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FEATURED Q&A

Will Ecuador's New President Shake Up the Energy Sector?

Pro-market President-elect Guillermo Lasso is to take office in Ecuador later this month. // File Photo: @LassoGuillermo via Twitter.

Q Among his first promises as Ecuador's president-elect, Guillermo Lasso pledged to seek new risk-sharing contracts with private companies in the oil sector, a major pillar of the Andean nation's economy. At the same time, Lasso said he was wary of oil drilling in the Yasuní national park in the country's Amazon region, adding that he backed an audit to determine the environmental costs and profitability of extraction from oil wells located there. What will be the Lasso administration's main priorities for the oil sector, and what will they mean for the country's economic recovery? Is the new government likely to continue or significantly change the energy policies of current President Lenín Moreno? In what ways will the rise of Ecuador's Indigenous movement, whose coalition now has the second-largest presence in the National Assembly, influence the incoming administration's energy policy?

A Ramiro Crespo, president of Analytica Securities in Quito: "Guillermo Lasso's oil policy aims to apply principles of good corporate governance to an industry that has suffered immensely from corruption and whose output at the same time has barely treaded water for the past 15 years. While production-sharing agreements already exist, Lasso wants to modify the contract scheme to make it more attractive for private companies to invest, while at the same time making companies take on a greater share of entrepreneurial risk. He recognizes that oil production isn't easy to ramp up, hence his interest in attracting investment as soon as possible. His goal of increasing oil

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TOP NEWS

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Canada's Oil-Rich Alberta Province a Covid Hotspot

The oil-rich province of Alberta is seeing the highest rate of Covid-19 cases in Canada, which has disrupted essential annual maintenance work at its massive oil sands plants.

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RENEWABLES

Chinese Firms to Build Solar Plants in Brazil

China Development Integration and China Engineering Corp. have reached a deal to finance and construct a 1,100-megawatt solar power complex in Brazil.

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OIL & GAS

Exxon Announces More Oil Finds Offshore Guyana

ExxonMobil announced a new oil discovery in the Uaru-2 well in the Stabroek block offshore Guyana, which it operates in partnership with Hess and CNOOC. Exxon, led by CEO Darren Woods, also announced estimated first-quarter earnings of $2.7 billion.

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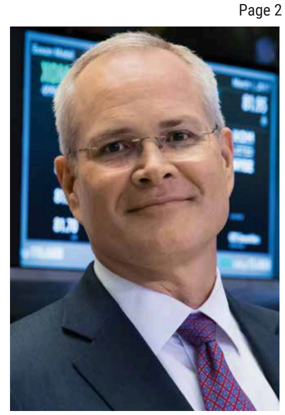

Woods // File Photo: ExxonMobil.

OIL AND GAS NEWS

Venezuela Grants House Arrest to Former Citgo Execs

Six U.S. oil executives who were imprisoned in Venezuela more than three years ago on alleged corruption allegations were granted house arrest on April 30 in a move that was widely seen as a conciliatory gesture toward the administration of U.S. President Joe Biden as the White House reviewed its policy toward the Andean nation, the Associated Press reported. The partial release of the employees of Venezuelan state oil company's Houston-based refiner, Citgo, was confirmed to the AP by family members of the men, who are known as the Citgo 6. Tomeu Vadell, José Luis Zambrano, Alirio Zambrano, Jorge Toledo, Gustavo Cárdenas and José Pereira were detained by masked security agents during a meeting in Caracas in 2017. The men had been released once before, in December 2019, and were jailed again two months later when then-U.S. President Donald Trump welcomed Venezuelan opposition leader Juan Guaidó to the White House. Biden administration officials were scheduled to meet last week to review U.S. policy toward Venezuela, including sanctions on the oil sector that have crippled the government's exports and revenues. The release of the Citgo 6 was seen as a possible sign that Venezuelan President Nicolás Maduro was willing to work with the Biden administration, The New York Times reported. Other steps by Maduro that have been seen as pacifying signals include the ruling party-controlled National Assembly's appointment of two members of the opposition to the electoral council, known as the CNE, and allowing the U.N. World Food Program back into the country. However, a White House official told Reuters earlier this week that it needed to see "concrete actions" before changing any policy toward Venezuela.

The move was seen as one of several conciliatory signals to the Biden administration.

Exxon Announces New Find in Guyana, First-Quarter Profits

ExxonMobil announced last week that it has made an additional oil discovery in the Stabroek block offshore Guyana, which it operates in partnership with Hess Corp. and China's CNOOC. The discovery at the Uaru-2 well adds to the previously announced gross discovered recoverable resource estimate for the block, which stands at approximately 9 billion barrels of oil equivalent, the company said. The well was drilled in 5,659 feet of water and is located approximately 6.8 miles south of the Uaru-1 well. Exxon encountered approximately 120 feet of high-quality oil-bearing reservoirs, it said. "The Uaru-2 discovery enhances our work to optimally sequence development opportunities in the Stabroek block," said Mike Cousins, senior vice president of exploration and new ventures at Exxon, Offshore Magazine reported. The company anticipates at least six projects to be online by 2027, with potentially as many as 10 floating production storage and offloading vessels, or FPSOs, to develop its current recoverable resource balance, according to the report. In related news, Exxon last week announced estimated earnings of $2.7 billion in the first quarter of 2021, compared to a loss of $610 million in the same period a year ago. It posted first-quarter capital and exploration expenditures of $3.1 billion, $4 billion lower than in the first three months of 2020. The company's oil-equivalent production was 3.8 million barrels per day, up 3 percent from the previous quarter. "The strong first-quarter results reflect the benefits of higher commodity prices and our focus on structural costs reductions, while prioritizing investments in assets with a low cost of supply," Darren Woods, Exxon's chairman and CEO, said in the statement.

NEWS BRIEFS

Chinese Firms to Build Solar Complex in Brazil

China Development Integration, or CDIL, and China Engineering Corp. have reached a deal to finance and construct a solar power complex in Brazil, CDIL announced last week, Renewables Now reported. The 1,100-megawatt plant will require a total investment of about $1 billion, the Hong Kong-based company said. As part of the first phase of the project, the Chinese firms will build a 300-megawatt solar photovoltaic plant in Porto do Açu, in Rio de Janeiro state, and an 800-megawatt facility will be added during the second phase.

Venezuela Arrests PDVSA Officials for Alleged Illegal Sale of Fuel Amid Shortage

Venezuelan Attorney General Tarek William Saab announced last week that 10 officials of state-owned oil company PDVSA were arrested for allegedly diverting and selling approximately three million liters (792,516 gallons) of fuel, as ongoing gasoline shortages threaten the country's food security, Reuters reported. The group of officials, which included high-ranking personnel, were detained at a fuel filling plant in the country's Zulia state, according to Saab.

Mexico Senate Approves Initiative to Lift Pemex's Asymmetric Price Rules

Mexico's Senate last week approved an initiative that would strip energy regulator CRE of its ability to subject state oil company Pemex's sales to asymmetric regulation in President Andrés Manuel López Obrador's latest attempt to boost the firm, Reuters reported. The initiative, which will remove asymmetric price rules against Pemex, is designed to constrain Pemex's dominance. The country's Federal Economic Competition Commission, or Cofece, opposes the initiative, saying it may hurt competition.

Canada's Oil-Rich Alberta Province Now a Covid-19 Hotspot

Canada's oil sands region in the northern part of the Alberta province has become a hotspot for the spread of Covid-19, disrupting essential annual maintenance work at its large oil sands plants, Reuters reported last week. The oil-rich province is experiencing the highest rate of Covid-19 cases in Canada as the country struggles to contain a third wave of infections. The regional municipality of Wood Buffalo, where the oil sands that hold the world's third-largest crude reserves are located, has the highest rate of active cases per capita in the province. Twelve oil sands plants in the area, including Canadian Natural Resource's Horizon and the Suncor Energy-owned Syncrude project, have seen outbreaks amid their annual maintenance projects, which has delayed the process at some facilities by at least a month while the companies wait for infections to subside, according to the report. The maintenance work is crucial for production from Canada's oil sands, which totals 3.1 million barrels per day and accounts for about three-quarters of the country's total output.

RENEWABLES NEWS

Chile to Close Half of its Coal-Fired Power Plants by 2025: Jobet

Chilean Energy Minister Juan Carlos Jobet announced last week that the country plans to close half of its coal-fired power plants by 2025, which is 15 years earlier than the original deadline set by the government and power companies to remove fossil fuels from the country's energy mix as part of its transition to renewable energy, S&P Global Platts reported. In accordance with the initial agreement, signed in 2019, eight power plants

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output to 700,000 barrels a day from the present 500,000 or so probably won't be reachable by the end of his term. He will probably face stiff opposition if he attempts to list Petroecuador in the United States and locally, similar to what happens in Brazil with Petrobras or Colombia with Ecopetrol. This would strengthen corporate governance and provide revenue from a company that doesn't even have an audited balance sheet. Eventually, Petroecuador could expand internationally, such as Chile's Enap, reducing the pressure to expand production on Indigenous lands, and thus perhaps softening opposition to privatization. At the same time, he is offering Indigenous organizations an unusually strong say by offering binding previous consent to new oil and mining projects. Whether this will succeed in defusing, or instead exacerbate, existing conflicts over natural resource development will depend to a high degree on his administration's abilities to negotiate, as well as on Indigenous organizations' willingness to compromise."

A **Sebastián Maag Pardo, senior consultant on energy and natural resources at FTI Consulting:** "As Guillermo Lasso prepares to take office on May 24, priority issues facing the oil and gas sector mirror Ecuador's governability challenges—to name a few: opposition from renewed political forces, fragile government finances, widespread mistrust in institutions and growing activism. Addressing the country's economic and governance crises will hinge on actions that build credibility for structural reforms. Oil is no exception. Crude exports and royalties from new upstream contracts will be an essential source of fiscal revenue, especially as Lasso pledged to eliminate the $4-5 billion yearly fiscal deficit by 2025. To boost crude production and ensuing revenues, he will look to attract foreign investment. This market-oriented push includes: 1.) realigning public and private incentives; 2.) deleveraging Petroecuador, to avoid overreliance on public finances; and 3.) strengthening accountability—environmental, financial and administrative—across the fuels value chain. But before risks can be shifted from the Ecuadorean taxpayer to investors, the administration needs to tidy up the image of a sector mired in various corruption probes. With the recent Petroecuador-Petroamazonas merger, the time is ripe to undergo a transparency overhaul—not only through an audit of operations in the mega-biodiverse Yasuní, but also stronger environmental impact assessments at large, adding to financial valuation and compliance audits that help attract investors. This would generate the public confidence Lasso needs to deepen actions that his predecessor started. If Fernando Santos—who closely advises current Energy Minister René Ortiz—is confirmed as energy minister, markets can expect more than continuity: Ecuador faces the opportunity to gather all stakeholders and have a historic rethink of the state's involvement with oil. Done right, this could pave way to adequately eliminating fossil-fuel subsidies, opening competitive bidding rounds and moving toward other international best practices that free up public resources best devoted to priority social issues."

> **"Addressing the country's economic and governance crises will hinge on actions that build credibility on structural reforms."**
> — Sebastián Maag Pardo

A **Paola Carvajal, senior manager at Roland Berger:** "President-elect Guillermo Lasso is facing a complex situation in Ecuador. The country's economic crisis requires the reactivation of multiple sectors, including oil and gas operations, as the

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were set to close by 2024. But, as of the end of last year, six have already been taken offline. "We are continuing to consolidate the age of clean energy and leaving behind the coal age," Jobet said, S&P Global Platts reported. News of Chile's revised deadline came after French power company Engie said it will modify its three coal-fired plants in the country to run on natural gas and biomass by 2025. Chile's success during its coal phaseout, including its plans to disconnect the second unit of the Bocamina plant by May 2022, has prompted Santiago-based AES Gener and Italian power company Enel to make commitments to close some of their own plants in the South American nation by 2025 as well. "This is a ratification that in Chile there is a consensus that the country's potential and greater competitiveness is in the use of its renewable sources, in which it has significant comparative advantages due to the quality of its solar and wind resources," Andrés Rebolledo, a former Chilean energy minister, told the Energy Advisor in a Q&A published Aug. 14. "The current challenge is innovating in renewable technologies that allow us to continue deepening this transition, lowering energy costs and ensuring the operation of the electric system," he added. Chile's efforts to end coal-based generation is part of the country's commitment to the United Nations' Paris Climate Agreement goal of achieving carbon neutrality by 2050.

POLITICAL NEWS

At Least 24 Dead as Protests Continue Roiling Colombia

Massive protests continued on Wednesday for a seventh day in Colombia, where at least 24 people have died and hundreds more have been injured amid a government crackdown against demonstrators, CBS News reported. The country's ombudsman said Wednesday that 23 civilians and a police officer have been killed in the unrest, which started a week ago. The protests initially began after President Iván Duque's government submitted a controversial tax reform bill to Congress but have grown to reflect discontent over a litany of problems, including increasing unemployment and poverty amid the Covid-19 pandemic, as well as police brutality, sparked by authorities' heavy-handed response against demonstrators. The militarized response from law enforcement has prompted condemnation from international groups, including Amnesty International and

ADVISOR Q&A

How Do Countries in the Americas Differ on Climate Goals?

Q **The administration of U.S. President Joe Biden on April 22-23 hosted a virtual Earth Day summit, in which 40 world leaders including from Brazil, Mexico, Argentina and Colombia discussed collective action on mitigating climate change. How well is the United States cooperating on climate change issues with countries in Latin America and the Caribbean, and how can collaboration be expanded under the Biden administration? What obstacles remain to effective action on carbon-emission reduction goals and environmental protection at the hemispheric level? How has the private sector engaged in these efforts in Latin America and the Caribbean as compared to other parts of the world?**

A **Lisa Viscidi, director, and Sarah Phillips, assistant, at the Energy, Climate Change & Extractive Industries Program at the Inter-American Dialogue:** "Hemispheric partners displayed a wide range of climate ambition at the U.S.-led summit. Argentine President Alberto Fernández announced the country will once again up the ambition of its Nationally Determined Contribution and submit a plan next November in Glasgow to produce nearly one-third of its electricity from renewable energy. President Iván Duque reiterated Colombia's recent commitment to a 51 percent emissions reduction by 2030, highlighting efforts in reforestation and clean power. Although Brazilian President Jair Bolsonaro announced his most ambitious climate goals yet, pledging to achieve carbon neutrality by 2050 and eliminate illegal deforestation by 2030, his promise to double conservation enforcement funds was contradicted soon after when he signed off on a budget that did not include his spending pledge. Mexican President Andrés Manuel López Obrador did not make new commitments to cut emissions but instead said he will modernize hydropower plants, reduce oil exports and expand the country's reforestation program. Despite climate pledges from various Latin American leaders, the region will require much more capital to transition to low-carbon energy systems. The United States is well positioned to help, thanks in part to the newly expanded capabilities of the Development Finance Corporation. Under Biden's leadership, the development finance institution has incorporated a series of environmental commitments, including a pledge to reach net-zero emissions through its investment portfolio by 2040 and increasing climate-focused investment to 33 percent of new investments starting in the 2023 fiscal year. This new emphasis on green finance will help catalyze private sector investment in climate change mitigation and adaptation technologies throughout Latin America.

EDITOR'S NOTE: More commentary on this topic appears in the Q&A of the April 30 issue of the Latin America Advisor.

NEWS BRIEFS

Chile's Proposed Royalties 'Akin to Expropriation': Mining Industry Group

Legislation that would force mining companies to pay higher royalties is "akin to expropriation" and would paralyze investment in the sector, Chile's National Mining Society, or Sonami, said Tuesday, Reuters reported. The plan proposes a tax of at least 3 percent on sales of copper and lithium. Opposition lawmakers are pushing the measure as a way to pay for more expansive social programs as the country seeks to recover from the Covid-19 pandemic. The Chamber of Deputies is expected to vote on the measure on Thursday.

López Obrador Vows Investigation of Deadly Metro Collapse

Mexican President Andrés Manuel López Obrador on Wednesday vowed a full and transparent investigation of Monday's collapse of a Mexico City Metro overpass, which killed at least 24 people and injured dozens of others, Reuters reported. "There's no impunity," said the president. López Obrador was Mexico City's mayor from 2000-2005, and his foreign minister, Marcelo Ebrard, was the city's mayor at the time the Metro line involved was opened in 2012. Since then, there here have been concerns about the structural integrity of the line.

Brazil's Central Bank Raises Key Interest Rate

Brazil's central bank on Wednesday raised its benchmark interest rate by 75 basis points, bringing the Selic rate to 3.5 percent, in line with estimates from all economists in a Bloomberg survey, Bloomberg News reported. The central bank promised another hike of the same amount next month as it seeks to push inflation, which was at a four-year high at 6.17 percent in the year through mid-April, back within its target.

the U.N. Office of the High Commissioner for Human Rights, which expressed "deep alarm" over reports of police shootings in the city of Cali, CBS News reported. The unrest in Colombia could potentially spill over to other countries in Latin America, which has been the region hit hardest by the pandemic both in terms of the health and economic crises, The New York Times reported. "This could spread across the region," political analyst León Valencia told the newspaper.

El Salvador's Legislative Assembly Sacks High Court

El Salvador's new Legislative Assembly, which is controlled by the New Ideas party of President Nayib Bukele, in its first session on Saturday voted to remove the five magistrates of the constitutional chamber of the country's Supreme Court, the Associated Press reported. Just hours after the Saturday night vote, lawmakers also voted early Sunday to fire the country's attorney general, Raúl Melara. New magistrates were immediately installed, and Rodolfo Delgado was named attorney general, Bloomberg News reported. "And the Salvadoran people, through their representatives, said FIRED," Bukele said in a posting on Twitter. He later tweeted that he was "extremely pleased" with the legislative session. Business groups and international actors, including members of U.S. President Joe Biden's administration, expressed concerns over the developments. U.S. State Department spokesman Ned Price said Secretary of State Antony Blinken spoke with Bukele by phone on Sunday to express "the U.S. government's grave concern" over the removal of the high court's magistrates. Blinken also raised concerns with Bukele about the attorney general's removal, saying he has been "fighting corruption and impunity, and is an effective partner of efforts to combat crime in both the United States and El Salvador." Ruling party lawmakers accused Melara of lacking independence, Reuters reported. In a series of posts on Twitter, Bukele addressed "the international community" in saying that the firings were warranted. "With all due respect, we're cleaning house and this isn't your concern," Bukele tweeted.

ECONOMIC NEWS

White House to Back Int'l Patent Waivers for Covid Vaccines

The administration of U.S. President Joe Biden will support waiving international property protections for vaccines against Covid-19 amid concerns over access to the vaccines in developing countries, The New York Times reported. U.S. Trade Representative Katherine Tai announced the support on Wednesday amid spiraling infection rates in locations including South America and India. "This is a global health crisis, and the extraordinary circumstances of the Covid-19 pandemic call for extraordinary measures," Tai said in a statement. "The administration believes strongly in intellectual property protections, but in service of ending this pandemic, supports the waiver of those protections for Covid-19 vaccines." The United States had been holding off on supporting a proposal at the World Trade Organization to suspend some intellectual property protections. Such a suspension could allow drug manufacturers to access trade secrets on how vaccines are made. The Biden administration had faced increasing pressure to support the proposal, which India and South Africa drafted and many Democratic members of the U.S. Congress have supported, The New York Times reported. "With this waiver, we can share vaccine recipes, largely developed with taxpayer dollars, while assuring reasonable royalties to American manufacturers," said Rep. Lloyd Doggett (D-Tex.), the chairman of the House Ways and Means Committee, The Hill reported. The European Union and countries including Brazil, the United Kingdom, Switzerland, Japan, Canada and Australia have opposed the waiver proposal. The pharmaceutical industry has also staunchly opposed the waivers, saying the move would hurt innovation and harm their ability to produce the hundreds of millions of vaccine doses that are needed.

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economy depends heavily on crude oil exports and revenue. President Moreno started to open the hydrocarbons industry to private investors, conducting bidding rounds under production-sharing contracts, and the new administration is likely to continue pushing to secure new private investment in this sector. However, Lasso's intentions of injecting new funds into the hydrocarbon sector will likely face significant challenges. The first one will be the energy transition trend toward low-carbon fuels and sustainable operations. Oil and gas extraction, operators and investors in areas such as the PPT field in the Amazonian region will be subject to more significant and growing national and international scrutiny. Internally, the election process demonstrated the importance of the Indigenous movement, which will reject extended oil and gas operations in the PTT. Moreover, President-elect Lasso will also need to focus on diversifying the economy toward lower-carbon intensity activities. The support for developing other sectors, including the nascent mining sector, will be essential to transform and strengthen the Ecuadorean economy for the future."

A **Marc Becker, professor of history at Truman State University:** "It is too early to tell what the gap between Lasso's campaign promises and his actual policies will be, but given his previous track record of actual implemented policies and the patterns of similar politicians, we can expect quite a dramatic right-wing turn. Recognizing that he only polled 20 percent of the vote in the first round, and that this is the extent of the support he can count on from his CREO party in the legislature, Lasso made promises to gain the backing of those who otherwise would oppose his neoliberal economic policies. Now that the elections are over, we can expect his true colors to shine through his rhetoric. But even during the elections he promised to deepen Ecuador's dependency on resource extraction, which historically has only proven to underdevelop the country's economy. A saying from the 1970s oil boom was that Ecuador became a dollar poorer for every barrel of oil it exported, and nothing has changed significantly since then to alter that equation. Lasso can expect to face significant resistance to his politics of privatization and resource extraction both from organized social movement mobilizations on the streets and Pachakutik's electoral representatives in Congress. Although his proposed draconian policies will be easy to confront, sectors of the Indigenous movements share some responsibility for them because of their tacit support for Lasso in the second round of the election that grew out of their opposition to the previous Rafael Correa administration's similar reliance on resource extraction."

> **"Lasso can expect to face significant resistance ... from organized social movements ... and Pachakutik's electoral representatives in Congress."**
>
> **— Marc Becker**

[Editor's note: The Energy Advisor requested a commentary from the Yaku Pérez campaign as well as from a National Assembly representative of the Pachakutik party but received no response from either.]

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

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