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FEATURED Q&A

To What Extent Is Pemex Weighing on Mexico's Finances?



Mexican state oil company Pemex posted net profit of \$721 million in the second quarter, but the company's debt surpassed \$115 billion. // File Photo: Mexican Government.

Q Mexican state oil company Pemex last month posted a second-quarter net profit of \$721 million, with crude production up 3.8 percent as compared to the same period a year ago. However, the firm's financial debt surpassed \$115 billion at the end of the quarter, raising concerns among investors over the sustainability of its debt burden. What were the main factors driving Pemex's profits, as well as the company's production increase, in the second quarter, and will these positive trends continue? What is the Mexican government doing to address concerns over Pemex's debt sustainability? How much is the firm's financial situation weighing on Mexico's account balances and the country's broader economic recovery?

A Larry B. Pascal, member of the Energy Advisor board, and Natalia Cosio, both members of the International Practice Group at Haynes and Boone LLP: "Pemex's reported increased profits and production during the second quarter of the year may be attributed to several factors. Pemex benefited from a rise in international oil prices and reported an average price during this period of \$60.30 per barrel, an 87 percent increase over the prior 2020 period. It produced an average of 1.736 million barrels per day (bpd) during the second quarter, which represents an increase of 3.8 percent over same the period a year ago. Pemex attributes the increase to the inclusion of productive wells in the southwest marine, northern and southern regions of Mexico. Also, a couple of recently announced discoveries could improve Pemex's production once those projects go online. In March, Pemex

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OIL & GAS

Brazil to Lead Global Supply of Offshore Crude by 2025: Study

A new report by data and analytics company GlobalData suggests Brazil will supply around 23 percent of global offshore crude oil and condensate production by 2025.

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RENEWABLES

Colombia to Double Renewable Energy Capacity

Energy Minister Diego Mesa said the government expects to close 2021 with nearly twice the installed capacity for renewables.

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OIL & GAS

Guyana to Create Oil Commission by Year-End: Ali

Guyana will create a new authority by year-end to regulate oil revenues and promote the orderly and transparent management of the country's blooming hydrocarbons sector, President Irfaan Ali announced.

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Ali // File Photo: Guyanese Government.

OIL AND GAS NEWS

Guyana to Create Oil Commission in Upcoming Months

Guyana will create a new authority by year-end to regulate oil revenues and promote the orderly and transparent management and development of the country's blooming hydrocarbons sector, President Irfaan Ali said last week, Argus Media reported. The petroleum commission will help shield the sector from "undue political interference," Ali said. Guyana's energy department previously handled the country's oil sector until it was shut down until the end of last year, when the portfolio shifted to the natural resources ministry and the office of Vice President Bharrat Jagdeo. Among the new commission's early responsibilities will be the management of auctions involving international oil companies for offshore and onshore acreage, government officials told Argus Media. The commission will also handle the sale of Guyana's share of crude produced by the ExxonMobil-led consortium off the country's coast, the officials added. Exxon is currently producing 120,000 barrels per day (bpd) and expects output to surpass 800,000 bpd by 2025. An unnamed source told local newspaper Stabroek News that Guyana received some \$80 million for its last one-million-barrel share of oil, the highest sum to date. The country's account at the New York Federal Reserve Bank "has seen a deposit of \$79.6 million for the last oil sales and \$12 million in royalties," the source added. Using Brent crude oil prices as estimates, that would mean Guyana cashed slightly more than \$79 per barrel for the country's portion of the oil, the newspaper reported. Meanwhile, the country received bids from 15 different companies hoping to market the government's share of the crude, according to Guyana's National Procurement and Tender Board Administration website, Reuters reported. The government had discarded a previous tender and relaunched the process in July. While Guyana is entitled to a share of the oil produced by Exxon, it needs a partner to market that portion as the country

does not have a state oil company nor domestic refining capacity, the wire service reported. Among the countries that participated in the latest bid were Royal Dutch Shell and Chevron, as well as France's TotalEnergies and Norway's Equinor.

Brazil to Lead Global Supply of Offshore Crude by 2025: Study

Brazil is expected to supply around 23 percent, or the equivalent of 1.3 million barrels per day (bpd), of global offshore crude oil and condensate production by 2025, according to a new report released last week by GlobalData, a data and analytics company, WorldOil reported. The company's "Global Offshore Upstream Development Outlook, 2021-2025" estimates that planned and announced projects that are set to start operations between 2021 and 2025 in the South American nation will produce approximately 1.16 million bpd of crude, in addition to 169,000 bpd expected from announced early-stage projects that should get approval for development soon. A total of 29 crude oil projects are expected to come online in Brazil in the 2021-2025 period. Of the announced projects, the Bacalhau, Búzios V and Lula Oeste together are expected to contribute about 44 percent of the country's crude and condensate production in 2025, according to the study. "Brazil leads crude and condensate production from upcoming/new projects," Effuah Alleyne, senior oil and gas analyst at GlobalData, says in the report. "Brazil's prolific pre-salt layer in the Santos basin has produced a strong portfolio of offshore projects operated mainly by [state oil company] Petróleo Brasileiro." Petrobras, as the company is known, earlier this month posted higher-than-expected quarterly growth, swinging to a profit due in part to strong natural gas sales and higher international crude prices, Reuters reported. The company registered a quarterly net income of 42.855 billion reais (\$8.29 billion), compared to a loss in the same period of last year and much higher than the Refinitiv consensus estimate of 30.7 billion reais, the wire service reported.

NEWS BRIEFS

Cuban Oil Output to Fall for Seventh Consecutive Year: Government

Cuba's oil production is set to decline for the seventh consecutive year in 2021, worsening a fuel deficit that Venezuela, a close ally, has not been able to offset as it deals with years of mismanagement and U.S. sanctions on its oil sector, Argus Media reported last week. Cuba will produce around 44,700 barrels per day, a volume that is 6 percent lower than in 2020 and 23 percent lower than in 2014, according to official statistics and other government sources.

Peru's Energy Minister Wants to Strengthen State Firm, Expand Renewables

Peru's new energy minister, Iván Merino, wants to strengthen state oil company Petroperú, especially in the oil and natural gas sectors, as well as expand the use of renewable sources, Merino said in an Argus Media interview published Monday. "We are going to strengthen Petroperú," Merino said. "This means restructuring it, because it has many limitations. We have to fix it first if we are going to improve it," he added.

Brazil's Cemig Registers 4.8 GW of Wind, Solar Power for Aug. 24 Tender

Brazilian utility Cemig said it had registered nearly 4.8 gigawatts (GW) of wind and solar energy projects for the upcoming auction planned for Aug. 24, Renewables Now reported Monday. The company said it will award long-term power purchase agreements to start power supply from January 2024 through December 2038, for both sources. Cemig did not detail the amount of electricity it is hoping to contract but said in the tender notice that the new capacity will help its unit Cemig GT to cover demand in the southeast, midwest, south and northeast markets in Brazil.

Venezuela's Citgo Posts First Profit in Seven Quarters

Venezuelan state oil firm PDVSA's U.S. refiner, Citgo, on Monday posted its first profit in seven quarters, registering net income of \$3 million in the April-June period, the company said in a statement. Earnings before interest, taxes, depreciation and amortization, or EBITDA, reached \$214 million, and adjusted EBITDA was of \$208 million. It was the first time since the third quarter of 2019 that Citgo registered a profit. The company posted a \$5 million net loss in the second quarter of last year. Higher fuel exports in the second quarter helped offset weak margins as well as the impact of the nearly week-long shutdown of the Colonial Pipeline, which was taken offline in May following a cyberattack and affected operations at Citgo's Lake Charles, La., facility, Reuters reported. "Given the multiple challenges we have faced during 2020 and the first half of 2021, this return to profitability is particularly satisfying—especially given the slow margin recovery we are experiencing due to the lingering effects of the pandemic," Carlos Jordá, the company's president and CEO, said in the statement. Citgo has been under pressure since it lost access to Venezuelan oil due to U.S. sanctions on the Andean nation's government, as well as efforts from international bondholders to collect unpaid PDVSA debts.

RENEWABLES NEWS

Colombia to Double its Renewable Energy Capacity by Year-End

Colombia is set to double its renewable energy capacity by the end of the year, Energy Minister Diego Mesa said last week during an international congress on renewable energies, BNAmericas reported. He said the ministry expects

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announced the discovery of the Dzimpona 1 onshore field in Tabasco, with between 500 million and 600 million barrels of crude oil equivalent, mainly in the form of natural gas. President López Obrador campaigned on the platform of strengthening Pemex as a national priority. Hence, the Mexican government has responded by financially supporting Pemex—primarily in the form of a \$3.5 billion reduction in taxes and an injection of an additional \$6.5 billion. In July, Moody's downgraded Pemex's rating from 'Baa3' from 'Baa2.' Per Moody's, these rating actions are based on Pemex's high liquidity risk and increasing business risk and the expected short-term expenses while it increases refining capacity and production. It is difficult to assess the full impact on the national economy. However, a strengthening U.S. economy usually helps the Mexican economy."

A **David Shields, director general of Energía a Debate:** "Essentially, Pemex's finances and operations have not improved in any significant way, even though it might seem so, when comparing its results in the first half of 2021 results to a very depressed first half in 2020. Moody's recent decision to downgrade Pemex from Ba2 to Ba3, with a negative outlook, is a clear reflection of this. Pemex has the unconditional support of President López Obrador, who seems ready to give it a blank check to invest recklessly in another refinery (Deer Park, Tex.) and in an LPG distribution company (Gas Bienestar), both of which are potentially troubled, unprofitable businesses. This, in addition to the ongoing task of building from scratch the \$12 billion Dos Bocas refinery in Tabasco, which is set to become a white elephant, if it ever gets completed. Changing energy trends and climate-change priorities will ensure it never operates anywhere near full capacity. In the upstream, Pemex has shown no desire to seek help from the private sector. This is obvious from its insistence on

not allowing its partner Talos Energy from being the operator of the major Zama oilfield project. Ideologically, the government has made clear it will try to restore and strengthen Pemex's quasi-monopolistic status and

“The government has made clear it will try to restore and strengthen Pemex's quasi-monopolistic status...”

— David Shields

reduce the role of private investors in the energy industry. So, Pemex refuses to consider a role for existing or potential joint ventures and is severely in arrears in payments to its partners, contractors and suppliers. Such errors could end up having dire consequences not only for Pemex, but for the nation's finances going forward."

A **Víctor Rodríguez, professor at the National Autonomous University of Mexico:** "Pemex's situation is delicate and will continue to be so in the medium term. The positive results in the second quarter are circumstantial and not the product of structural changes—high international oil prices, capital contributions by the federal government and other less-relevant factors explain the profit of around \$3 billion in the exploration and production segment and of \$700 million for the entire business. However, the stars will not always be aligned for Pemex. Price volatility is pervasive, and government aid faces restrictions. Pemex Exploración y Producción has managed to halt a decline in production, but geological maturity does not allow for more. Pemex Transformación Industrial continues to be a source of losses despite big efforts to get out of the red, and no factors indicate this will change in the future. Although Dos Bocas and Deer Park operate efficiently and profitably, other refin-

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to close this year with nearly twice the installed capacity for renewable energy, which currently stands at 292 megawatts. Mesa added that, by next year, the government expects nonconventional renewable energy projects to have a total installed capacity of 2,500 megawatts. Mesa also said the country's energy transition has

Colombia has great potential for hydrogen use..."

— Natalia Gutiérrez

been based not only on solar and wind power projects, but also on other sources including biogas and hydrogen whose uses he said are incentivized by the new Energy Transition Law. Mesa announced earlier this year that the government would publish a detailed road map for the development of green and blue hydrogen in Colombia in September. "Colombia has great potential for hydrogen use, which will allow for cleaner energy and the sustainable use of coal and natural gas, in order to meet our climate goals," Natalia Gutiérrez, executive president of the Colombian Association of Electric Energy Generators, or Alcogen, told the Energy Advisor in a [Q&A](#) published July 30. However, challenges remain, as Jose Zapata, partner at Holland & Knight, pointed out in the same edition. "To the extent that Colombia can find a way of avoiding overregulating the industry as it develops and secure long-term stable ties with companies specialized in hydrogen development ... it would undoubtedly become a leader in this area," Zapata said. "This will require clarity in the rule of law, stable taxes and timely permitting," he added.

POLITICAL NEWS

Death Toll Surpasses 2,100 From Powerful Haiti Earthquake

The death toll from last Saturday's powerful earthquake that struck Haiti surpassed 2,100 as search crews discovered more bodies in the

rubble, the country's Office of Civil Protection said late Wednesday in a tweet. At last count, 2,189 people have been killed, 12,268 have been injured and 332 are reported missing, the office said, adding "Search and rescue operations continue!!" Additionally, at least 600,000 people need humanitarian assistance, and 135,000 families are displaced following the earthquake, Jerry Chandler, the head of Haiti's Civil Protection Agency, told Reuters. "Haiti is now on its knees," Prime Minister Ariel Henry said in a video address on Wednesday. "The earthquake that devastated a large part of the south of the country proves once again our limits, and how fragile we are." The United States is providing assistance, including the dispatch of the Navy Warship USS Arlington,

which carries more than 600 personnel and is due to arrive in Haiti on Friday, CBS News reported. The U.S. Coast Guard has rescued dozens of injured people and has delivered thousands of pounds of supplies to victims. "We have all kinds of rescue equipment," a Coast Guard worker told CBS News. "We have over 80 rescuers in this area." However, hospitals that were already dealing with Covid-19 patients are overwhelmed, forcing doctors to treat some patients outside. The poorest country in the Western Hemisphere, Haiti still has not completely recovered from a devastating 2010 earthquake that is believed to have killed more than 200,000 people. Tropical Storm Grace, which brought heavy winds and rain to the country earlier this week, has complicated

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Thursday, August 26
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NEWS BRIEFS

Hurricane Grace Rakes Mexico's Yucatán Peninsula

Hurricane Grace moved across Mexico's Yucatán Peninsula Thursday morning with 80 mile-per-hour winds, CBS Miami reported. As of 8 a.m. Eastern Time, Grace was 45 miles south-southeast of Valladolid. The storm is forecast to build strength in the Gulf of Mexico late Thursday through Friday and is likely to make a second landfall on the mainland coast of Mexico late Friday or early Saturday, according to the report. The storm dumped more than a dozen inches of rain in some countries of the Caribbean, leading to floods and mudslides.

Mexico's López Obrador Backs Central Bank's Interest-Rate Tightening

Mexican President Andrés Manuel López Obrador on Wednesday voiced support for the central bank's moves to raise interest rates, saying inflation "must be kept under control," Reuters reported. López Obrador had previously pushed the Bank of Mexico to focus more on growth than inflation threats, leading some analysts to worry about government interference with the independent central bank. However, the leftist leader on Wednesday criticized board member Gerardo Esquivel for his plan to allocate International Monetary Fund resources to pay off debt to save interest costs.

Chile's Economy Grows 18% in Second Quarter, Beating Expectations

Chile's economy grew 18.1 percent in the second quarter as compared to the same period last year, as government stimulus spending fueled retail sales, Bloomberg News reported Wednesday. Gross domestic product grew 1 percent in the second quarter as compared to the first, beating analysts' forecasts of 0.7 percent growth.

relief efforts after Saturday's earthquake, and the country is dealing with political instability following last month's assassination of President Jovenel Moise.

Interim Bolivian Gov't Persecuted Opponents: Report

Bolivia's interim government, which ruled from late 2019 to 2020, came to power without regard to constitutional rules for presidential succession and persecuted opponents with "systematic torture" and "summary executions," according to a new report by independent human rights experts, the Associated Press reported Tuesday. The study, which was commissioned by the Organization of American States and presented in La Paz on Tuesday, centered on the country's October 2019 presidential vote. Longtime former President Evo Morales won the election but was forced to resign following massive protests denouncing alleged fraud, claims that foreign electoral experts later questioned, the AP reported. Morales went into self-exile in November, and Senator Jeanine Áñez took over as interim president. The report, written by independent experts of the Inter-American Commission of Human Rights, or IACHR, found disproportionate use of force by security agents and negligence on the part of Áñez's government to prevent such abuses, CNN en Español reported. The report said 37 people on both sides of the conflict were killed between Sept. 1, 2019 and Dec. 31, 2019. One IACHR expert, Patricia Tappatá, described some incidents as "massacres."

Peru's Foreign Minister Béjar Steps Down

Peru's foreign affairs minister, Héctor Béjar, resigned Tuesday, less than a month after taking office amid criticism for comments he made about terrorism in the country 30 years ago, the Associated Press reported. The president's press office did not detail why Béjar

presented his resignation, but the opposition and some media have been blasting the former guerrilla member for saying that the Shining Path terrorist group was a creation of the U.S. Central Intelligence Agency. "I'm convinced, although I can't prove it, that the Shining Path was in large part created by the CIA and [other] intelligence services," Béjar said in the video, which was dated last year. [Editor's note: See [Q&A](#) on President Pedro Castillo's cabinet in the Aug. 12 issue of the Dialogue's daily Latin America Advisor.]

ECONOMIC NEWS

Brazil Income Tax Reform Unlikely to Pass: Deputy Speaker

An income tax reform that would include a 20 percent tax on company dividends is unlikely to pass because of wide opposition to it among Brazilians, said the deputy speaker of Brazil's Chamber of Deputies, Marcelo Ramos, Reuters reported Wednesday. "Everyone is against the bill. The airlines, agribusiness, industry, the financial market, civil construction. There is no way it can pass the chamber," he told the wire service. The legislation would have to be rewritten in order to win consensus, he said. President Jair Bolsonaro has shifted his focus to social welfare initiatives "not to help Brazilians, but for purely electoral reasons," Ramos told Reuters. "He has realized that is his last chance to get re-elected ... Austerity policies achieved with much sacrifice by the Brazilian people have been abandoned." Bolsonaro's press office did not immediately respond to a request for comment by the wire service. The lower chamber postponed a vote on the bill that had been scheduled for Tuesday, but the chamber's speaker, Arthur Lira, said it would not be shelved indefinitely because the country needs the reform. In May, Lira, Senate President Rodrigo Pacheco and Economy Minister Paulo Guedes reportedly struck a deal to attempt to pass a series of piecemeal changes to the country's tax system rather than taking on a large-scale reform.

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eries will continue to hinder the company's development. Pemex Logística is profitable, but its earnings are small compared to the group's financial challenges. The 'right to shared profit' rate has dropped to 54 percent, but the problem is not the rate, but rather a failed tax regime that forces Pemex to borrow and pay taxes while continuing operations. Long-term indebtedness has been stopped, but short-term borrowing is increasingly being used, so negative working capital continues to grow. The main source of income is gasoline sales, yet the company continues to lose markets as competition advances. Pemex still does not generate sufficient income to meet its financial obligations. A shock strategy is needed to clean up the relationship between Pemex and the public treasury and to reconfigure the company for a rebirth that is compatible with the energy transition."

A **Claudio Rodríguez Galan,** partner at **Holland & Knight LLP:** "The pandemic caused a decrease in global consumption of hydrocarbons and refined products across the globe. Now, with the increase of commercial and industrial activities, Pemex is seeing its revenues increase. Additionally, administrative changes by the Mexican Ministry of Energy, such as new asymmetric regulations, the cancellation of import permits

for hydrocarbons owned by private companies and the cancellation of permits by the Mexican Energy Regulatory Commission, imposed a burden on private participants, giving Pemex a competitive advantage. Moreover, the increase in production was driven by private companies' discoveries of new reservoirs with collaborative agreements that allow them to explore oil fields. According to the Mexican constitution, all new discoveries are turned over to the Mexican state. However, with no additional or new collaborative license agreements and the cancellation of oil rounds, this trend might not continue. Indeed, Pemex's financial debt will be a burden not only for the sustainability of future exploration projects, but for the firm itself. There are signs that the new minister of finance wants to take a different approach that will protect taxpayers' resources and increase opportunities for collaboration with the private sector. It remains to be seen if he can convince the president, Pemex and the Minister of Energy to follow this plan."

[Editor's note: The Energy Advisor asked Pemex officials for a commentary but received no response.]

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

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Advisor Video

Citigroup's Ernesto Revilla on Latin America's Economic Outlook

The Latin America Advisor interviewed Ernesto Revilla, head of Latin America economics at Citigroup, about the region's economic outlook.



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