How Successful Were Brazil’s Latest Pre-Salt Auctions?

Q: Brazil’s auction of drilling rights to four deep-water oil fields in the so-called “transfer of rights” area raised a disappointing $17 billion on Nov. 6, well below the $26 billion the government had forecast. Two of the four blocks in the tender did not receive a bid. Why did fewer companies than expected participate in the highly anticipated auction, and what happens next? Does the lower revenue affect the government’s budget and fiscal plans? What consequences does the disappointing tender have on oil production in the South American country, which hoped the sale would turn it into the world’s fifth-largest producer in the next 10 years?

A: Lisa Viscidi, director, and Sarah Phillips, assistant, of the Energy, Climate Change & Extractive Industries program at the Inter-American Dialogue: “Last week, Brazil held two highly anticipated, back-to-back auctions for blocks in its pre-salt polygon. Despite the hype, Petrobras offered the sole bids in the two blocks awarded, with two Chinese firms, CNOOC and a CNPC subsidiary, taking minor stakes in blocks alongside Petrobras. The lack of participation from oil majors is not entirely surprising, considering the massive signing bonuses required. Brazil’s production sharing contracts (PSCs) and Petrobras’ right of first refusal in the pre-salt may have also dissuaded some companies. In addition, many of the participating companies already have major holdings in Brazil from previous pre-salt auction rounds, and as such may not be interested in taking on further investments. This is especially true as oil companies face increasing shareholder pressure for stricter capital discipline. The disappointing auction comes as a

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Bolivia’s Oil Sector Takes a Hit Following Morales’ Resignation

International oil companies have halted natural gas exploration in Bolivia after President Evo Morales’ resignation on Sunday left the country with a political power vacuum, Bloomberg News reported. Royal Dutch Shell, Total and Repsol have all stopped or severely reduced drilling at exploration wells, according to Álvaro Ríos, a former hydrocarbons minister and director of Gas Energy Latin America. Protests, some violent, have been ongoing for weeks following Bolivia’s contested Oct. 20 election, which international observers have said was marred by fraud. “Some of the exploration wells have been stopped,” Ríos told Bloomberg News via phone, adding that most of Morales’ cabinet, including the hydrocarbons minister, have resigned. “There is no established power in Bolivia,” he said. Total and Repsol did not immediately respond to Bloomberg News’ request for comment. Shell has suspended work on its Yapucaiti exploratory well, cut staffing at its Jaguar well and temporarily closed two offices as “precautionary measures,” spokeswoman Cindy Babski told the news service in an email. There still no clear evidence that Bolivia’s output or exports have been affected. However, Bolivian state oil company YPFB reportedly informed state-owned Argentine energy company IEASA that the political crisis may affect normal supply of natural gas from Bolivia, according to a letter published by Argentine media on Monday, Reuters reported. YPFB declared force majeure, saying a group of protesters had already taken hold of a field and pumping stations and that demonstrators could move toward production or natural gas transport facilities next. Bolivia’s oil and gas revenues have dropped by more than half since 2014.

Ecuadorean Oil Minister Resigns for ‘Personal Reasons’

Ecuadorean Oil Minister Carlos Pérez announced his resignation on Tuesday, saying it was a personal decision to spend more time with his family, El Comercio reported. “Today, I am leaving after having spent two and a half years in this post,” Pérez, who also oversees the energy and mining sectors, said in a news conference, Reuters reported. It was not immediately clear who would replace him. Pérez’s resignation comes weeks after violent protests in Ecuador over a planned fuel price hike that President Lenín Moreno later scrapped. The 11 days of demonstrations caused a loss of slightly more than $100 million for Ecuador’s oil sector, due to interruptions to production, Pérez said on Monday, El Comercio reported. “More than two million barrels [of oil] were not produced in this period,” he added. To repair the damages, $48 million had been invested, and another $10 million were allocated to resuming operations, Pérez said. Moreno is still in talks with indigenous leaders, who led the protests, to determine a plan to address Ecuador’s fiscal gap without the fuel price increase that sparked unrest last month. He has not yet announced a concrete roadmap to shore up government finances, Reuters reported. [Editor’s note: See related Q&A in the Oct. 31 issue of the daily Latin America Advisor.]

Cyber Attacks Against Mexican State Oil Firm ‘Neutralized’

Mexican state oil company Pemex said Monday that attempted cyber attacks that happened the day before had been “neutralized,” Reuters reported. The ransomware attack affected less of the daily Latin America Advisor.

Canadian Solar Announces Two Purchase Power Agreements With Brazil

Canadian Solar on Monday announced it won two power purchase agreements for 190.5 megawatt-peak (MWp) of solar capacity in Brazil, Renewables Now reported. The Brazilian government awarded the company two photovoltaic projects in the A-6 auction held last month. Canadian Solar is to sign 20-year power purchase agreements for 30 percent of the projects’ output an average price of 84.38 reais ($20.60) per megawatt-hour. The remaining electricity will be purchased under long-term private deals that are still under negotiation.

Venezuela Selling Oil at Low Cost Amid Sanctions

U.S. sanctions against Venezuelan President Nicolás Maduro are forcing the South American country to sell cut-price oil, the Financial Times reported Sunday. The government is struggling to buy vital supplies for its oil industry due to sanctions, analysts say, which has translated to offering cheaper blends of oil at sharp discounts.

Grenergy Renovables Secures $71.3 Million for Chile Wind Farm Project

Grenergy Renovables announced Monday that it has secured $71.3 million in financing for the construction of a 103-megawatt wind farm in Chile, Renewables Now reported. The Spain-based firm said $60.3 million of the financing is from Banco Security, Banco del Estado de Chile and Penta Vida Compañía de Seguros de Vida. The remaining $11 million will come from Sinia Renovables, a unit of Spain’s Banco Sabadell. The solar park will be located in Quillagua, in the Atacama desert. It will need $97.5 million in total investments and is scheduled to start generating power in the third quarter of next year.
than 5 percent of the company’s computers, Pemex added. As of Monday, operations were normal, and the company’s oil production and storage were not affected. In an internal company email, Pemex said hackers had targeted the firm’s computers with a strain of ransomware called “Ryuk.” The strain typically targets companies that have annual revenues of between $500 million and $1 billion. “We are taking measures at the national level to fight Ryuk ransomware, which is affecting various Pemex servers in the country,” a company official said in the email on Sunday, Reuters reported. Ransomware is malicious software that is designed to extort money. A company server in Mexico state had found a ransomware attack that could “block a computer screen or encode important, predetermined files with a password.” Pemex added that it has received other cyber attacks and related threats in the past, but that none of them had succeeded. Pemex also told employees to disconnect their computers from the company’s network and back up critical information. Workers at PMI, Pemex’s trading unit, were told not to start their computers or connect to WiFi using their phones, Bloomberg News reported. Much of Pemex’s administrative work was halted on Monday before the problem was solved as employees were unable to access computer systems, including ones related to payments.

**YPF Completes First LNG Cargo From New Floating Facility**

Argentine state-controlled oil company YPF has completed the first loading of liquefied natural gas cargo from its new floating facility, La Nación reported last Friday. The cargo is part of a new supply of LNG that has flooded the spot market for the commodity, leading to decade-long low prices for LNG from Asia for this time of the year, Reuters reported. YPF had issued a tender, which closed Nov. 6, to sell 2.1 British thermal units of LNG from the liquefaction vessel, FLNG Tango. The floating facility is located off the coast of Bahía Blanca. It is owned by Belgian shipping company Exmar and

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**FEATURED Q&A / Continued from page 1**

blow to the country’s economy, as analysts estimated the resulting projects could have led to the creation of more than 400,000 jobs and injected billions into public coffers. However, the fact that the tender flopped doesn’t necessarily mean that there is no market interest. As low-risk and high-reward investments, pre-salt reserves are still very appealing to many firms. A more attractive regulatory and fiscal regime could entice interest from majors in future auctions. Government officials have already expressed support for ending Petrobras’ right of first refusal and switching from PSCs to concession contracts in the pre-salt. Regardless, the results demonstrate that there is a limit to how much governments can demand in fiscal terms, and in order to succeed, Brazil must set competitive prices.”

Mary Rose Brusewitz, member of the Energy Advisor board and member of Clark Hill Strasburg: “Brazil’s November offshore auctions were a frustrating chapter in the country’s historically fraught relationship with oil. Despite preliminary interest from at least 14 companies, most desisted. No U.S. or European-based oil companies bid. Petrobras and minority Chinese partners won one field, and Petrobras another. The proceeds were disappointing. Potential bidders shied away at the end, citing high upfront fees, rules that favor Petrobras and low oil global prices. The package was simply not attractive enough, despite evidence that there is strong production capacity. One concern may be the legal structure that Lula put into place: it imbeds a role for Petrobras in the pre-salt fields. Potential bidders might have taken that into account, as well as the high cost to access the production, pressures on oil majors to be strategic in making investments, the growing importance of alternative energy and the unrealistic pricing expectations of the federal and state governments—when compared with other opportunities, this one fell short. Some senior members of the government seem to understand the need to make adjustments if Brazil wants future successful auctions and to achieve its energy production goals. Can they get there politically? One unfavorable auction should not completely destroy Brazil’s ambitions in this area. But there are barriers—budgetary expectations, the number of hands out for the future revenues and the belief in Petrobras’ special role in the pre-salt are among the roadblocks. Brazil has a chance to change course and demonstrate that it can attract significant investments in its oil sector.”

Mark S. Langevin, director of BrazilWorks: “Some called it a flop, and some policymakers sobbed, but the transfer of rights and sixth pre-salt bidding rounds represented undeniable advances in Brazil’s efforts to become a major producer of crude oil. The government aimed high and fell short on the least important blocks, with Petrobras and its partners, CNOOC and CNOOC, scooping up the gigantic Búzios field. International oil companies (IOCs) agonized over the mammoth signing bonuses and the uncertain co-participation payments to Petrobras for the transfer-of-rights blocks. Most IOCs already have sufficient pre-salt acreage to satisfy their business models in a slowing global economy. Headlines aside, the government take was historic and represents an unprecedented infusion of nonrecurrent revenues for the cash-strapped public sector. Policymakers will consider changes

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arrived in Argentina last February. In June, the company exported its first test shipment of the commodity. This month’s shipment marked its first commercial cargo, sources told Reuters. Details about the buyer of the cargo were not immediately available. The cargo was loaded onto the Excalibur LNG tanker, according to ship-tracking data from Refinitiv, the wire service reported. “It takes around 40 days to produce and load a full cargo … their next one will be on the vessel Methane Kari Elin,” a trader told Reuters. Rising output from Argentina’s Vaca Muerta formation had helped Argentina lower LNG imports by more than 20 percent last year, to 2.6 million metric tons, according to GIGNL, an industry group.

POLITICAL NEWS

Interim Bolivian President Calls for New Elections

Interim Bolivian President Jeanine Áñez on Wednesday called for new elections and appointed a new army chief in an effort to fill a power vacuum left by Sunday’s sudden resignation and exile of former President Evo Morales, The Wall Street Journal reported. Áñez, the former vice president of Bolivia’s Senate, declared herself the country’s president on Tuesday. The following day, she said the only option for the country is a new presidential election. “My mission, as the constitution states, is to call for clean and transparent elections with all the qualified political actors as soon as possible,” she said in a televised address. “I will not accept any other path forward.” Several countries, including the United States, Brazil and Britain, have recognized Áñez as Bolivia’s new leader, but Morales’ supporters accused her of illegally seizing power and vowed to help bring Morales back. In her first full day as Bolivia’s caretaker president, Áñez swore in a new armed forces commander, Gen. Carlos Orellana, who called on Bolivians to end the violent protests that have wracked the country since its disputed Oct. 20 presidential election. Orellana replaced Gen. Williams Kaliman, who is a Morales ally but publicly recommended on Sunday that he resign. On Wednesday, riot police clashed in La Paz with Morales supporters, who marched toward the presidential palace in opposition of Áñez, BBC News reported. Some of the protesters armed themselves with metal sheets and wooden planks, and chants of “Now, civil war,” were heard in the crowd, the Associated Press reported. Protests also occurred elsewhere in the country, including in El Alto and the coca-growing El Chapare region. Morales, Bolivia’s first indigenous president, still retains strong support among the country’s Aymara and Quechua Indians. Thousands of Morales

ADVISOR Q&A

How Much Can Russia Keep Cuba’s Economy Afloat?

Q

Dozens of shops selling items in U.S. dollars reopened in Cuba in October as the cash-strapped government struggles with a liquidity crisis of tradable currency needed to purchase imports and pay debts. Meantime, President Miguel Díaz-Canel traveled to Russia to meet with his counterpart, Vladimir Putin, as well as with other Russian officials, to discuss expanding cooperation and boosting economic ties. How bad is the economic situation in Cuba? What other tools does the government have in order to deal with the liquidity crisis and a worsening economy, both in the short and long terms? In what ways can Russia help Cuba with its financial predicament?

A

Carmelo Mesa-Lago, distinguished service professor emeritus of economics and Latin American studies at the University of Pittsburgh: “Russia can somewhat help Cuba’s economy, but it’s unlikely that it will fully replace the value of Cuba’s economic relationship with Venezuela. Cuba is now suffering its worst economic crisis since the 1990s after the collapse of the Soviet Union. At its peak in 2012, Cuba’s relationship with Venezuela reached $16 billion and, even with the decline it has endured, it was $8 billion in 2017 (latest data available), tantamount to 22 percent and 8 percent of Cuba’s GDP. In 2018, Russia was Cuba’s seventh-largest trading partner, its goods trade was only 3.3 percent of Cuba’s total exchange and its trade deficit amounted to $430 million. Also, Russia does not buy Cuban professional services, which are the principal source of the island’s hard currency. It is impossible for Cuba to pay for the value of Russian imports because production of sugar, nickel, citrus, tobacco and fisheries—which constituted Cuba’s basic exports to the USSR in the 1980s—have declined sharply, and it is improbable that Cuba will compensate for Russian oil with exports of doctors and other professionals (involving a heavy subsidy), who would have to learn Russian. Agreements signed with Moscow and Havana at the end of 2018 and last September deal with electricity and steel production, renovation of railroads, exploration of bituminous oil deposits and oil land prospecting, citrus production and military equipment. Although helpful to Cuba at this difficult economic juncture, which has been aggravated by Trump’s tightening of the embargo, the published amount of Russian aid committed through 2020 is $343 million, or 4.3 percent of Venezuelan total aid in 2017. Finally, Russia’s economic slowdown makes it harder for it to fully replace Venezuela.”

EDITOR’S NOTE: More commentary on this topic appears in Monday’s issue of the Latin America Advisor.
Brazil’s Senate Approves Deal to Safeguard U.S. Space Technology

Brazil’s Senate on Tuesday approved the ratification of a deal signed earlier this year to safeguard U.S. space and defense technology, paving the way for U.S. firms to use Brazil’s Alcântara base in the northeastern state of Maranhão to launch satellites, Reuters reported. However, Brazil will not have access to U.S. technologies in missiles, rockets, artifacts and satellites.

Spain’s King Voices Support for Democracy, Rights in Cuba Speech

In a speech Wednesday in Havana, Spanish King Felipe VI defended democracy and human rights, El País reported. At a dinner with Cuban President Miguel Díaz-Canel, Felipe talked about the need for institutions “to represent the diverse and plural reality” of society and to respect citizens’ rights, including the right “to freely express their ideas, freedom of association and assembly.” In an unscheduled speech, Díaz-Canel responded by defending Cuban sovereignty and the independence of Cubans to decide their own changes. However, the exchanges reportedly remained friendly.

Pemex Won’t Pay $5 Mn Ransom Demanded by Hackers: Energy Minister

Mexican state oil company Pemex will not pay a ransom demanded by suspected cyber attackers who hacked into the firm’s computer systems earlier this week, Energy Minister Rocío Nahle told reporters on Wednesday, Reuters reported. Nahle, who is also the chair of Pemex’s board, said the attack targeted the company’s administrative headquarters in Mexico City and that its “plants and wells” continued to operate. Hackers have demanded some $5 million in bitcoin from Pemex.

Holmes Trujillo Named Colombia’s Defense Minister

Colombian Foreign Minister Carlos Holmes Trujillo will take over the Defense Ministry, President Iván Duque said on Tuesday, El Tiempo reported. He will replace Guillermo Botero, who resigned last week after coming under fire for not disclosing the deaths of eight minors in a military operation against dissidents of the former Revolutionary Armed Forces of Colombia, or FARC, guerrilla group in late August, the Associated Press reported. It is unclear whether the armed forces knew that minors were present, or whether that information reached Botero or even Duque, if known. “We are pleased that Carlos Holmes Trujillo will take on this new task,” Duque said in a televised statement on Tuesday, Reuters reported. “He will be in charge, of course, of confronting organized armed groups in all national territory.” The president added that Holmes Trujillo’s experience as mayor of the city of Cali “puts him close to the reality of citizen security.” As defense minister, Holmes Trujillo will focus on combating drug traffickers, destroying illicit cultivations of coca and increasing drug seizures, the president said. Claudia Blum, a former senator and ambassador to the United Nations, will replace Holmes Trujillo as foreign minister. She has “ample experience in political and international affairs,” Duque said on Twitter.

Chilean Peso Drops to Record Low as Protests Continue

Protests against social inequality raged on in Chile for a 26th day, with massive demonstrations and a national strike that virtually paralyzed the country on Tuesday, as the national currency’s value dropped to a record low, the Associated Press reported. Thousands of demonstrators marched peacefully in the capital city of Santiago, waving the flags of Chile and the Mapuche indigenous group. In the capital, groups of hooded protesters also clashed with police, who responded with water cannons and tear gas. A church in the Lastarria tourist district was ransacked and then set on fire on Tuesday night, and there were reports of looting at restaurants and shops, the AP reported. The national strike had widespread participation across Chile, with classes canceled and some government offices limiting their services. Large demonstrations also occurred in the coastal city of Valparaíso, in Concepción in the south, in Antofagasta in the north and in Punta Arenas, in the Patagonia region. Chilean Finance Minister Ignacio Briones on Tuesday warned of the “grave consequences” for Chile’s economy after the peso fell 4 percent to a historic low against the U.S. dollar, saying the weakening of the local currency was a “sign of worry,” Reuters reported. Politicians in Chile are grappling over who will draft a new constitution as violent protests continue raging in the South American country. Protesters are demanding a new constitution, but, while President Sebastián Piñera wants current legislators to draft it, the opposition wants more input from citizens.
including Senator José Serra’s bill to eliminate Petrobras’ preference right (minimum 30 percent stake) for all pre-salt tenders to increase competition in the bidding process. Serra’s legislation also grants the National Energy Policy Council (CNPE) authority to choose between the concessionary and production sharing regimes for each particular pre-salt field, an option that could maximize investment in the pre-salt play for a decade. Last week’s bidding rounds continue Brazil’s march toward becoming a major producer because Petrobras continues to place its future in the Santos Basin pre-salt play. Petrobras took full advantage of the lack of IOC competition by contracting its newest pre-salt fields at the minimum levels of profit oil established by the CNPE. The government may have fallen short of its goals, but Petrobras’ ultra deepwater technologies, its decreasing production costs and efforts to accelerate commercial production will make the Búzios a cash cow by 2025.”

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**The rounds were quite successful, just not as much as expected.**

— Fernanda Delgado

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Fernanda Delgado, professor and research coordinator at the Center for Energy Studies at the Getúlio Vargas Foundation in Brazil: “For the Brazilian government, the rounds were quite successful, just not as much as expected. Seventy percent of the total is a decent amount of money and will help a lot in the reduction of the primary deficit and the induction of the Brazilian industry. Also, if one takes into consideration that the areas can be put up for bidding again in the future under revised requirements, the country can still benefit from the outcome resources. I guess the companies did not bid mainly for two reasons: the high signature bonuses (product of a possible articulation to receive more money upfront and less in the long term, given the need to reduce the country’s primary deficit) and the contradictory compensation that should be paid to Petrobras by the winning companies in the areas (the technical parameters that delimited the values were at least confus-

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