LATIN AMERICA ADVISOR

ENERGY ADVISOR

A WEEKLY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

April 8, 2022

FEATURED Q&A

Can Latin America's Oil & Gas Fill the Void Left By Russia?

Some are wondering if Latin American oil producers have what it takes to step up and fill the oil market shortfalls after sanctions were levied against Russia. Oil drilling in Argentina is pictured. // File Photo: Argentine Government.

Q **With some countries refusing to buy Russian oil and gas as a result of its invasion of Ukraine, oil producing nations in Latin America could potentially help fill the oil supply void that's been created, according to energy publication Oilprice.com. To what extent can oil and gas producers in the region help replace Russian oil and gas imports lost to sanctions? Are Latin American oil producers able to do so now, or will it take time for them to ramp up production? Aside from the United States, what other countries are looking to the region to make up for banned Russian oil? How might the possibility of leftist leaders coming to power in Colombia and Brazil this year change policies in the oil and gas sectors?**

A **Tara Hariharan, managing director of global macro research at NWI Management LP:** "Latin America currently produces about 8 percent of global oil supply, versus Russia at 12 percent, and a host of political and structural factors limit the region's ability to increase output to substantially replace Russian oil. Latin America's top producer, Brazil, is endowed with large offshore deep water deposits, but ramping up production there would be an expensive, protracted process. Mexico is already the United States' second-largest source of crude oil imports, but its production is hamstrung by President Andrés Manuel López Obrador's aim to reverse 2013 energy reforms and cap production—not to mention state oil company Pemex's financial struggles. Venezuela boasts the world's largest oil reserves, but U.S. sanctions have shrunk its production by four-fifths. The United States is

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TOP NEWS

OIL & GAS

ExxonMobil to Develop Oil & Gas Field Off Guyana

Guyana's government has allowed the oil major ExxonMobil to develop a fourth offshore oil and gas field, the $10 billion Yellowtail Project, the company said in a statement.

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POWER SECTOR

Argentina Asks China to Cover Power Plant Cost

Officials with Argentina's Nucleoeléctrica have requested that China fully finance a new $8.3 billion nuclear plant project, as the South American country makes an effort to stem high debt levels and reach a fiscal balance by 2025.

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OIL & GAS

Chile's Boric Visits Argentina to Shore Up Energy Ties

President Gabriel Boric met with Argentine President Alberto Fernández and other officials in Buenos Aires for talks aimed at strengthening economic, energy and cultural ties.

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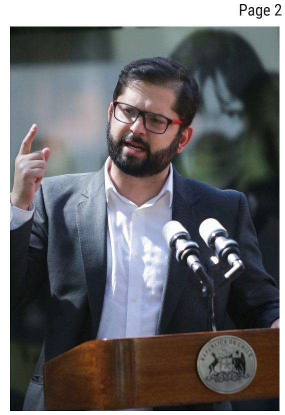

Boric // Photo: Argentine Government.

OIL & GAS NEWS

Argentine, Chilean Presidents Agree to Deepen Energy Ties

In a trip meant to strengthen relations, a Chilean delegation led by President Gabriel Boric met with Argentine President Alberto Fernández and other officials in Buenos Aires on Monday, Reuters reported. They vowed to strengthen economic, energy and cultural ties. Argentine Economy Minister Martín Guzmán and Chilean Energy Minister Claudio Huepe Minoletti signed a joint declaration that committed the two countries to strengthen energy cooperation, including boosting exports of Argentine liquefied natural gas to Chile, as well as the reopening of the Neuquén-Biobío natural gas pipeline, the wire service reported. "Although for a long time we have been looking in other directions ... our base is Latin America," Boric said at a press conference, EFE reported. Argentine exports to Chile totaled $351 million—with liquefied natural gas being the prime export—while Chilean exports to Argentina reached $53 million, according to official figures from January 2022, Reuters reported. For his part, Fernández spoke of "the need to unite Latin America, which has been divided so much ... Chile and Argentina do not have a mountain range that divides them, but rather unites them," he said, newspaper La Diaria reported. [Editor's note: See **Q&A** on Boric in the March 11 issue of the daily Latin America Advisor.]

Guyana Allows Exxon to Develop Fourth Oil Field

Guyana's government has allowed oil major ExxonMobil to develop a fourth offshore oil and gas field, the $10 billion Yellowtail Project, the company said Monday in a statement. At the same time, Exxon announced that it has made a final investment decision on the project, which it aims to produce as many as 250,000 barrels of oil per day. "Yellowtail's development further demonstrates the successful partnership between ExxonMobil and Guyana and helps provide the world with another reliable source of energy to meet future demands and ensure a secure energy transition," Liam Mallon, the president of ExxonMobil Upstream Company, said in a statement. "We are working to maximize benefits for the people of Guyana and increase global supplies through safe and responsible development on an accelerated schedule," he added. The new project is expected to begin operations in 2025. The approval of the Yellowtail project adds to Exxon's Liza One, Liza Two and Payara fields. The Yellowtail project will include six drill centers, as many as 26 production wells and 25 injection wells, Exxon said. The company, along with its partners Hess Corp. and CNOOC, began production in Guyana in 2019 and since then the consortium has discovered more than 10 billion barrels of recoverable oil, Exxon said. Guyana's approval of the project comes amid debate between Exxon and several environmental and other groups over whether enough insurance is in place in case a spill happens, the Associated Press reported. Vincent Adams, a former Guyanese environmental chief, has said Exxon must be required to have adequate insurance. However, the company has said it has at least $2 billion on standby, along with "financial capacity to meet our responsibilities for an adverse event," the AP reported.

Nominee for Chief Executive of Brazil's Petrobras Withdraws

Brazilian President Jair Bolsonaro's pick to lead state-run oil company Petrobras withdrew his nomination on Monday, Reuters reported. Bolsonaro had tapped academic and energy consultant Adriano Pires to take over as CEO, and his rejection of the job is the latest blow to the government's succession plans for the company. "It became clear to me that I could not reconcile my work as a consultant with the presidency of Petrobras ... I realized that

NEWS BRIEFS

Mexican Opposition Parties Threaten to Scuttle Proposed Power Reforms

A group of Mexican opposition parties threatened Monday to vote against President Andrés Manuel López Obrador's proposed power sector reforms, Reuters reported. The Institutional Revolutionary Party, or PRI, complained that López Obrador is refusing to engage in negotiations about the reforms. "It is a categorical 'no' to the regressive reform that has been presented without willingness to move even a comma," said PRI leader Alejandro Moreno.

Mainstream Renewable Power Gets 15-Year Contract in Colombia

Ireland-based Mainstream Renewable Power announced last Friday that it signed a 15-year power purchase agreement to deliver solar energy from its 100-megawatt Andromeda PV project in Colombia, Renewables Now reported. The company secured the agreement during an auction organized by Colombia's regional power distributor Air-e. The auction also led to contracts for Germany's ABO Wind AG, Spain's Cox Energy and France's GreenYellow. The Andromeda solar farm, Mainstream's first development in Colombia, is set to deliver 180 gigawatt hours per year, Renewables Now reported.

Venezuela's PDVSA Reportedly in Talks to Buy, Lease Oil Tankers

Venezuelan state-run oil company PDVSA is in negotiations to buy and lease several oil tankers as it looks to raise its level of oil exports, Reuters reported on March 31, citing three unnamed sources and a document that it reviewed. The talks are a sign that the country expects an easing of U.S. sanctions on its oil industry as countries seek to replace Russian oil imports following its invasion of Ukraine.

unfortunately I am not able to do it in such a short time," Pires said in his resignation letter sent to Bento Albuquerque, Brazil's mines and energy minister. "That is why, Minister, I am obliged to decline such an honorable invitation," Pires added. His decision to turn down the CEO position came just a day after soccer magnate Rodolfo Landim declined an offer to take over the chair position of Petrobras' board, according to the Reuters report. Bolsonaro had tapped Pires to take over as top executive after dismissing CEO Joaquim Silva e Luna on March 28 over his decision to raise prices on gasoline and diesel, and bring them more in line with global market rates. But Pires has made public his support for such a policy: "I have been publicly defending the importance of market rules and increased competition, in favor of consumers and society, the country's growth and investment incentives," he said in his letter. The Bolsonaro administration must find suitable replacements to fill the CEO and board chair positions just days before the Petrobras shareholders' meeting scheduled for April 13.

POWER SECTOR NEWS

Argentina Wants China to Fully Fund $8.3 Bn Power Plant

Argentina is requesting that China fully finance a new $8.3 billion nuclear plant project in the South American country, Reuters reported Wednesday. The China National Nuclear Corporation, or CNNC, signed a deal with the Argentine government in February, agreeing to shoulder 85 percent of the nuclear plant's cost. In the agreement, Argentina agreed to cover the remaining 15 percent. Jorge Sidelnik, the executive director of Nucleoeléctrica Argentina, the state-owned local partner for the project, said that the country is "aiming for 100 percent in terms of financing from China to guarantee no delays given the problem we have with funding," Reuters reported. Argentina is currently making an effort to stem high debt levels, as well as reach a fiscal balance by

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thinking about easing Venezuelan sanctions, but output increases would require significant infrastructure investment. Not just the United States, but China, too, is consuming more Latin American oil. China already has been circumventing sanctions to purchase Venezuelan oil. Colombia and Ecuador also suffer from underinvestment in energy. Colombia's presidential front-runner, Gustavo Petro, pledges to ban new fossil fuel exploration, while Ecuador's oil sector has yet to reflect President Lasso's privatization attempts. Above all, Latin America faces its own economic and political risks from surging energy costs and may prioritize domestic consumption over exports. This is the risk in Brazil, where former President Luiz Inácio Lula da Silva—the leftist frontrunner ahead of Brazil's presidential election in October—has vowed to limit oil exports if re-elected. In the near term, the world can only hope for increased production from U.S. shale and OPEC, and there too, political limitations abound."

A **Mariana Zepeda, Latin America analyst at FrontierView:** "Latin America is often viewed as a potential source of spare oil capacity outside of OPEC, despite producing only about 8 percent of the world's oil. But it will be hard to turn up the spigot in a region where the oil and gas sector has suffered from years of mismanagement and chronic underinvestment. Latin America's oil exporters are not as well placed to take advantage of the rise in oil prices as governments might like. Due to Covid-19 and protests that battered Colombia's oil-producing regions, the country pumped lower-than-expected volumes in 2021. Ecuadorean President Guillermo Lasso has to date been unable to revive the industry. In Mexico, President Andrés Manuel López Obrador's brand of resource nationalism has stunted oil and gas industry's development. Other high-potential markets will need a little more time: Brazil is actively working to increase crude oil output through its offshore pre-salt deposits, but investment is unlikely to bear fruit until 2023; the same is true of Guyana. Venezuela, once the region's oil giant, will struggle to increase oil production even if the United States does move toward relaxing sanctions. And even if Latin America could boost supply, transportation, particularly to European markets, would be a key hurdle. Politically, a leftward shift across the region could weigh on oil and gas production. Gustavo Petro, for instance—who is currently favored to win the Colombian presidential election—has long vowed to end oil exploration in the country. Moreover, left-leaning governments are focused on shifting toward green energy, and it may be harder to find political will to increase oil and gas investment."

> **"Left-leaning governments are focused on shifting toward green energy, and it may be harder to find political will to increase oil and gas investment."**
> **— Mariana Zepeda**

A **Francisco J. Monaldi, director of the Latin America Energy Program at the Center for Energy Studies at Rice University's Baker Institute:** "To put things in perspective, of the 100 million barrels per day (mbd) in the world oil market, Russia produces close to 11 mbd and consumes about 3.5 mbd, exporting the rest. In contrast, Latin America produces just short of 8 mbd and consumes a comparable amount, meaning that the region is not a relevant net exporter of oil. Moreover, oil production in the region is down from 10.4 mbd a decade ago. The decline is largely attributable to Venezuela and Mexico, while Brazil has partly com-

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2025, to comply with a recently finalized deal with the International Monetary Fund. MK Vereen, program assistant for the Energy, Climate Change & Extractive Industries program at the Inter-American Dialogue, told the Advisor in a **Q&A** published Feb. 24 that in the eyes of the IMF, "the possibility that Belt and Road participation increases Argentine debt could agitate relations." She added, "Transparent negotiations will be essential to navigating these partnerships and jumpstarting a just, green recovery in Argentina."

POLITICAL NEWS

Peru's Castillo Lifts Curfew in Lima Amid Protests

Peruvian President Pedro Castillo on Tuesday lifted an all-day curfew for Lima that he had declared the night before in an effort to quell violent protests over rising food and fuel prices, Bloomberg News reported. Castillo ended the curfew in the afternoon after meeting with lawmakers, some of whom urged him to lift

Castillo // File Photo: Peruvian Government.

the order, saying it infringed upon fundamental rights. The curfew marked the first time that a Peruvian president had ordered people to stay inside in order to control protests since the administration of now-jailed former President Alberto Fujimori, who shut down the country's Congress and judicial system and dispatched tanks in 1992 amid unrest over social and economic issues, the Associated Press reported. On Tuesday in Lima, more than 1,000 people protested the curfew. Even as Castillo met with legislators, a demonstration near Congress became violent, with protesters clashing with police on horseback, who responded by firing tear gas, Bloomberg News reported. Demonstrators also attacked the headquarters of the country's judiciary, leading Interior Minister Alfonso Chavarry to threaten that authorities would use force in order to quell the violence. Earlier on Tuesday, Castillo's cabinet met with members of Congress to discuss ways to address inflation that is running at its highest rate in more than two decades. "We must start working together to address the people's problems," Congress' vice president, Lady Camones, told local radio network RPP. Consumer prices rose 6.82 percent last month in Lima as compared to the same month last year.

THE DIALOGUE CONTINUES

What Challenges Await Rodrigo Chaves, Costa Rica's Next President?

Q Rodrigo Chaves, an economist and former finance minister, defeated former President José María Figueres in Sunday's presidential runoff election in Costa Rica. Chaves, who ran as an anti-establishment maverick, has criticized Costa Rica's traditional political parties and has vowed to bypass the Legislative Assembly by holding public referendums. To what can Chaves attribute his victory, and what will be the main challenges he faces after he takes office May 8? What are Chaves' main policy objectives, and will he succeed in getting them implemented? What does the 57 percent voter turnout, low by Costa Rican standards, say about Chaves' popularity and mandate to govern?

A Francisco Chacón-González, former Costa Rican congressman of the National Liberation Party (PLN) and former minister of communications: "With an abstention rate of 43 percent—slightly higher than in the first round, and high by Costa Rican standards—Rodrigo Chaves won comfortably against former President José María Figueres in a very contentious and polarized election. Without a consolidated party or team, with only two years of having returned to the country after 30 years of working abroad and with just 185 days of government experience, Chaves managed to convince the electorate that his anti-establishment and anti-corruption proposal was the best option to face the high unemployment and low economic growth that the country has been suffering for several years, and that was aggravated by the pandemic. His triumph reflects the electorate's weariness of traditional parties—including the Citizens' Action Party (PAC), which governed the country for the last eight years—and the rejection of Figueres, who in the past had been accused of receiving unjustified payments from a major government contractor, although formal charges were never filed. With only 10 of 57 deputies in the Legislative Assembly, Chaves will be forced to negotiate with the opposition parties a legislative agenda that will allow him to carry out his electoral proposal, while he will have to focus on forming his cabinet by resorting to figures outside his party, in order to reactivate the economy, generate employment and reduce the high cost of living. In his acceptance speech on election night, Chaves showed a conciliatory tone—far from the incendiary language of the campaign—and pledged to govern respecting dialogue, the Constitution and the laws."

EDITOR'S NOTE: More commentary on this topic appears in the Q&A of the April 5 issue of the Latin America Advisor.

NEWS BRIEFS

Law to Jail Journalists in El Salvador Draws Fire

El Salvador's congress has authorized prison sentences of 10 to 15 years for news media that reproduce or disseminate messages from the country's notoriously brutal gangs, the Associated Press reported Wednesday. The law states that "radio, television, written or digital media" would face 10 to 15 years in prison for "the reproduction or transmission to the general population of messages or statements originating or presumably originating from said criminal groups." The Inter American Press Association said the new law was "criminalizing the work of the media and journalists."

Ex-Colombian Soldier Accused in Moïse's Killing Pleads Not Guilty in U.S.

Mario Palacios, a former Colombian soldier, pleaded not guilty in U.S. federal court in Miami on Monday to charges connected to the assassination last July of Haitian President Jovenel Moïse, Reuters reported. Prosecutors accuse Palacios of participating in a plan that originally intended to kidnap Moïse but then evolved to kill him. "He is simply a soldier who was taken from Colombia to Haiti," Palacios' attorney, Alfredo Izaguirre, told reporters. "This was orchestrated by other people."

Hundreds of Ukrainian Refugees Arrive in Mexico, Wait to Enter United States

Hundreds of Ukrainian refugees arrived in Mexico through airports in Mexico City and Cancún last weekend, and were transferred to Tijuana where they are waiting to enter the United States, Reuters reported Monday, citing a migration official. Approximately 30 percent of the refugees are children, said the official, Enrique Lucero, Tijuana's migration affairs director. As of Sunday, approximately 1,700 Ukrainian refugees have arrived in Tijuana.

Int'l Criminal Court to Open Office in Venezuela

The International Criminal Court will open an office in Venezuela, the court's chief prosecutor announced March 30 on state television alongside President Nicolás Maduro, Reuters reported. The ICC official, Karim Khan, made the announcement in Caracas at the conclusion of a three-day visit to Venezuela, which Khan said was productive. The court, based in The Hague, is investigating allegations of killings and torture by Venezuela's security forces, the Associated Press reported. Last November during his last visit to Venezuela, Khan said he would launch a probe into possible crimes against humanity in the South American country, Reuters reported. At the time, the ICC and Maduro's government signed an agreement in which Caracas said it would help to clarify the facts about cases of human rights abuses, the AP reported. The ICC's investigation stems from a probe that began in February 2018 that focused on accusations of excessive force, torture and arbitrary detention by Venezuelan security forces during a 2017 crackdown on anti-government protesters. In his appearance Thursday with Maduro, Khan said we welcomed the Venezuelan government's commitment to provide court officials with visas and its cooperation in allowing the participation of other international organizations, the AP reported.

U.S. Democrats Say Mexican Prosecutor Politicizes Position

Democrats in the U.S. Congress on Wednesday raised alarms over complaints that Mexico's top prosecutor is bypassing the nation's independent judiciary and selectively targeting opponents of President Andrés Manuel López Obrador, the Associated Press reported. In a letter sent Wednesday to Secretary of State Antony Blinken and Attorney General Merrick Garland, the legislators, led by Sen. Bob Menendez (D-N.J.), called on the Biden administration to raise their concerns directly with Mexican counterparts. "López Obrador's tenure has been marked by an increasing pattern of seemingly selective prosecutions disproportionately targeting government critics," according to the letter, a copy of which was obtained by the Associated Press. It added that "President López Obrador's efforts to advance legitimate accountability initiatives must strengthen, not dismantle, democratic institutions and the rule of law." The letter highlighted claims of what they consider "personal vendettas" pursued by Attorney General Alejandro Gertz Manero. The letter notes that López Obrador has publicly attacked a judge who ruled against his energy policies and called for the resignation of Mexico's top electoral court. The letter also raised concerns about charges against Ricardo Anaya, a political opponent of López Obrador.

ECONOMIC NEWS

Inflation in Venezuela Falls to Lowest Level in Nearly a Decade

Consumer price increases in Venezuela have slowed to their lowest level in almost a decade, Reuters reported Wednesday, citing data released by the Central Bank. The price index rose 2.9 percent in February, aided by the wider circulation of hard currencies such as the U.S. dollar, which have led to more stable consumer prices. The accumulated increase in prices over the past 12 months reached 284 percent at the end of March, still among the highest inflation rates in the world. However, inflation in the first quarter of this year slowed to 11.4 percent, according to Reuters calculations. Meanwhile, Venezuela's economy after years of devastating contraction could grow 20 percent in this year, according to Credit Suisse, Bloomberg News reported Wednesday. Economists at the investment bank said increased hydrocarbon output and high global prices for oil, which have surpassed $100 per barrel most days in March and April so far, have been bolstering economic activity in Venezuela.

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pensated, growing its production to about 800,000 barrels per day. The oil market is global; what matters is not how much Russian oil is diverted from the United States, but rather how much Russian oil exports are out of the global market—currently 2.5 mbd to 3 mbd. In the short term, Latin America cannot add enough additional barrels to fill even a fraction of the disrupted Russian supply. Before the current crisis, the region's oil production was expected to grow up to 500,000 barrels per day in 2022, principally due to planned growth in Brazil and Guyana. The higher oil prices might incentivize some additional investments in Argentina, Colombia and Ecuador, but that is unlikely to add more than 100,000 barrels per day in 2022. Venezuela is a question mark. Without considerable additional investment, Venezuela may add up to 100,000 barrels per day on top of its current production of 750,000, but if sanctions relief brings some relevant investment by Western companies, it may increase to an additional 200,000 barrels per day within a year. In the best scenario, Latin America could add 300,000 more barrels per day (largely from Venezuela) to the previously expected growth of 500,000 over the next five years, along with significant production increases from Brazil and Guyana, and modest gains from Argentina. By contrast, oil production in Mexico and Colombia are expected to decline—and in the case that Gustavo Petro wins the presidency—an even worse outlook for Colombia appears inevitable."

A **Paola Carvajal, senior project manager on energy transition topics at Roland Berger:** "Latin American oil exports will not be able to fill the supply gap from Russian exports over the next few years due to scale, limited infrastructure and financial resources. At a high level, the oil exports from the whole of Latin America are a little over half (56 percent) of Russian exports in 2020. According to BP statistics, Russian crude oil exports accounted for close to 5 million barrels per day in 2020, while Latin American producers exported 2.9 million barrels per day in the same period, so filling the gap would mean almost doubling Latin American oil exports, which will not be possible for any country overnight. In addition to the difference in scale, large oil producers in the region, such as Mexico, Colombia and Ecuador, have seen oil reserves decline and a combined reduction of almost a million in oil production over the last five years. Brazil, which is planning to increase output, would face short-term offshore logistics limitations to connect new capacity rapidly. However, from the long-term perspective, the opportunity of this crisis could be around maintaining strong capital discipline and redeploying new resources from high oil prices on expanding and modernizing the infrastructure, as well as preparing the oil sector for cleaner operations in energy transition."

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

LATIN AMERICA ENERGY ADVISOR
is published weekly by the
Inter-American Dialogue ISSN 2163-7962

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Latin America Energy Advisor is published weekly, with the exception of some major U.S. holidays, by the Inter-American Dialogue
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