sector. This sector now looks more promising as oil prices have moved up to a higher price range, and Peru has lost quite a number of oil and gas contracts in recent

years due to a lack of interest by our authorities. The minister's experience in dealing with investors in the mining sector should make a difference. However, the investment policies for the mining and energy sectors are fragmented, as key issues related to investment permits are located outside the minister's authority. This is the case in the environmental ministry and with permits from regional governments. Additionally, social movements against mining and oil are very active, which requires a political response from the highest level. Both the president and the prime minister are quite aware of this fact and have been able to deal with that situation in their regions. Let's hope that this ability is conveyed directly at the local level, which is the first to benefit from these investments."

Editor's note: The commentaries above were submitted to the Energy Advisor before Peruvian President Martín Vizcarra's government on Wednesday canceled former President Pedro Pablo Kuczynski's approval of five offshore contracts to Tullow Oil.

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

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An Inter-American Dialogue Discussion with
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