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FEATURED Q&A

Will Petrobras Sell its Refineries by the Year-End Deadline?

Brazilian state oil company Petrobras is close to selling the Landulpho Alves refinery (pictured) in Bahia state, the first of eight refineries it plans to sell. // File Photo: Government of Bahia.

Q Brazilian state oil firm Petrobras is close to selling its first refinery after antitrust watchdog Cade in June approved the state oil company's $1.65 billion deal with Abu Dhabi's state-owned investment fund, Mubadala. However, the lengthy negotiating process between the two parties has raised concerns that the oil company will not be able to close planned sales of an additional seven refineries by the end of this year, the deadline Petrobras and Cade set for the transactions. What is the state of Petrobras' planned refinery sales? Is the company likely to meet the Dec. 31 deadline, and what implications would missing it have for the company's broader divestment plans and financial situation? How well has Petrobras weathered the Covid-19 pandemic?

A **Adriano Pires, founding partner and director of the Brazilian Center of Infrastructure (CBIE):** "Petrobras has placed eight refineries in the divestment process. In March, it signed the sale of the Landulpho Alves Refinery (RLAM) in Bahia and its associated assets to Mubadala Capital for $1.65 billion. The contract provides adjustments in the sale value due to variations in working capital, net debt and investments. In June, Cade approved the transaction. The operation was questioned at the Federal Court of Accounts on accusations that it had been sold for below-market value, but the court dismissed the complaint. RLAM will be the first of eight refineries that are in the sales process to have the contract signed. Cade in April extended the sale period for the other refineries. Petrobras is

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OIL & GAS

Canada's CGX Begins Drilling in Guyana

The Canadian company has begun drilling in Guyana, 21 years after a border dispute with Suriname derailed its initial effort.

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RENEWABLES

Chile's AES Andes to Retire Four Coal-Fired Plants

The Chile-based subsidiary of U.S. company AES Corp. said it plans to retire four coal-fired power plants by Jan. 1, 2025, ahead of schedule.

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OIL & GAS

Colombia's Ecopetrol Reports Rebound as Social Unrest Dies Down

Colombian state oil company Ecopetrol, led by CEO Felipe Bayón, has reported a rebound in its operations as massive anti-government protests across Colombia have wound down in recent weeks. Demonstrations were underway for two months.

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Bayón // File Photo: Colombian Government.

OIL AND GAS NEWS

Petrobras' Recent Price Hike Shows Independence: CEO

Petrobras' decision to raise fuel prices shows the Brazilian state oil company's independence, CEO Joaquim Silva e Luna told Reuters in an interview published last week. Petrobras last week hiked fuel prices, with Luna saying the move was necessary due to the high price of oil on international markets. He emphasized that all price increases are done on technical grounds and based on the future outlook for demand and supply. President Jair Bolsonaro tapped Luna, a former defense minister and retired army general, to head the company earlier this year following a spat between the president and the company's former chief executive over price increases. Bolsonaro staunchly opposed the move. Luna said Petrobras hiked prices last week without consulting Bolsonaro, which Luna said underscored the company's independence. Bolsonaro's dispute with former Petrobras CEO Roberto Castello Branco and his subsequent appointment of Luna had sparked some concerns among investors that Bolsonaro was attempting to intervene in company policy. Petrobras on July 5 announced the first increase in diesel and gasoline prices since Luna took over on April 19. The company will raise wholesale natural gas prices by 7 percent, starting on Aug. 1. The move reflects gains in crude prices and variations in foreign exchange rates, the company said. Petrobras said that during the months of April, May and June, crude prices rose by 13 percent while the Brazilian real appreciated 4 percent to the U.S. dollar. [Editor's note: See related Q&A in the March 5 issue of the Energy Advisor.]

President Jair Bolsonaro had clashed with Petrobras' former CEO over planned price hikes.

Ecopetrol Reports Rebound Following Protests in Colombia

Colombian state oil company Ecopetrol on Monday reported a recovery of its operations in the upstream, midstream, downstream and sales and marketing sectors as the country's political and social situations stabilize following months of nationwide protests. The demonstrations erupted in late April over a now-canceled tax reform but transformed into a massive public outcry over a litany of grievances, including growing poverty and inequality as well as police violence. Demonstrations have died down in recent weeks, although some experts expect them to soon pick up again if the government does not address protesters' demands. The Colombian energy ministry has said the country's oil production took a hit in recent months largely due to road blockades that were part of the protests. Ecopetrol has since reported a recovery in its operations. In the upstream segment, the company said its production levels in June reached 656 million barrels of oil equivalent per day (mboed), as compared to 650 mboed at the end of May. "Since the blockades lifted, production has resumed its growth path, achieving an exit rate of 686 mboed at the end of the second quarter," the company said in a statement. Meanwhile, in the midstream segment, the company transported 258 million barrels per day (mbpd) of refined products in June, 25 mbpd higher than the 233 mbpd transported the previous month. However, volume of crude transported reached 686 mbpd, lower than in May, when 711 mbpd were transported, the company said. "Since the beginning of the public order disruption, the company has adjusted its logistics to minimize the impact on the distribution of fuels to the different regions of Colombia, implemented strategies to maintain operations and maintained a fluid dialogue with communities where it operates," Ecopetrol said in a statement. The company added that it is still evaluating

NEWS BRIEFS

Canadian Solar's Battery Project in Colombia Has 15-Year Revenue Stream

Canadian Solar on Monday announced that a 45-megawatt battery project that it recently secured in Colombia's storage auction would benefit from a 15-year revenue stream, Renewables Now reported. "The project is granted with a 15-year revenue structure with the Colombian government and is indexed to the country's inflation or producer price index," the Canadian company said in a press release. Colombia's government recently announced that Canadian Solar won the tender process for the full delivery of the country's first utility-scale battery energy storage system.

Colombia Accepted as New Member of the Int'l Energy Agency

Colombian President Iván Duque announced Saturday that the Andean nation was accepted as a member of the International Energy Agency, or IEA, in what he said was a recognition of the country's leadership in the energy transition in Latin America and the Caribbean, La República reported. The IEA works with countries on implementing energy policies.

Spain's Solatio Launches 810 Megawatt-Peak Solar Power Complex in Brazil

Spain's Solatio last week inaugurated a solar power complex in Brazil that will add 810 megawatt-peak once it is fully online, Renewables Now reported Monday. The 3 billion real ($570 million) solar farm project, located in the state of Pernambuco, consists of three individual plants, which are expected to make it the largest solar complex in Latin America, according to Brazil's Ministry of Mines and Energy. Combined, the solar plants are expected to generate enough electricity to power 800,000 families, the ministry said.

whether the impact on its operations over the last two months would imply an adjustment to its operating goals for the year. "For the oil and gas industry, operational disruption is adding a new source of above-ground risk" in Colombia, Karla Schiaffino, senior analyst at Verisk Maplecroft, told the Energy Advisor in a **Q&A** published June 11.

Canada's CGX Begins Drilling in Guyana After 21-Year Delay

Canada's CGX Energy has started drilling its first well in Guyana, 21 years after the company's initial effort was derailed because of a border dispute, Argus Media reported last week. CGX began drilling the Kawa-1 well on the shallow-water Corentyne block, according to Guyana's maritime agency, Marad. CGX was granted a license to drill in the block in 1998, but neighboring Suriname's military forced the company to shut down its search because of territorial claims that were resolved in 2007. The block is located south of ExxonMobil's Stabroek block, which is projected to yield 800,000 barrels per day of oil by 2025.

POWER SECTOR NEWS

Power Outage in Central America Cost $18.2 Million: Official

The economic cost of a regional power outage in Central America on July 7 totaled about $18.2 million, René González, the head of the region's electricity operator, EOR, said last week, Reuters reported. The blackout left Honduras and Nicaragua and parts of Guatemala and El Salvador in the dark for as long as five hours. The power cut affected about 15 million users across Central America, the EOR said. González said two failures had caused it, one at the key Amarateca-Toncontín transmission

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expected to meet the deadlines, as these have already been adjusted. If Petrobras fails to comply with any of its commitments, Cade may apply fines that vary according to the level of noncompliance. In addition to being financially harmful to the company, this would also delay cash inflow from the sales. For the refining market, it postpones the opening and operation of new players. Petrobras' results have been good. It ended 2020 with a net profit of 59.9 billion reais in the fourth quarter, compared to 8.15 billion reais for the same period in 2019, exceeding market expectations. Last year, despite the impact of the pandemic, the company recorded a profit of 7 billion reais, reversing markets' loss forecast. Petrobras' results in the first quarter were also positive, given the explosion in commodity prices and recovery of fuel sales in Brazil."

A **Cleveland Jones, professor and researcher at the National Institute of Oil and Gas at the State University of Rio de Janeiro:** "Despite political and legal disputes regarding Petrobras divestments, Brazilian institutions, including the courts and the Cade antitrust agency, have shown themselves to be robust, allowing Petrobras to proceed with its first refinery sale, the RLAM refinery in northeast Brazil. Given that success, it is likely that further refinery sales will indeed proceed, even if they are again subject to attempts to block them. The refineries that Petrobras is seeking to sell are outside the southeastern region, where it has a natural interest in retaining refineries, as they are close to its major producing areas in the Campos and Santos basins. Besides being in Petrobras' interest, selling refineries outside the southeastern region brings new players and new investment to the Brazilian downstream sector and improves competition in fuel supplies. Cade and the courts cannot ignore this reality. Indeed, Petrobras is consolidating its place as an independent player in the economy, and less as an arm of the government. Even President Bolsonaro's demagogic attempts at controlling Petrobras' fuel pricing policy have been taken in stride, as Joaquim Silva e Luna, the new Petrobras president tapped by Bolsonaro, has not substantially changed the company's fuel pricing policies. In any case, Petrobras' production has not been seriously hurt during the pandemic, and it has extremely low breakeven costs, so it is generating strong cash flows and is paying down its huge debt very quickly. In this scenario, some delays in divestment would not be very serious, and its independence seems assured, for now."

A **Mark Langevin, senior advisor to Horizon Client Access:** "The 2019 agreement was as peculiar as it was autocratic. The agreement to divest half of Petrobras' refinery capacity and downstream assets was made possible by the Lavo Jato corruption debacle and the election of President Jair Bolsonaro in 2018. However, the political decision to activate Cade as the institutional mechanism to force through the privatization of many of the national oil company's profitable assets was carried out by Economy Minister Paulo Guedes and former Petrobras CEO Roberto Castello Branco to dodge the legislative process rather than submit their arguments to public debate and congressional deliberation. Cade's Department of Economic Studies (DEE) made a preliminary finding that Petrobras was responsible for market abuse, a dubious claim given the company's longstanding practice of pricing below international parity. Before the final study was completed, Castello Branco conceded the merits and advocated for divestment as the best 'penalty,' an unprecedented measure in Cade's six-decade long history. A minority of Cade's administrative tribunal disagreed, claiming the DEE finding fell short of documenting market abuse and that selling off refineries would not necessarily increase competition. The reliance on Cade rather

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line in Honduras followed by an overload at the Brillantes power substation near the Mexico-Guatemala border that led to a “voltage collapse,” according to the report. “This was a severe failure that affected the whole Central American region,” González said, Reuters reported.

RENEWABLES NEWS

Chile’s AES Andes to Retire Four Coal-Fired Plants

Chile-based power company AES Andes has announced it plans to retire four coal-fired units totaling 1,097 megawatts ahead of schedule, Renewables Now reported last week. AES Andes, a subsidiary of U.S. company AES Corp., said that units 3 and 4 of the Ventanas power plant complex as well as units 1 and 2 of the Angamos project will be at the disposal of Chilean energy authorities as of Jan. 1, 2025, and may go offline if the government decides to shutter the plants. Meanwhile, Italian group Enel has announced it would shut down its last coal-fired power plant in Chile by next May. Francie’s Engie has plans to do the same by 2025. Companies have been moving ahead with plans to retire coal-fired plants as part of the country’s shift away from fossil fuels amid the fight against climate change. According to Chile’s energy ministry, 18 coal-fired units are now in line to be shut down by 2025, with eight of them ceasing operations by the end of this year.

Brazil Hikes Biodiesel Blend to 12 Percent, Lower Than Target

An official at Brazil’s oilseeds lobby Abiove on Tuesday responded to the government’s move to raise the mandatory blend of biodiesel into diesel from 10 percent to 12 percent, a lower figure than expected, calling it a “positive development” although he said the industry was ready for a 13 percent blend, Reuters reported. “The Brazilian biodiesel industry is entirely prepared for delivering the 13 percent mixture,” Daniel Amaral, chief economist at Abiove, said in a statement on Tuesday. “Yet raising the blend to 12 percent is already a positive development that stimulates soy processing and grain use in Brazil.” His comments came after the Mines and Energy Ministry announced a day earlier that Brazil’s National Energy Policy Council, or CNPE, had decided to increase the

ADVISOR Q&A

Will the Pacific Alliance Strengthen Ties With Asia?

Q **Singapore and the Pacific Alliance trade bloc—consisting of Colombia, Peru, Chile and Mexico—will sign a free trade deal by year-end, Singaporean Minister of State for Trade and Industry Alvin Tan said last month. The Pacific Alliance seeks to offer competitive advantages for international business with “a clear orientation toward Pacific Asia,” according to its website. What is the state of the Pacific Alliance’s trade relations with Asia beyond China, and what factors are driving cooperation? How do Asian nations view the Pacific Alliance, especially amid political transitions in Peru this year and elsewhere next year? What are the prospects for growth of broader Latin America-Asia trade in the medium and long terms?**

A **Luz María de la Mora, undersecretary for foreign trade at Mexico’s Economy Secretariat:** “Four Latin American countries created the Pacific Alliance (PA) to promote growth and development by taking advantage of economic integration opportunities and with the aim of building bridges to the Asia-Pacific region, as it offers the most promising perspective in terms of economic growth and innovation. In fact, when we look at export forecasts for 2021, the IMF finds that while exports in Latin America will grow 1.3 percent, in Asia they will grow 6.7 percent. As PA members, we are determined to build bridges with Asia-Pacific countries, as they are an engine of economic activity. This is why in 2017 we decided to start negotiations with countries such as Singapore, Australia and New Zealand, for them to become associate states to the PA. We are very close to concluding our first negotiation with Singapore. The PA represents a potential market of 230 million people. We export $627 billion to the world and account for 38 percent of foreign direct investment in Latin America, which can complement trade and investment opportunities with partners in Asia in sectors including agribusiness, chemicals, vehicle production, auto parts and services, to name a few. We have also developed a cooperation agenda focused on trade facilitation, SME development, education and innovation through capacity building/sharing of technical expertise with eight Asia-Pacific countries that currently hold PA observer status—Korea, the Philippines, India, Indonesia, Japan, China, Singapore and Thailand. Building bridges with countries in the Asia-Pacific region is a safe bet for the Pacific Alliance to consolidate itself as the most forward-looking integration mechanism in Latin America and a way to promote the economic growth, development and well-being of our countries.”

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

NEWS BRIEFS

Majority of Brazilians Support Impeaching Bolsonaro: Poll

Fifty-four percent of respondents in a poll released Saturday by Datafolha said they supported impeaching President Jair Bolsonaro, Reuters reported. The poll followed graft allegations related to the procurement of Covid-19 vaccine doses and a Senate investigation into Bolsonaro's handling of the pandemic.

Mexico Reports Largest Daily Jump in Covid-19 Cases Since February

Mexico on Tuesday reported the largest daily increase in new Covid-19 cases since February, with health ministry data showing the number of reported infections up by 11,137 in the previous 24-hour period as well as deaths linked to Covid-19 up by 219, Reuters reported. Mexican Deputy Health Minister Hugo López-Gatell, who has been in charge of managing the pandemic, said in a statement that, compared to earlier waves of infection, there were 75 percent fewer hospitalizations and deaths due to the vaccination rollout.

Peru Tribunal to Name Winner of Presidential Election on July 20

Peru's new president will be announced on July 20, the country's electoral tribunal said Tuesday after more than a month of delays in the proclamation of an official winner, the Buenos Aires Times reported. Socialist Pedro Castillo maintained a razor-thin edge of just around 44,000 votes over right-wing rival Keiko Fujimori as ballot-counting in the June 6 election closed, but Fujimori challenged the results, alleging fraud. Election jury officials have been examining disputed ballots, which could potentially overturn Castillo's victory. The new president is set to be sworn in on July 28.

biodiesel level to 12 percent rather than 13 percent in a bid to "avoid an excessive increase" in retail prices of diesel, Biodiesel Magazine reported. Approximately 70 percent of the South American nation's biodiesel is produced from soy oil, whose prices have surged amid strong demand and tight supply of soybeans. The government in April had cut the biodiesel mixture requirement to 10 percent from 13 percent to maintain low fuel prices at the pump, Reuters reported.

POLITICAL NEWS

One Dead, More Than 140 Arrested or Missing in Cuba

At least one person is dead and more than 140 people have been arrested or reported missing amid rare anti-government demonstrations in Cuba, BBC News reported Tuesday. Diubis Laurencio Tejeda, 36, was reportedly killed Monday in a clash between police and protesters outside Havana. Cuba's interior ministry did not specify Tejeda's cause of death, but it alleged that he was among a group that attacked a government facility. Witnesses, however, said Tejeda was killed when Cuban security forces attacked protesters, BBC News reported. State media reported that several other people, including members of security forces, had been injured in the incident in the La Güinera suburb of the capital. Massive demonstrations erupted across Cuba on Sunday, but they largely died out by that evening as Cuba's government deployed forces into the streets. Thousands of people joined the protests, the largest in Cuba in decades. Hundreds filled the streets in La Güinera, shouting chants such as "down with communism" and "freedom for the people of Cuba," Reuters reported, citing two residents and video footage of the demonstrations. Some protesters threw rocks at security forces, who responded by opening fire, one resident told the news service. Cuba's government restricted access to social media and messaging platforms including WhatsApp and Facebook, according to NetBlocks, a global Internet monitoring firm, Reuters reported. Cubans have endured a deep economic crisis, including shortages of many basic goods, and power outages have also hit the island. Protesters have also been angered by the government's handling of the Covid-19 pandemic and restrictions on civil liberties. Cuba's government has blamed the United States for the protests, accusing Washington of financing counterrevolutionaries in Cuba. On Monday, U.S. President Joe Biden expressed support for Cubans amid the protests.

ECONOMIC NEWS

ECLAC Predicts 5.2% Growth, Warns of Covid-19's Impact

Projected economic growth for this year in Latin America and the Caribbean will not reverse the adverse effects of the pandemic, the U.N. Economic Commission for Latin America and the Caribbean, or ECLAC, said in a report published last week. Though ECLAC raised its average growth outlook for the region to 5.2 percent, up from a previous estimate of 3.7 percent, the commission has warned that the social impacts of the crisis are worsening and will continue as the economy picks up following a stark 6.8 percent contraction in 2020. ECLAC expects Panama, Peru and Chile to see the best economic performances this year, with expansions of 12 percent, 9.5 percent and 8 percent, respectively, Reuters reported. Meanwhile, Brazil, the region's largest economy, is projected to grow by 4.5 percent, and Mexico and Argentina to expand 5.8 percent and 6.3 percent, respectively. However, "this expansion … will not manage to ensure sustained growth, because the social impacts of the crisis and the structural problems in the region have deepened and will continue to do so during the recovery," the U.N. organization said in the report. "We need policies for transformative recovery with an emphasis on investment," Alicia Bárcena, the head of ECLAC, said in presenting the report during a virtual conference last week.

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than Congress to decide the strategic future of Petrobras runs the risk of a policy reversal. It is this risk that partially contributes to the delayed sales of RLAM to Mubadala and Refap to Ultrapar Participações, and may also explain the failed Repar tender. Petrobras has effectively managed the externalities of the pandemic and will likely wrap up the sales of RLAM and Refap before the end of the year, but future divestments face greater uncertainty, as the 2022 presidential and congressional elections loom."

A **Sarah Phillips, assistant, and Lisa Viscidi, director, of the Energy, Climate Change and Extractive Industries Program at the Inter-American Dialogue:** "In 2019, Petrobras announced plans to sell eight of its 13 refineries, accounting for nearly 50 percent of Brazil's refining capacity. The sales are part of the company's broader divestment plan to reduce debt and focus on more profitable offshore pre-salt blocks. So far, the pace of divestment has been slow—the Landulpho Alves Refinery that Abu Dhabi's state-owned investment fund, Mubadala, purchased is the first and only refinery to be offloaded. Sales agreements are expected to be signed for three other refineries by the end of July, but it appears unlikely the firm will sell the remaining assets by the December deadline. These delays will affect its financial plans, as the refinery sales represent the majority of the revenue the company aims to raise through 2025. While Petrobras has weathered the pandemic better than some of its state-owned peers—mainly thanks to steady oil sales to China—Covid-19 was partly responsible for delays in the refinery divestiture process due to interruptions to normal business operations. Petrobras' sales plan may also be held up due to political risk issues. Earlier this year, President Jair Bolsonaro abruptly called to replace Petrobras' market-friendly CEO following a dispute over fuel price increases. In order to keep refinery sales apace and attract investment, the Brazilian government will need to send clear signals that it will not intervene in fuel pricing, which could diminish private refiners' profits, and instead stick to fair-market prices."

A **Gilberto Bercovici, professor at the University of São Paulo:** "In 2019, Petrobras and Cade entered into an agreement whereby the state-owned company offered to privatize half of its refineries. Such an agreement is unconstitutional and illegal, as it violates Article 177 of the Brazilian Constitution, which guarantees the state monopoly on the oil refinery sector; Cade acted outside its authority when it intervened. The agreement also violates the privatization procedure rules, since the privatization of the activities described in Article 177 are expressly forbidden pursuant to Article 3 of Law 9491/1997. As a consequence of this unconstitutional and illegal act, countless lawsuits were filed against government officials and the company itself. The lawsuits claim that this agreement is null and void, and demand compensation for the acts committed in detriment to public assets. Petrobras' directors and Cade members have been sued so that they are obliged to compensate the state for the damages incurred. Due to the many irregularities in the privatization procedure, the ongoing lawsuits seek its suspension. The sales process lacks transparency, as the financial and economic effects on the states and cities where the plants are located were completely disregarded. There is at least one lawsuit related to each of the eight refineries currently under sale. Some of the leading candidates for the 2022 presidential election have also criticized the privatization and pledged to reverse the process. The existing lawsuits, as well as the likely nationalization of all privatized refineries, should be taken into consideration."

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

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