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FEATURED Q&A

Will a New Refinery Boost Ecuador's Downstream Sector?



Former Ecuadorean President Rafael Correa's administration spent \$2.2 billion overhauling the Esmeraldas refinery (pictured above) "with not much to show for it," Jose L. Valera writes below. // File Photo: Ecuadorean Government.

Q Ecuador recently announced that it plans to launch an international bidding round to build a new refinery with a capacity to process 300,000 barrels of oil per day, as well as a concession for upgrading the Esmeraldas refinery, which has been partially shut down for maintenance since March 1. How important is the new refinery, and will it significantly increase Ecuador's oil production? Why has the Esmeraldas refinery been failing, and what can the government learn from past efforts to restore it? Is President Lenín Moreno's administration offering the correct and best incentives for foreign investment in the country's oil and gas sector?

A Jose L. Valera, member of the Energy Advisor board and partner at Mayer Brown: "The government is tying the construction of the new refinery to the improvements to the existing Esmeraldas refinery in order for it to be a more attractive investment for interested contractors. The 110,000-barrel per day (bpd) Esmeraldas has serious problems, and the government estimates that its repair will require an investment of about \$172 million. This is after the Correa administration spent \$2.2 billion overhauling the refinery, with not much to show for it. The new refinery, which can process 300,000 bpd, will require an investment of about \$6.5 billion, according to estimates. This is far better than Correa's plan to spend \$15.5 billion on the ill-fated Refinería del Pacífico (RdP) refinery in association with PDVSA. The new refinery will not have much bearing on oil production but will serve to reduce Ecuador's fuel imports, which cover half of local demand, and allow the country to export instead. It is also possible that

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TOP NEWS

ELECTRICITY

Colombia Opens Process to Replace Electricaribe

Colombia's government launched a process to find a new operator to replace Electricaribe in supplying electricity to more than 10 million customers on the country's Caribbean coast.

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OIL & GAS

Petrobras to Take Part in Israeli Oil and Gas Tender

Brazilian state oil company Petrobras will participate in Israel's latest auction for offshore oil and gas exploration, according to Israeli Energy Minister Yuval Steinitz.

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ELECTRICITY

Venezuelan Gov't Begins Electricity Rationing Plan

The government launched a "loan management" plan with programmed electricity cuts, Information Minister Jorge Rodríguez said. The country continues to grapple with sporadic power outages.

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Rodríguez // File Photo: Venezuelan Government.

POWER SECTOR NEWS

Venezuelan Gov't Begins Electricity Rationing Plan

Venezuela on Tuesday began a "load management" plan with programmed electricity cuts in various parts of the country as it continues to grapple with sporadic power outages, Information Minister Jorge Rodríguez said, Reuters reported. The government scheduled its first electricity shutdown from 6 p.m. to 8:30 p.m. local time on Tuesday, he said on Twitter just minutes before the cuts began, without providing further details. The announcement followed President Nicolás Maduro's move to replace Electricity Minister Luis Motta with Igor Gavidia, whom Maduro called a "hard-working" engineer in the "electricity industry, with 25 years of experience." In a state television address on Sunday, Maduro announced a 30-day plan to ration electricity as protesters took to the streets to demand improvements. Maduro said the plan would help the government strengthen the country's water and communications infrastructure and called on the public to remain calm and resist violence, saying "specialists, scientists and hackers" are working to put an end to the blackouts and water outages, NPR reported. Venezuelans last weekend set up barricades and burned tires and trucks near the Miraflores presidential palace in Caracas and in other parts of the country to protest the lack of electricity. "We're here fighting for water and power, we've gone 20-something days without water," Yofre Gómez, 32, an informal vendor, told Reuters on Sunday. "They put the power on for two hours, then turn it off at night. It comes on the next day for half an hour and then it goes off again. We're tired of this," he added. The country experienced two massive power outages last month, deteriorating an already dire humanitarian situation. The blackouts also hit Venezuela's oil supply, which in turn partially drove down the supply of the Organization of the Petroleum Exporting Countries, or OPEC, to a four-year low in March, Reuters reported. OPEC pumped 30.4 million barrels per day

(bpd) last month, according to a Reuters survey, down 280,000 bpd from February, and the lowest amount since 2015. Venezuela saw the world's second-largest drop in supply in March, after Saudi Arabia, as power outages brought operations to a halt at state oil company PDVSA's main José terminal and at crude upgrading plants, the wire service reported. Maduro has blamed the U.S. government and opposition leader Juan Guaidó, whom dozens of countries recognize as Venezuela's acting president, for the blackouts, alleging they hacked and sabotaged the country's power grid, without providing evidence. Both the United States and Guaidó have denied the accusations. Experts say decades of poor maintenance and corruption led to the power grid failure. [Editor's note: See related [Q&A](#) in last week's Energy Advisor.]

Argentina to Hike Energy Subsidies by \$100 Mn: Source

Argentina's government will increase spending on energy subsidies by more than \$100 million this year, a source at the country's energy secretariat said on March 28, Reuters reported. The hike in subsidies seeks to compensate gas companies hit by delays in domestic price increases and keep consumer energy prices low during Argentina's upcoming winter months. The planned increase of 4.5 billion pesos will exceed the government's budgeted spending on energy subsidies, originally established at 200 billion pesos for this year, by at least 2.25 percent. "These 4.5 billion pesos will have to be made up from other places," said the source, who asked not to be named, Reuters reported. Authorities plan to increase gas prices for consumers in stages, starting with a 10 percent hike in April before decelerating to 9.1 percent in May and 7.5 percent in June, when there will also be a discount of around 22 percent, according to the report. Energy subsidies totaled \$6.88 billion last year, far below the \$17.23 billion that the government spent on energy when President Mauricio Macri took office in 2015, according to data from the energy secretariat, Reuters reported.

NEWS BRIEFS

Petrobras Will Participate in Israeli Oil and Gas Tender: Israeli Minister

Brazilian state oil firm Petrobras will take part in Israel's latest auction for offshore oil and gas exploration, Israeli Energy Minister Yuval Steinitz said Sunday during Brazilian President Jair Bolsonaro's four-day visit to the Middle Eastern country, Reuters reported. Brazilian Energy Minister Bento Albuquerque accompanied Bolsonaro on his trip, the wire service reported. Israel is offering 19 new offshore blocks to oil and gas companies after a previous tender round attracted bids from only two groups of companies.

Colombia's Ecopetrol to Split Three Oil Fields With Canada's Parex

Colombian state-run oil company Ecopetrol will share its participation in three oil fields equally with Canada's Parex, which will operate the fields, Colombia's national hydrocarbons agency, or ANH, said Monday, Reuters reported. It did not provide further details about the financial arrangement between the two companies. Investment in at least 15 wells in the Aguas Blancas, Boranda and De Mares fields in northeastern Colombia will total roughly \$150 million, the ANH said.

Argentina's YPF to Invest Some \$2 Billion Over Next Five Years in Refineries

Argentine state oil company YPF will invest some \$2 billion over the next five years in upgrading two of its refineries "international standards requiring fuels to be more environmentally friendly," a source with knowledge of the matter said on March 27, Reuters reported. The firm will spend more than \$1 billion in its Mendoza Province refinery to prepare it for a desulfurization process, while the remainder will go toward YPF's refinery in La Plata.

Colombian Gov't Seeking Replacement for Electricaribe

Colombia's government on Tuesday launched a process to find a new operator to replace Electricaribe in supplying electricity to more than 10 million customers on the country's Caribbean coast, Mines and Energy Minister María Fernanda Suárez said, Reuters reported. The offer separates the market into two large geographic areas, and companies will be able to bid to participate in either one or both zones, she added. In March 2017, Colombia ordered Electricaribe's liquidation following what it called deficiencies in its electricity services.

OIL AND GAS NEWS

Foreign Companies to Begin Drilling in Mexico This Year

Houston-based Murphy Oil, Spain's Repsol and Malaysian oil and gas company Petronas expect to drill exploratory wells in Mexico's deepwater fields in 2019 and 2020 amid political uncertainty regarding the country's 2014 energy overhaul, executives said March 28, Bloomberg News reported. "There might be a lot of speculation, of news out there, on what might happen with the energy reform, but at the end of the day, we were able to get our permits to drill," Adam Seitchik, exploration general manager at Murphy, said at a panel discussion in Ciudad del Carmen in Campeche State, S&P Global Platts reported. "There were few options globally with low risk and high resource potential like Mexico," he added. At the same event, Repsol's Mexico country manager, Sergio Limardo, echoed the praise, saying "Mexico is probably Repsol's most important exploration acreage in the Americas." The Spanish company, which has six offshore blocks in Mexico, expects to drill two explora-

tion wells next year. Meanwhile, Puteri Nurlina, Petronas' head of exploration in Mexico, said Mexico offered "big opportunities," which are "reflected in the number of blocks our company has." Petronas is the largest acreage holder in Mexico after Pemex, with stakes in 10 blocks, of which it operates in half, Bloomberg News reported. The company and its partners plan to drill nine offshore exploration wells starting this year in the Salina Basin. The government of President Andrés Manuel López Obrador has blasted his predecessor's energy reform, suspending new oil auctions until companies show results, according to the report. [Editor's note: See related [Q&A](#) in the March 22 issue of the Energy Advisor.]

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Ecuador would be able to refine oil produced in Colombia or Peru. What the government has learned from past efforts to build RdP and restore Esmeraldas is that transparency, competition, clear rules and market-based incentives do matter. The build-own-operate-and-transfer (BOOT) contract model that the government is offering is key: the private sector contractor advances capital investment and then operates the refinery at its own risk over a period of years, at the end of which the government acquires ownership. The government's payments over the term of the contract amortize and remunerate the investment and pay for the operating costs. Thus, the private sector bears the upfront risk, and under the contract, the government limits exposure to costs overruns. This is happening in the context of a \$4.2 billion extended fund facility from the IMF, along with additional financial support from the international community. One of the pillars of this external financial program is the encouragement of foreign investment."

A Paola Carvajal, principal of the energy practice of Arthur D. Little in Washington: "The government of Ecuador has adopted positive measures to reactivate the investments in the oil and gas sector. The adjustment of exploration and production

RENEWABLES NEWS

Latin America's PV Installed Capacity Reaches 10 gigawatts

Latin America has reached an installed capacity of photovoltaic, power of more than 10 gigawatts, according to recently released data from the International Renewable Energy Agency, or IRENA, PV Magazine reported Monday. South America is home to the region's largest portion of installed photovoltaic capacity, around 5.5 megawatts, with Brazil and Chile

contracts and positive results of the 'Ronda Intracampes' licensing round demonstrated the interest and trust of international companies in the Ecuadorean upstream operations. However, the announced

“A new refinery production will be mainly dedicated to international markets.”

— Paola Carvajal

bidding round to build a new refinery of 300,000 barrels per day (bpd) in Manatí is a much more challenging project for several reasons. First, Ecuador's refining products demand is around 230,000 bpd, therefore, a new refinery production will be mainly dedicated to international markets. Second, closer importing markets such as Colombia and Peru are completing refining capacity additions such as Refinery of Cartagena and Talara, diminishing the need for importing refined products. Other markets in the Pacific such as Chile, Mexico and Central America are expected to continue importing but at highly competitive prices. Mexico, for example, announced the construction of a new refinery close to Dos Bocas Port over the next three years. And finally, the high

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leading the way as Latin America's largest markets for solar power, with 2.2 gigawatts and 2.1 gigawatts of capacity, according to IRENA. Central America and the Caribbean have some 1.7 megawatts of installed capacity as of December. Honduras has a total capacity of 516 megawatts, followed by El Salvador with 184 megawatts and the Dominican Republic with 166 megawatts. Mexico's installed capacity reached nearly 3.1 megawatts by the end of last year, PV Magazine reported. At the global level, photovoltaic installed capacity was more than 480 gigawatts at the end of 2018, with Asia leading the way with 274.6 gigawatts, according to IRENA data.

POLITICAL NEWS

U.S. Preparing Aid for Venezuela in Case Maduro Falls

The administration of U.S. President Donald Trump is preparing an aid package for Venezuela in the event that President Nicolás Maduro's government collapses, Larry Kudlow, the director of the White House's National Economic Council, said Wednesday, *The New York Times* reported. "We have a lot of plans to revitalize the Venezuelan economy and to move very rapidly," Kudlow said at an event in Washington sponsored by the Christian Science Monitor. "It would be a rescue plan. It would be a restructuring plan." The aid package is taking space at the same time that the Trump administration is cutting off direct aid to Guatemala, El Salvador and Honduras, the so-called "Northern Triangle" countries of Central America, amid Trump's frustration about caravans of migrants moving north in efforts to reach the United States. Trump has also threatened to cut federal funding to a US territory—Puerto Rico—over its handling of federal money earmarked for hurricane relief, *The New York Times* reported. Venezuela's economy has been in tatters for years amid the country's hyperinflation and shortages of food, medicines and other basic goods. Recent widespread power outages have punctuated the coun-

ADVISOR Q&A

What Does Haiti's New Prime Minister Bring to the Job?

Q Haiti's president on March 21 named Jean-Michel Lapin as the country's acting prime minister, a move that followed lawmakers' no-confidence vote against Lapin's predecessor, Jean-Henry Céant. The vote to censure Céant followed protests in February in which Haitians demanded better living conditions and a change in government. What does Lapin bring to the job, and how much success is he likely to have in improving living conditions in Haiti? What tasks should be the first on his agenda, and what are the biggest obstacles he will face? What are the main reasons behind this year's protests, and will the change in prime minister lead to calm?

A Daniel Erikson, managing director at Blue Star Strategies: "Ever since Haiti's 1987 constitution created the role of prime minister, every officeholder has been quickly thrust into a tug-of-war with the president who offered the appointment. In theory, prime ministers are supposed to run the government of Haiti while the elected president serves as head of state and sets overall domestic and foreign policy. In practice, Haitian prime ministers serve as expendable political shock absorbers that allow the president to better absorb the blows of the body politic. With the recent

removal of Prime Minister Jean-Henry Céant, President Jovenel Moïse has firmly grasped this tradition. Thus, acting Prime Minister Jean-Michel Lapin will face the same daunting challenges that defied his predecessors, with perhaps fewer tools and more constraints. On the bright side, Lapin has some prior experience in public office as former minister of communications and culture, but he will need to confront deep concerns about the high cost of living and cutting state expenditures. The recent surge in protests makes it clear that the Haitian people remain frustrated by corruption and the country's economic deterioration. In early March, the IMF approved a three-year no-interest \$229 million loan to Haiti, but last week suspended implementation until a new government and budget are introduced. As acting prime minister, Lapin is allowed only to oversee day-to-day affairs but is not permitted to enter the government into new contracts. Therefore, his success will rely on building confidence with the Haitian people without full authority to deliver. It will be a hard trick to pull off."

EDITOR'S NOTE: More commentary on this topic appears in Thursday's issue of the *Latin America Advisor*.

try's crumbling living conditions. The Trump administration is coordinating with South American banks and the International Monetary Fund on a plan to stabilize the Andean nation's economy, Kudlow said Wednesday. The U.S. Treasury, the National Economic Council and the National Security Council are planning to use mobile phones and apps to put money directly into Venezuelans' hands, Kudlow

added. "There's many clever ways to get cash in there," he said. "And the cash will not be bolívares; it will be dollars." The White House did not specify how large the aid package would be or any timetable for distributing it. The Trump administration has also imposed economic sanctions on Venezuela as part of its efforts to pressure Maduro to step down. More sanctions could be on the way if Maduro remains

NEWS BRIEFS

Economists Raise Estimates for Inflation in Argentina

Economists increased their expectations for this year's level of inflation in Argentina to a median forecast of 36 percent from 31.9 percent in the latest central bank poll, Reuters reported. In the survey, released Wednesday, economists also expected a median economic contraction this year of 1.2 percent.

Deadline in Nicaragua Talks Passes Without Progress Toward Deal

Month-long talks between Nicaraguan President Daniel Ortega's government and the opposition passed Wednesday's deadline without progress in their aim of resolving the country's deadly political crisis that began nearly a year ago, Agence France-Presse reported. The negotiations have stalled over disagreements on issues such as the release of political prisoners, with the opposition accusing the government of lacking political will. Both sides could decide to continue the talks. [Editor's note: See related [Q&A](#) in the March 19 issue of the daily Latin America Advisor.]

Father-in-Law of Former Salvadoran President Funes Arrested

Authorities in Costa Rica have arrested Juan Carlos Guzmán, the father-in-law of former Salvadoran President Mauricio Funes, El Salvador's police deputy director said Wednesday, the Associated Press reported. Guzmán is wanted in his home country for money laundering charges related to a corruption network, which accusers allege funneled some \$351 million from government coffers under Funes' leadership. Funes and his partner, Ada Mitchell Guzmán, are both in Nicaragua, where they were granted political asylum in 2016. They deny wrongdoing.

in power, said Kudlow. The statements came a day after Venezuela's government-aligned Constituent Assembly stripped opposition leader and National Assembly President Juan Guaidó of his legislative immunity from prosecution. Guaidó has recognition from the United States and dozens of other countries as Venezuela's acting president. Guaidó, who now could be jailed, responded by saying that his arrest "would only catalyze local and international pressure, and I dare say, would be one of the government's final erratic political actions," Bloomberg News reported. Guaidó said that if government agents do arrest him, the opposition has a plan to continue with efforts to force Maduro from power. "In the event that they want to, or try to, kidnap me, which they can do without a doubt, there is a complete strategy ready to continue with leadership, but also to intensify pressure," he said. On Thursday, European Union governments condemned the move to strip Guaidó of his immunity, saying "The E.U. rejects the decision taken by the non-recognized National Constituent Assembly to lift Juan Guaidó's parliamentary immunity. This decision constitutes a serious violation of the Venezuelan Constitution, as well as of the rule of law and separation of power," Reuters reported.

ECONOMIC NEWS

Reassignments of U.S. Agents Causing Delays at Border

Mexican officials and business leaders are warning that delays at ports of entry along the U.S.-Mexico border are causing tens of millions of dollars in losses for shippers and logistics companies as U.S. President Donald Trump continues to threaten to close the border between the two countries, The Wall Street Journal reported Wednesday. Delays came after some 750 U.S. Customs and Border Protection officials who handle the flow of commercial traffic were reassigned on Monday to new posts to control the flow of migrants seeking to enter the country. The Department of Home-

land Security, or DHS, cited a "growing security and humanitarian crisis at the border," the newspaper reported. The number of reassigned agents may rise to 2,000, it added, or roughly one-eighth of the total at the Mexico border.

Trading is very important. The borders are important. But security is what is the most important."

— Donald Trump

As many as 100,000 migrants tried to enter the United States at the border in March, the highest level in more than a decade, according to DHS estimates. Mexican Foreign Minister Marcelo Ebrard on Tuesday said that the reassignments were causing significant delays in commercial traffic. "If we don't succeed in normalizing this very soon, it's going to cost us economically, in both countries," Ebrard said, The Wall Street Journal reported. Trump has insisted on closing the border, despite acknowledging that "it will have a negative effect on the economy," he said Tuesday, CNBC reported. "Trading is very important. The borders are very important. But security is what is the most important," Trump added.

Chile's Central Bank Cuts Economic Growth Forecast

Chile's central bank on Monday cut its forecast for the country's economic growth this year to between 3 percent and 4 percent, Reuters reported. The central bank had earlier forecast growth of 3.25 percent to 4.25 percent for this year. The country is seeing a lower rate of inflation, meaning that policymakers should ease monetary stimulus more cautiously, according to the bank's IPoM report. "The process will proceed gradually and cautiously, considering that the reduced level of inflation has given us space to evaluate our approach," the bank said in the report. In December, the bank had expected inflation of 2.9 percent for the end of this year, but now expects it to be 2.6 percent.

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level of upfront capital commitment (around \$13 billion), plus the additional investments for Esmeraldas refinery, will be difficult to secure in an environment of volatile refining margins, increasing global refining capacity additions and expected global peak of demand. Ecuador's priority in the short/medium term should be to improve the utilization and value generation from the national refineries to supply the domestic market. Building the Manatí refinery and restoring the Esmeraldas refinery as one consolidated project is a major challenge that does not seem feasible given the market situation and conditions offered to foreign investors in the announced bidding round."

A **Mario Flor, partner at Flor & Hurtado in Quito:** "The new refinery aims to process the increase in oil production that the government expects as of this year. The current capacity of the Esmeraldas refinery is just 110,000 barrels per day (bpd), while the new one would have a capacity to process at least 300,000 bpd. The main problem with the last overhaul of

the Esmeraldas refinery was that there were many inconveniences during its execution, which did not solve the structural problems. For this reason, the refinery must be subject to a new process of restoration, which will take at least three months, according to estimates. As an alternative solution, there's interest in a giving a private company the rights to restore the Esmeraldas refinery and the build-operate-transfer (BOT) of the new refinery. The government is expected to launch the process officially in May, so we'll have to keep in an eye out for the content of the contractual terms. Finally, the current government seeks to attract the main companies of the hydrocarbons sector, promoting oil rounds, as well as the use of more favorable contractual models, such as a participation contract. Although there is still a lot to be done to achieve this goal, I believe that the government is going in the right direction."

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

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