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FEATURED Q&A

How Bleak Is the Future for Brazil's Biofuels Sector?

One-quarter of Brazil's sugar and ethanol plants, one of which is pictured above, are at risk of closing by the end of the year because of the coronavirus crisis, Fernanda Delgado writes below. // File Photo: Brazilian Government.

Q **Brazil's Petroleum, Natural Gas and Biofuels Agency, or ANP, contracted slightly more than one billion liters in the country's latest biodiesel auction for deliveries in May and June, down 9.2 percent from the previous tender, F.O. Licht reported. The announcement comes as concerns arise over biofuel production in the South American country as demand plummets due to the coronavirus pandemic and low oil prices make the renewable fuel less competitive. How is the current international scenario—including dwindling demand for fuels and lower oil prices—affecting biofuel production in Brazil? How much have recent developments changed the outlook for the biofuel sector in the South American nation? What trends can the industry expect in the medium and long terms, and how can it prepare for them?**

A **Fernanda Delgado, professor and research coordinator at the Center for Energy Studies at the Getúlio Vargas Foundation in Brazil:** "One-quarter of sugar and ethanol plants in Brazil are in danger of closing by the end of the year because of the coronavirus crisis. Without working capital to pay short-term bills, the sharp drop in demand for fuel has hit some of these companies. With about 350 plants operating in the country, the sector saw ethanol prices drop from 2 reais to 1.30 reais/liter (net value), and demand fell by more than 50 percent. More capitalized groups have the strength to store their ethanol production and even change the industry mix, starting to produce more sugar, to survive the most acute moment of the crisis. However, this is not the case for almost 100 production units, which are unable

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Ecopetrol Posts 95% Fall in Net Profits in Q1

The Colombian state-owned company's net profits were hard hit by the plunge in oil prices during the first quarter.

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Mexico's Decision to Halt Tests Shuts Down Neoen Plant

Mexican electricity system operator Cenace's recent decision to suspend all performance tests of wind and solar farms during the coronavirus pandemic has led to the closure of a solar plant owned by French producer Neoen.

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OIL & GAS

Petrobras' Cash Burn Could Reach $1 Billion a Month

The Brazilian state oil company, led by Roberto Castello Branco, said in a statement that spending could reach $1 billion of cash per month during periods of stress and volatility, adding that it is taking measures to ensure its solid cash position this year.

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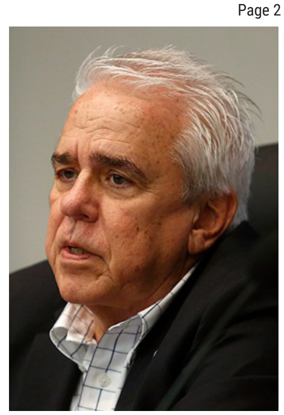

Castello Branco // File Photo: Petrobras.

OIL AND GAS NEWS

Ecopetrol Net Profits Plunge 95 Percent in the First Quarter

Colombian state-owned oil company Ecopetrol's first-quarter net profits fell 95 percent, as compared to a year earlier, to 133 billion pesos, or $34.3 million, Ecopetrol said in a statement on Monday. The company had registered a net profit of 2.76 trillion pesos in the first quarter of 2019. The plunge in profit was due mainly to the sharp fall in international oil prices, Chief Executive Officer Felipe Bayón said in a statement. "We confronted challenging and unexpected market conditions, reflected in a Brent price decline of over 65 percent in comparison to year-end 2019," he said. However, he added that Ecopetrol was in a "stronger operational and financial position, with a competitive investment portfolio … and a level of leverage that provide the flexibility to navigate through this environment." Ecopetrol's earnings before interest, taxes, depreciation and amortization, or EBITDA, also declined in the first three months of the year, by 29 percent to 5.26 trillion pesos. Total sales fell to 15.07 trillion pesos from 15.95 trillion pesos a year ago. Colombia has revised down its outlook for oil production this year to around 850,000 barrels per day, from a previous forecast of 900,000 barrels, if oil prices stay close to $35 a barrel, Reuters reported. Ecopetrol said its production was sustainable at $30 a barrel. The company also said production averaged 735,000 barrels of oil equivalent a day (boed) during the first quarter, up 1 percent from the same period a year earlier but below the targeted range for the year of 745,000 to 760,000 boed.

Petrobras' Cash Burn Rate Could Reach $1 Billion Per Month

Brazilian state oil company Petrobras said last Friday that its cash burn could reach $1 billion per month in periods of extreme stress and volatility, Reuters reported. The statement followed press reports of an internal company event in which the director of finance and investor relations, Andrea de Almeida, said the company could be spending $1 billion in cash per month. The statement also said that the current level of uncertainty makes it difficult to accurately predict spending. Petrobras did not provide further details about its current cash burn rate or the projected stress scenarios, but the company said it has kept the market informed of all measures it is taking to mitigate the economic fallout due to the coronavirus pandemic and the plunge in oil prices. Such steps will ensure the company's solid cash position this year, it added. Earlier last week, Reuters cited three unnamed sources saying Petrobras had suspended preparations to sell a minority stake in the so-called Marlim cluster of four offshore oilfields, which produces 230,000 barrels per day (bpd). The company had been selling noncore assets and minority stakes in oilfields in Brazil and elsewhere in an effort to reduce its debt, but the price crash seems to have upended that strategy, OilPrice reported. "With oil at its current levels, it doesn't make sense to discuss such an interesting asset," one source with direct knowledge of the matter told Reuters, in reference to the Marlim cluster. The source added that the plans have not been entirely canceled, but it is unclear when Petrobras would resume efforts to sell.

Ecuador Lifts Force Majeure Declaration on Oil Production

Ecuador last weekend lifted a force majeure declaration that had been in place for nearly a month on oil production after the country's two main pipelines ruptured following a landslide in the Amazon region, the energy ministry said, Reuters reported. In a statement Sunday, the ministry said Ecuador would meet orders for 2.2 million barrels of Oriente crude, 1.8 million barrels of Napo crude and 1.3 million barrels of fuel oil that were delayed in late April due to

NEWS BRIEFS

Covid-19 Pandemic Halts Progress on Argentina's Renewables Development

The coronavirus pandemic has hit Argentina's renewables sector, with at least 10 wind and solar projects halting construction or commissioning due to the government's social-distancing measures, the Buenos Aires Times reported Saturday. Companies including Goldwind and Power China, as well as Argentina's Genneia and Petroquímica Comodoro Rivadavia, have suspended work at their projects, which represent more than 1,000 gigawatts of electricity.

Brazil OKs 304 MW of EDP Solar Projects into REIDI

Brazil has allowed 303.8 megawatts of solar projects owned by EDP Renováveis to enter the country's Incentive Regime for Infrastructure Development, or REIDI, Renewables Now reported Tuesday. The REIDI program grants tax incentives to companies investing in energy infrastructure projects, among other sectors. The Brazilian unit of the Portuguese renewable giant said it would invest more than 567.3 million reais ($97.8 million) to build the solar plants, saving 58 million reais thanks to REIDI.

YPF's Revenues Grew By 33 Percent in First Quarter

Argentine state oil company YPF posted first-quarter earnings of 6.3 billion pesos ($93.5 million) on Monday, better than a net loss in the same period last year, Reuters reported. YPF's revenues grew 33.4 percent, reaching 174.7 billion pesos, compared to a net loss of 8.2 billion pesos in the first quarter of 2019. The company noted that, beginning in the second half of March, "some indicators began to be impacted by the mandatory isolation measures" in the wake of the Covid-19 pandemic. "This phenomenon has affected the industry globally, and … YPF is not exempt," it said in a statement.

the force majeure declaration, without paying any contractual penalty. "With this decision, the national government normalizes and reactivates oil production and transportation operations in a technical and gradual manner, until reaching levels registered before the incident," the ministry said, Reuters reported. Ecuador last week restarted crude exports and some production after the two damaged structures—the state-run SOTE pipeline and the privately-operated OCP pipeline—resumed operations. Ecuador produced nearly 530,000 barrels per day of crude before the incidents. [Editor's note: See related **Q&A** in the May 1 issue of the Energy Advisor.]

Iran, China Working With PDVSA to Help Revamp Refinery

The governments of Iran and China are working closely with Venezuelan state oil company PDVSA to restart the CRP refining complex as the Andean nation continues to face fuel supply shortages, Argus Media reported last Friday. Iranian state-owned Mahan Air has made 16 flights since April 22 from Tehran to a local Venezuelan airport near the CRP complex on the Paraguaná peninsula, according to five unnamed PDVSA and oil ministry officials with direct knowledge of the ongoing cooperation, Argus Media reported. The flights are carrying catalyst and refinery parts as well as technicians from Iran and China, the sources said. Chinese state-owned CNPC subsidiary Jichai Power Equipment Company is among the Asian country's companies shipping compressors, refinery parts and technicians to Venezuela with Mahan Air, an oil ministry official said. The airline, which is blacklisted by the United States, has reportedly delivered nearly 700 tons of Iranian and Chinese catalyst. The CRP complex, which has the capacity to process about 940,000 barrels per day (bpd) of oil, accounts for nearly 72 percent of PDVSA's domestic refining capacity. However, almost all of CRP's crude processing units are currently down, and about five are operating at 10 percent of their nominal capacity, an oil union official said.

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to store ethanol—and end up selling at low prices—and also lack the financial health to endure the coming months. The situation is even more delicate for plants that only have distilleries. Of the 267 production units in the center-south region, 80 plants only produce ethanol. Until February, the sector had a positive scenario ahead; sugar and ethanol prices were competitive. The most capitalized mills had already blocked sugar prices, and the demand for fuel was firm. Companies with greater storage capacity, such as Raízen (a joint venture between Cosan and Shell) and São Martinho, for example, are managing to hold back their ethanol production to sell when demand resumes. The closure of loss-making units due to the crisis should be beneficial to the sector in the long run, with the rebalancing of the supply of raw materials in the country. Productivity may rise without expanding the planted area. The sugar and alcohol sectors are awaiting an aid package to plants. In addition to a financing line for ethanol storage, the plants are asking the government to increase the CIDE, a tax levied on gasoline sold, to 0.40 reais/liter (currently at 0.10 reais/liter), in addition to the temporary suspension of the collection of PIS and Cofins on hydrated ethanol, which is 0.24 reais/liter. Any measure that raises taxes right now wouldn't make much sense, especially when Brazil is experiencing high unemployment."

A **Mark S. Langevin, director of BrazilWorks and senior advisor to Horizon Client Access**: "Biofuels are a linchpin for Brazil's energy security and low carbon development. In 2018, the country's ethanol industry re-emerged after years of stagnation, and biodiesel production increased by 25 percent that year and 8 percent in 2019. The growth in biodiesel production is driven by rising domestic demand and escalating increases in the government-mandated blend rate that reached 12 percent (B12) in March. Biofuel producers are prepared to make the most of this year's launch of the RenovaBio program and its carbon emission reduction certificates (CBios). RenovaBio is designed to reward the biofuel sector and cut carbon emissions in the long run, but the dramatic drop in crude oil prices and the coronavirus pandemic now test producers' resiliency and political reach. Ethanol refiners advocate a tax increase on gasoline while biodiesel producers lobby for a blend increase to B13 by July. Both industries favor tax reductions, while Petrobras and derivative importers push back to prevent a return to government-administered fuel prices. This political contest appears to favor biofuel producers, but the political crisis surrounding President Jair Bolsonaro may paralyze efforts to assist the sector in the short term. The recent 72nd biodiesel auction administered by the ANP saw a 9.2 percent decline in the volume as well as lower prices. However, an additional 1 percent increase in the blend rate could assist producers later this the year and contribute to job creation in the rural sector. The key to survival is a speedy recovery of domestic fuel demand, coupled to sustained export markets for Brazilian soybeans and sugar as a hedge against declining domestic demand for biofuels."

> **"Biofuels are a linchpin for Brazil's energy security and low carbon development."**
> **— Mark S. Langevin**

A **Matheus Costa, full market intelligence analyst—sugar and ethanol at INTL FCStone in Brazil:** "Over the past few weeks, perspectives for the Brazilian biofuel market were mainly focused on ethanol. Ex-mill prices are facing a bearish scenario due to the recent plunge in oil prices (ethanol competes with gasoline at the pumps, usually as a cheaper alternative for consumers) and the lack of demand

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RENEWABLES NEWS

Mexico's Decision to Halt Key Tests Shuts Down Neoen PV Plant

The recent decision by Mexican electricity system operator Cenace to suspend all of its performance tests of wind and solar farms during the coronavirus pandemic has led to the closure of a 375-megawatt photovoltaic plant owned by French producer Neoen, Renewables Now reported last Friday. Cenace in early May indefinitely suspended the critical tests for wind and solar projects, including tests that had not yet been started, saying it will apply the "actions and operational strategies to strengthen the reliability of the electrical supply," Bloomberg News reported. Neoen said its El Llano solar farm was undergoing testing with Cenace and generating power for the spot market before it was due to begin meeting obligations under a long-term power purchase agreement in early July. However, the company had to halt production at the plant following the agency's announcement. Neoen said the plant's shutdown will cost approximately $2 million per month in lost earnings before interest, taxes, depreciation and amortization, or EBITDA. The company had secured the El Llano project in Mexico's third renewable energy auction in 2017. Some critics have expressed concerns that Cenace's new measures, which don't mention older nonrenewable plants that Mexican state-owned utility CFE owns, will disproportionately hurt renewable producers at the expense of CFE.

POLITICAL NEWS

Mexico to Begin Lifting Quarantine Orders Next Week

Mexico's government announced Wednesday that it will start lifting quarantine orders in hun-

ADVISOR Q&A

What Is Behind Colombia's Latest Spying Scandal?

Q Colombia's defense ministry this month fired 11 military officials, and one general resigned, in relation to an ongoing probe into accusations that the army spied on more than 130 journalists, politicians, magistrates and other members of the military, allegedly using U.S.-supplied equipment. Gen. Luis Fernando Navarro, who heads Colombia's armed forces, blamed the hacking on what he described as rogue elements within the military. It's the latest hacking scandal to rock Colombia's army, which had previously been accused of spying on negotiators of the historic peace deal with the FARC rebels. What happened this time around, and do Colombia's armed forces have their intelligence system under control? Is President Iván Duque's government likely to face political costs as a result of the scandal? What could the alleged misuse of U.S.-provided equipment mean for the future of U.S.-Colombia military cooperation?

A Sergio Guzmán, director of Colombia Risk Analysis: "Unfortunately, this is not the first time that Colombian authorities were caught red-handed investigating political opponents, journalists and others who are considered threats to the current government. The event is likely to undermine trust, not only in the military but also in the government's commitment to upholding democratic values. Although the president and his ministers have made it clear that they would not tolerate this behavior, the Duque administration has not grasped the severity of the issue and has shown a remarkable tone-deafness. The government had promised to fully investigate the issue back in January when the revelations first made the news, but it became evident by the timing of the dismissals (after another news story broke) that the investigations had been put on the back burner. Moreover, until the latest revelations surfaced, the government planned to reward former Gen. Nicacio Martínez, who has been linked to the illegal investigations, by designating him a special envoy to NATO. Members of the ruling party have ardently defended the military and suggested that interceptions based on open-source materials are fair game and covered by existing law, a wholly unacceptable defense. There is little public trust in the government's willingness to fully investigate the issue. The key question, which both officials from the government and the military have been unable to answer, is who ordered the investigations, and who was the ultimate recipient of the intelligence gathered. President Duque cannot claim control of the state intelligence system unless he knows the answer to those questions. If he does, it suggests a terrible predicament for Colombia's democracy."

"The key question ... is who ordered the investigations, and who was the ultimate recipient of the intelligence gathered."
— Sergio Guzmán

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

NEWS BRIEFS

IMF Director Plans to Back Chile's Loan Request

The International Monetary Fund's executive board met on Tuesday to discuss Chile's request for a two-year, $23.8 billion flexible credit line, with IMF Managing Director Kristalina Georgieva recommending its approval, the Fund said in a statement. Georgieva will endorse the credit line when the executive board meets again to make a formal decision in the coming weeks. Chilean authorities intended to treat the credit line as precautionary.

Golding Alleges Fraud in Guyana Vote Recount

The head of the Organization of American States' observation team in Guyana's vote recount, former Jamaican Prime Minister Bruce Golding, on Wednesday alleged electoral fraud, saying the results of four ballot boxes had been altered in favor of the ruling APNU+AFC coalition, Trinidad & Tobago Newsday reported. "I have never seen a more transparent effort to alter the results of an election," he said in a Facebook Live video. Guyana this week is undergoing a ballot recount of the election held more than two months ago.

Guatemalan Judge Rejects Pérez Molina's Request for House Arrest

A Guatemalan judge has rejected jailed former President Otto Pérez Molina's appeal to be released to house arrest over fears of contracting the novel coronavirus, Agence France-Presse reported Thursday. Pérez Molina has been in custody since 2017, awaiting trial over a massive bribery scandal. Judge Miguel Ángel Gálvez rejected the petition, saying the former president is jailed at an army hospital, where there is no overcrowding. Pérez Molina said he had made the request because his age and heart conditions made him more vulnerable to Covid-19.

dreds of counties beginning next Monday and will start reopening the rest of the country on June 1, The Washington Post reported. 'We've begun a new stage," President Andrés Manuel López Obrador told reporters Wednesday. However, he said Mexico was about to start a "new normal" that would mandate safety measures in order to prevent major outbreaks of Covid-19. The government is planning to allow 269 municipalities spread across 15 states to resume most normal activities. The municipalities are ones that have no confirmed cases of coronavirus and whose neighboring counties also have no residents confirmed to have contracted the virus. The municipalities account for slightly more than 10 percent of all of the country's municipalities. The government plans to allow a phased reopening of businesses, schools and public gathering places that will be assigned a level at which they may function, The Washington Post reported. Additionally, the government has deemed construction, mining and auto manufacturing to be

Mexico has more than 40,000 confirmed cases of Covid-19.

"essential" sectors that may reopen nationwide next week. It is unclear when manufacturing in sectors other than the automobile industry would be allowed to restart, the Financial Times reported. In March, the country's level of industrial production declined 5 percent as compared to the same month last year. Many economists expect Mexico's economy, the second largest in Latin America after Brazil's, to contract by between 7 percent and 12 percent this year. Mexico has more than 40,000 confirmed cases of Covid-19 and more than 4,200 reported deaths related to it. However, due to a lack of adequate testing, experts have said the true numbers of cases and deaths are likely to be far higher. López Obrador's government announced the plan a day after the country's social security institute reported that the country lost 555,247 jobs in April, the largest monthly decline on record, the Financial Times reported. Some state governors in Mexico expressed concern that the government is allowing activities to resume too quickly, The Washington Post reported. "Everything is going to collapse," said Gov. Miguel Barbosa of Puebla, where automakers Volkswagen and Audi have factories.

ECONOMIC NEWS

FBI Probing Mexican, European Companies in Sanctions Case

The FBI is investigating several Mexican and European companies allegedly linked to trading Venezuelan oil as it gathers information for a U.S. Treasury Department inquiry into possible sanctions violations, Reuters reported Wednesday, citing four people familiar with the matter. U.S. Secretary of State Mike Pompeo and special envoy to Venezuela Elliott Abrams said last month that the State and Treasury departments were looking into whether several companies were conducting business with Venezuelan state oil firm PDVSA since January 2019, in violation of U.S. sanctions. The administration of U.S. President Donald Trump early last year slapped sanctions on PDVSA in a bid to squeeze an important source of revenue for Venezuelan President Nicolás Maduro, whose government it deems illegitimate. According to Reuters, U.S. officials in private say failing to oust Maduro has been a source of frustration for Trump, whose administration has tightened the implementation of sanctions in recent months. The three Mexican companies reportedly under investigation are Libre Abordo, Schlager Business Group and Grupo Jomadi Logistics & Cargo, three of the people who provided information to the FBI told Reuters. The wire service did not find any record of Venezuelan oil purchases by these companies prior to sanctions. Some sources said the probe could potentially lead to action in the coming weeks, while others familiar with the matter said that any action could be delayed or canceled if the Mexican companies halted trade with Venezuela. Libre Abordo and Schlager denied violating sanctions. Reuters' emails sent to Jomadi's website bounced back.

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(restrictive measures against Covid-19 are limiting vehicle circulation). Even though some mills in Brazil's center-south region are increasing their sugar-directed mix (allocating more cane to sugar production rather than ethanol), significant volumes of ethanol are still being produced. Here, it is worth saying that companies that operate only as distilleries and/or produce corn-based ethanol can only opt to either reduce industrial rates or suspend activities (we did not see companies opting for the latter until now). The government is discussion tax incentives, but as of May 4, the economy ministry has not yet approved anything. Discussions are going two ways. The first is an increase in the CIDE tax (over gasoline). This measure would increase gasoline prices and make ethanol at the pump more competitive. This is a long-term incentive, since demand for fuels in general is still weak with little signs of strengthening, and the new rate would only be valid 90 days after the approval. The second is a temporary exemption of the PIS/Cofins tax (over ethanol). The liquid revenue with ethanol sales are below production costs for some mills. This exemption would mitigate the impacts of low ethanol prices over income."

A **Suani Coelho, professor and coordinator of the Research Group on Bioenergy-GBIO at the University of São Paulo's Institute of Energy and Environment:** "There are two huge challenges for the biofuels sector worldwide: the Covid-19 outbreak, with the corresponding reduction in fuel consumption and its economic consequences, and the oil price plunge, with strong effects on biofuels' competitiveness. In Brazil, an additional concern is the impact on the recent RenovaBio policy. Both Energy Minister Bento Albuquerque and the director of the biofuels department, Miguel Ivan Oliveira, have recently assured the sector that the incentive program will remain. However, the current situation is very difficult. Twenty-five percent of the 350 sugar/alcohol mills in the country may close by the end of this year due to the decrease in demand and the lack of funds to make payments. Ethanol prices fell by 65 percent (from 2 reais to 1.3 reais), and ethanol demand has fallen by 50 percent, according to UNICA. The main difficulty is storing ethanol until the crisis ends. Many mills cannot afford to do that. Harvesting season has just started, and now all mills must crush the sugar cane. Producing sugar could be an option for industries with flexible processes. However, there are several mills that don't have this option, as they produce only ethanol. And sugar prices are falling, too. Large groups such as Raízen and São Martinho can afford to store the ethanol produced, but many other mills don't have enough capital to do this. Average storage capacity is 48.8 percent, according to PECEGE, and special financing policies are necessary to face such difficulties. Meanwhile, the biodiesel sector seems to be in a slightly more comfortable situation, since all biodiesel is sold through ANP auctions. Starting May 1, the mandatory blend to diesel oil rose to 12 percent, and JBS reported biodiesel exports of 3.6 million liters to the European Union [last week]. It's not a large amount compared to production (5.9 billion in 2019), but it can help offset the impact of reduced national diesel consumption."

> **"The main difficulty is storing ethanol until the crisis ends. Many mills cannot afford to do that."**
> — Suani Coelho

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

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