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FEATURED Q&A

Will Petrobras' New CEO Let Politics Get in the Way?

Brazilian President Jair Bolsonaro nominated Joaquim Silva e Luna (pictured) to lead state oil company Petrobras. // File Photo: Itaipú website.

Q **Brazilian President Jair Bolsonaro recently tapped retired general and former Defense Minister Joaquim Silva e Luna to take over as CEO of state oil company Petrobras. The move came amid heightened tensions over Petrobras' hiking of gasoline prices as Bolsonaro sought to avoid a truckers' strike, which in the past has paralyzed the country's economy for weeks. What does Luna's appointment mean for Petrobras' direction, and what can be expected of the new chief executive? To what extent are investor concerns over political interference in the state oil company valid? How real is the threat of a truckers' strike against fuel price increases, and what implications would keeping prices artificially low have for the economy?**

A **Cleveland Jones, professor and researcher at the National Institute of Oil and Gas at the State University of Rio de Janeiro:** "The appointment of Gen. Luna would normally be first submitted to the Petrobras board for review. Investors were rattled because President Bolsonaro appointed him, seemingly, as an imposition. The board still must ratify the appointment but will approve it as it is controlled by government appointees. However, the apparent bullying was unwelcome. As head of the government, President Bolsonaro can indeed select the company's president, and Gen. Luna is unquestionably competent. He is a former defense minister and director general of Itaipú Binacional, the giant power generation company jointly owned by Brazil and Paraguay. Unfortunately, Petrobras is not a national oil company, but rather a quasi-national company in which the Brazilian government is a

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POWER SECTOR

AMLO Warns US Not to 'Meddle' in Energy Policy

Mexican President Andrés Manuel López Obrador warned the United States not to intervene in Mexico's domestic energy policy ahead of a meeting between his government and U.S. officials.

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OIL & GAS

Granholm Sworn in as Biden's Energy Secretary

Jennifer Granholm was sworn in as the new U.S. energy secretary following bipartisan confirmation in the Senate.

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OIL & GAS

González Takes Over as President of Argentina's YPF

The board of directors of Argentine state-controlled oil company YPF last week approved the appointment of Pablo González as the firm's new president. González, a former governor of Santa Cruz, succeeds Guillermo Nielsen.

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González // File Photo: @YPFOficial via Twitter.

OIL AND GAS NEWS

YPF Board Approves González as New Company President

The board of directors of Argentine state-controlled oil company YPF last week approved the appointment of Pablo González as the firm's new president, Petrol Plaza reported. González replaces Guillermo Nielsen, who had served as head of YPF since December 2019, when President Alberto Fernández took office. Nielsen has been nominated as Argentina's ambassador to Saudi Arabia, Más Energía reported. González is expected to work closely with Vice President Cristina Fernández de Kirchner to address the country's oil sector agenda, according to the report. "I am a person who comes from Argentina's inland, who understands the problems we have, and who believes that the greatest value a company has is its people," said González, a former governor of Santa Cruz province, Petrol Plaza reported. "I hope that we will continue working toward the challenges of generating energy for the country's growth and putting YPF in the place it has always been [in] and [which it] deserves," he added. González, 52, is a lawyer and public notary and has a diploma in hydrocarbons law from Austral University. He was a senator for the Justicialist Party from 2011 to 2015 and a member of Argentina's lower house of Congress since 2019. The change in leadership in YPF came just weeks after the company reached an agreement with creditors to roll over an interest payment of $413 million due in March, avoiding a default on $6.2 billion of debt, the Financial Times reported. "YPF's agreement [and] … a new gas plan make up an optimistic scenario for this year, during which investment and [Argentina's] oil and gas production are expected to grow," Víctor Bronstein, director of the Centro de Estudios de Energía, Política y Sociedad in Buenos Aires, told the Energy Advisor in last week's **Q&A**. However, even though the agreement "alleviated the company's short-term financial situation," it does not solve its structural problems," Gerardo Rabinovich, second vice president at Instituto de la Energía "General Mosconi," told the Energy Advisor in the same edition. "YPF's investment in Vaca Muerta is the cause of the company's high indebtedness, without the expected results," Rabinovich added

POWER SECTOR NEWS.

AMLO Warns U.S. Not to 'Meddle' in Energy Policy

Mexican President Andrés Manuel López Obrador last Friday warned the United States not to intervene in Mexico's domestic energy policy, ahead of a meeting between officials of his government and U.S. Secretary of State Antony Blinken, Reuters reported. Among the issues discussed during the virtual meetings between the two governments were López Obrador's energy policy in the context of the climate emergency, as well as trade and security. Strengthening Mexican state oil company Pemex and touting energy self-sufficiency have been cornerstones of López Obrador's administration. Mexico relies heavily on fuel imports from the United States to generate electricity, a strategy he has sought to overturn. For example, last month, López Obrador submitted a bill to Congress that seeks to give priority to state power utility CFE over private generators. The bill has caused alarm among private investors as it partially reverses the 2013 energy overhaul that opened the sector to private and international competition. Mexico's lower house of Congress approved the legislation last week, and the Senate approved it on Tuesday. Analysts say the proposed changes could make it harder for Mexico to meet its international environmental commitments, including those made as part of the Paris climate agreement, S&P Global Platts reported. Critics have also said the changes would drive up generation costs and electricity rates, be damaging to the environment and prompt international arbitration and constitutional challenges, The Wall Street Journal reported. In his attempts at bolstering the use of domestic fuel, López Obrador has also

NEWS BRIEFS

Granholm Sworn in as U.S. Secretary of Energy, Vows Progress on Clean Energy

Jennifer M. Granholm was sworn in last week as the United States' 16th secretary of energy following a confirmation vote in the Senate of 64-35, the Department of Energy said in a statement. Granholm is the second woman to lead the department. In a video following her swearing-in ceremony, Granholm said she will focus on tackling climate change by deploying clean energy technologies that "deliver cheap, abundant and clean power to fuel America's clean energy revolution," according to the statement.

EDP Brasil Signs Deal to Acquire Solar Energy Assets From AES

Brazilian power company Energias do Brasil, or EDP Brasil, has signed a deal worth 177 million reais ($32 million) to obtain solar energy assets from the local unit of AES, Reuters reported last week. The deal involves AES Inova, a distributed generation investment platform that uses technologies such as solar panels on land or roofs. The agreement would increase EDP Brasil's solar project portfolio by 50 percent, the company said in a statement. The firm is also planning to acquire additional solar generation assets.

Ecopetrol Considers Share Issuance to Buy ISA

Colombian state-owned oil company Ecopetrol may issue as much as $2.5 billion in shares to partially finance its potential purchase of a majority stake in ISA, Colombia's state utility, Ecopetrol CEO Felipe Bayón said last week, Reuters reported. Ecopetrol earlier this year made a nonbinding offer to buy the government's 51.4 percent stake in ISA. Bayón estimated the value of the majority stake at between $3.4 billion and $4 billion.

de-emphasized the country's renewable energy goals, a strategy that does not align with that of the new administration of U.S. President Joe Biden, who has made climate change a key focus. "We are independent," López Obrador said ahead of his meetings with U.S. officials. "We do not meddle in the affairs of the United States," he added, in reference to recent failures in Texas' power grid during winter storms. Mexico suffered severe repercussions as a result of freezing temperatures in the U.S. state, as shortages of natural gas it usually imports from Texas curtailed Mexico's power generation, especially in the northern region of the country. The U.S. Chamber of Commerce warned last month that the recently approved legislation may violate the U.S.-Mexico-Canada, or USMCA, trade agreement, the Associated Press reported. Giving priority in power purchases to state-owned power plants, which are also older and more polluting, would "directly contravene Mexico's commitments under the USMCA," the chamber said in a statement.

Brazil Preparing Privatization of State Utility Eletrobras

Brazil's government plans to reduce its stake in state-owned power company Centrais Elétricas Brasileiras, or Eletrobras, from 61 percent to 45 percent, Energy Secretary Rodrigo Limp told Reuters last week. Despite this cut, the government anticipates that its current stake in Eletrobras will double in share price, reaching a value of 60 billion reais ($11 billion), Limp said, Reuters reported. The decision is part of President Jair Bolsonaro's planned process to increase privatizations of utility companies by allowing Brazilian development bank BNDES to work on the sale of company shares, Reuters reported. Also last week, Bolsonaro delivered a bill to Congress including measures to privatize Eletrobras. Preferred and common shares in the state utility surged following the news, the wire service reported. A large percent of the proceeds made from selling shares of Eletrobras will go toward paying about 25 billion reais to the government for operating licenses

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minority owner but retains effective control. This arrangement can only result in such conflicts, since there is popular pressure to utilize Petrobras as an inflation control tool, while at the same time the market expects that Petrobras can establish its own corporate price policies, as any other private entity. Neither of these expectations can be entirely met under the present arrangement, resulting in market frustration and populist pressures. The market will not soon forget interventionist attitudes, which will hurt Brazil as an investment destination. Gen. Luna will likely acquiesce to President Bolsonaro's demands for fuel price restraint by adopting a longer-term policy for price adjustments, expecting to recoup losses later, a risky bet for Petrobras. For now, pressure for a truckers' strike should ease, especially since federal taxes were cut, lowering fuel prices."

A **Mark Langevin, senior advisor to Horizon Client Access:** "Roberto Castello Branco's removal is one small step for President Jair Bolsonaro's re-election in 2022, and one giant leap for Brazil's zany populism. The move demonstrates the president's autocratic quest to bolster his approval ratings and stay on track for a second-round victory in 2022. Castello Branco was adored by the company's minority shareholders, who trusted his strategic vision and applauded his incessant cost-cutting measures. He made Petrobras a very profitable E&P operator, anchored to the promising pre-salt fields of the offshore Santos Basin. He also drew the ire of the Federation of Petroleum Workers (FUP) and the Association of Petrobras Engineers (AEPET), as he cut the payroll and launched a divestment plan to sell off half of the company's refinery capacity. However, the final straw was Castello Branco's trust in the market and failure to attend to the political imperative, namely the president's anxiety over rising fuel prices and the threat of a truckers' strike. His replacement, General Joaquim Silva e Luna, is politically adept and a Bolsonaro loyalist who will discreetly work behind the scenes to slow down diesel and gasoline price increases while directing pet projects to satisfy the president and his allies in Congress. Silva e Luna will try to keep Petrobras on profitable path by following the company's crude oil production strategy, but the president's general will keep prices below international parity, right where Bolsonaro wants them."

A **Peter Baumgaertner, partner at Holland & Knight LLP:** "General Luna's appointment signals a more pragmatic direction for the oil company, with an obvious shift from pro-market to interventionist policies. Formerly, Petrobras CEOs were market-driven advocates who believed fuel prices should track global fuel markets. The question is whether Luna will attempt to artificially lower the price of diesel fuel in the short term (until after the 2022 presidential election) to help stave off a truckers' strike and then gradually reinstate more market-friendly policies. Luna will initially try to find a balance in fuel pricing by considering the impact on all stakeholders. Luna's direction

> **"The pivot to interventionism is a blow to the pro-business approach that Bolsonaro has pushed."**
> **— Peter Baumgaertner**

may also include fiscal tax policies such as the gradual elimination of national taxes on diesel to keep consumer costs at manageable levels. The pivot to interventionism is a blow to the pro-business approach that Bolsonaro has pushed. Investment analysts state that increased governmental interference is negative for credit and recommend reduced exposure to Petrobras bonds. Fuel price intervention may prevent another major

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for hydroelectric dams and transmission lines, Limp said. "The focus will be much more on the consumer and making investments," Limp told Reuters, in reference to the privatization process. Privatization efforts would not involve two of Eletrobras' units, including a nuclear energy company and a stake in the Itaipú dam.

POLITICAL NEWS

Brazil Reports Second Consecutive Day of Record Deaths

Brazil for the second consecutive day on Wednesday reported a record number of deaths from Covid-19 as a more contagious variant of the novel coronavirus spreads, Bloomberg News reported. The Health Ministry reported 1,910 new deaths over the previous 24 hours, pushing the country's total number of Covid-19 deaths to 259,271. The number of confirmed Covid-19 cases also rose by 71,704 in the previous 24 hours, to 10,718,630. Also on Wednesday, São Paulo Gov. João Doria announced the mandatory closure for two weeks of all nonessential businesses, including stores and gyms. The restrictions take effect Saturday and come as more than 75 percent of the state's beds in hospital intensive care units were occupied. "We are about to collapse in São Paulo and in Brazil," Doria told reporters. Patients' hospital stays are also getting longer, said João Gabbardo, the executive coordinator of São Paulo state's Covid-19 contingency center. Other Brazilian states, including Rio Grande do Sul and Pernambuco, have already tightened restrictions on movement in efforts to curb the spread of the novel coronavirus. Brasília tightened restrictions last weekend, and Rio de Janeiro's mayor is expected to take similar action soon, O Globo reported. Brazilian President Jair Bolsonaro, who has downplayed the threat of the virus and is rarely seen wearing a face mask in public, a basic containment measure urged by health authorities around the world, criticized the lockdowns on Wednesday. "You cannot panic, like resorting once again to this stay-at-home policy. People are going to die of hunger and depression," he told a group of supporters, Agence France-Presse reported. A slow vaccine rollout and gatherings for Carnival have added to the spike in infections, Bloomberg News reported. Brazil has deployed vaccines from China's Sinovac and Britain's AstraZeneca. The government also signed a deal for 100 million doses of Pfizer's vaccine, Veja reported. Brazil's rampant outbreak has become a global threat that could spawn even more deadly versions of the disease, São Paulo-based scientist Miguel Nicolelis told The Guardian. "The world must vehemently speak out over the risks Brazil is posing to the fight against the pandemic," said Nicolelis, a professor of neuroscience, neurobiology and biomedical engineering at Duke University. "What's the point in sorting the pandemic out in Europe or the United States if Brazil continues to be a breeding ground for the virus?" Hospitals in some parts of the country have been

ADVISOR Q&A

Who Has the Edge Ahead of Peru's Presidential Vote?

Q Support for Peruvian presidential candidate George Forsyth dropped nearly six percentage points over the past month amid controversy regarding the validity of his candidacy, and candidate Yonhy Lescano gained traction, La Tercera reported in February, citing recent polls. How is Peru's presidential election shaping up, and who are the candidates to watch? What are the most important factors driving voter support? To what extent are recent political crises, including lawmakers' controversial ouster of former President Martín Vizcarra last November, and a highly fragmented Congress playing a role in the race?

A Ursula Indacochea, director of the judicial independence program at the Due Process of Law Foundation (DPLF): "Peru's upcoming presidential election is full of uncertainty, and its outcome is difficult to predict. According to recent polls, 30 percent of voters remain undecided, and the favorite candidate, Yonhy Lescano of the Acción Popular party, has only 11 percent support. Since Fujimori's departure in 2000, Peruvians have preferred centrist, right-leaning rulers, as they have been fearful of losing the economic growth gained in the 1990s. Today, amid the pandemic, preferences seem to be oriented by two clear factors: vaccine management and job growth. Behind Lescano, who has a leftist agenda and supports a new constitution, three candidates are tied at around 8 percent—Verónika Mendoza (also a leftist with a progressive rights agenda), George Forsyth (who has been losing support and who seeks to be an alternative to traditional politics) and Keiko Fujimori (the daughter of the former president and who is running for a third time). In fifth place is the right-wing ultra-conservative Rafael López Aliaga, the self-proclaimed 'Peruvian Bolsonaro,' who is rising vertiginously, and who has managed to take the business sector's support away from Fujimori, who is worn out and accused of corruption. Last November's political crisis and the recent 'vacunagate' scandal do not seem to have affected the sectors that removed Vizcarra. The former president's popularity seems intact, as he is a favorite candidate for Congress. The undecided 30 percent of voters will dictate the results."

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

NEWS BRIEFS

Venezuelan Intelligence Reportedly Monitored Six Citgo Executives

Venezuelan intelligence services monitored six executives of U.S.-based refiner Citgo for a year while on U.S. soil in order to determine their involvement in an agreement that the government of President Nicolás Maduro deemed fraudulent, Reuters reported Tuesday, citing court testimony. The monitoring eventually led to the six executives' 2017 arrest in Caracas on corruption charges and their sentencing last November to between eight and 13 years in jail. A senior Venezuelan military official said in court that the information was sent to Public Prosecutor Tarek William Saab.

Guatemalan Congress Raises Impunity Concerns in High Court Selections

Guatemala's Congress on Tuesday began the process of reshaping the country's Constitutional Court, leading to concerns over impunity, the Associated Press reported. Among lawmakers' moves was the decision to reappoint Dina Ochoa for a second term. Ochoa previously protected a fugitive judge accused of corruption and favored the ejection of Guatemala's U.N. anti-corruption mission, CICIG, the AP reported.

Paraguay Cancels Nonemergency Surgeries in Public Hospitals

Paraguay has canceled nonemergency surgeries in all public hospitals amid a surge of Covid-19 infections that is overwhelming intensive care units, the Health Ministry announced Wednesday, the Associated Press reported. Resources will instead go toward fighting the pandemic, the ministry added A pneumologist at the National Institute of Respiratory and Environmental Diseases told the AP that the country was running out of medical supplies. inundated, health experts say. "The acceleration of the epidemic in various states is leading to the collapse of their public and private hospital systems, which may soon become the case in every region of Brazil," the country's national association of health secretaries said in a statement, The New York Times reported. Trials of several Covid-19 vaccines indicate that they can prevent serious illness even when they do not protect a patient from becoming infected with a new variant.

Bukele Headed for Supermajority in El Salvador Elections

President Nayib Bukele's New Ideas party and its allies appeared to win a two-thirds majority of the seats in El Salvador's Legislative Assembly following Sunday's elections, Reuters reported Monday. The ruling party and its allies were projected to win approximately 70 percent of the vote. "The citizens heeded the president's call to give him enough lawmakers to be able to govern without any opposition," Eduardo Escobar, an electoral expert and executive director of nongovernmental organization Citizen Action, told Reuters. "The results give him a free rein to rule." Critics have blasted Bukele for autocratic tendencies in governing. He has ignored rulings of the country's Supreme Court and in February 2020 sent heavily armed soldiers into the Legislative Assembly in a show of force in support of anti-crime legislation. "Despite criticisms of his autocratic style and showman-like tendencies, Bukele's popularity with voters is undeniable," Christine Wade, a professor at Washington College in Chestertown, Md., told the daily Latin America Advisor in a Q&A published Feb. 19. "The concentration of power in Bukele's hands would be especially concerning, given issues with transparency and rule of law during the past year," Wade added.

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> — Christine Wade

ECONOMIC NEWS

Mexico's Remittances Rise More Than 25 Percent in January

Mexico received approximately $3.3 billion in remittances in January, a 25.8 percent increase as compared to the same month last year, beating analysts expectations, the Bank of Mexico announced Monday, EFE reported. In the first month of this year, the average amount of a money transfer to Mexico was $343, higher than $322 from January 2020, the central bank said. The number of transfers also increased, to 9.61 million, as compared to 8.13 million in January of last year. The majority of transfers were done electronically, the Bank of Mexico said. Last year, amid the Covid-19 pandemic, Mexico received $40.6 billion in remittances, a record amount, and an increase of 11.4 percent as compared to 2019. "Generous wage/income support fiscal transfers in the U.S., a very competitive MXN/USD level and a deep contraction of activity and employment in Mexico have acted as both push and pull drivers of dollar remittances from the U.S. to Mexico," Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs in New York, said in a note. "The expectation of continued fiscal stimulus and robust growth profile in the U.S. should keep remittances flow strong in 2021." Mexico's record level of remittances have more than offset the country's loss of income from international travel and tourism and led the country to have a current account surplus of 2.4 percent of gross domestic product last year, "the strongest current account outturn in more than 30 years," Ramos added. Mexico's income from remittances far outpaced the $14.6 billion that the country received from exports of crude oil, Ramos added. [Editor's note: See related Q&A in the Dec. 16 of the biweekly Financial Services Advisor.]

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truckers' strike, but the implied cost in investor confidence could be long-lasting. The last truckers' strike in 2018 brought Brazil's economy to a halt. What may be different this time is that Brazil, like the rest of the world, is dealing with an economic recession and supply chain issues caused by the Covid-19 pandemic, including the transportation of crucial medical supplies. It's possible that public support for a labor strike will be much lower than in the past, which might give Luna leverage to implement a middle-of-the-road approach."

A **Edmar de Almeida, professor at the Institute of Economics at the Federal University of Rio de Janeiro and researcher at the Institute of Energy in PUC-Rio:** "There is very little room for the federal government to radically change Petrobras' current policy to align its price at the refineries to the international level. Currently, the fuel market in Brazil has evolved, with the participation of private players in fuel supply. The regulatory framework and governance of Petrobras have also evolved, making the board and the executive directors liable if they adopt any policy of subsidizing fuels, at the expense of the company's cash flow. Therefore, I think the new leadership of Petrobras will work with the government on developing a pricing policy with more transparency and predictability, at the same time allowing domestic prices to follow international prices. I see the current change at Petrobras much more as a result of political friction between Bolsonaro and company's former leadership, than a result of a real plan to change the fuel pricing policy."

[Editor's note: In response to the Energy Advisor's request for comment, Carlos Monteiro, press officer at Petrobras, wrote: "We reinforce that Petrobras follows the pricing of fuels in line with international prices converted into reais by the real/U.S. dollar exchange." He declined to comment further.]

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

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