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FEATURED Q&A

Are CEO Shakeups Hurting Business at Brazil's Petrobras?

Brazil's president last week tapped Caio Mario Paes de Andrade as CEO of state oil company Petrobras. He is the company's fourth chief executive in two years. // File Photo: Brazilian Government.

Q **Brazilian President Jair Bolsonaro fired Petrobras CEO José Mauro Ferreira Coelho on May 23 after just 40 days in the position. The dismissal came amid a warning that Brazil is facing a severe diesel shortage. Ferreira Coelho was the third Petrobras CEO in a little over a year to be fired by Bolsonaro amid disagreements over fuel prices. All three of his predecessors were sacked after refusing to continue subsidizing fuel prices, a policy that Bolsonaro has pushed as he seeks re-election in October. Have the changes in leadership hurt Petrobras' operations and strategic goals, and how have shareholders and markets reacted to the ouster of another CEO? Is Brazil at risk of running out of diesel, and how will the shortage affect transportation, exports and other sectors reliant on the fuel? How likely is Ferreira Coelho's successor—Caio Mario Paes de Andrade—to bend to Bolsonaro's will and subsidize fuel prices?**

A **Anabel Teixeira, associate for Brazil and the Southern Cone at McLarty Associates:** "President Bolsonaro has taken several controversial measures over the past year to contain the rapid rise in fuel prices, aggravated by the war in Ukraine. The backdrop to this is the upcoming election, in which the president trails his opponent, former President Lula, by a significant margin. Public pressure on Bolsonaro to contain rising prices, especially by truckers who comprise a significant component of his base, has been increasing. Andrade is the fourth Petrobras CEO in the position during Bolsonaro's tenure, and his appointment followed Bolsonaro's replacement of the

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U.S. Renews Chevron's License for Activity in Venezuela

The U.S. Treasury renewed oil major Chevron's license to continue limited operations in Venezuela, which is under U.S. sanctions.

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OIL & GAS

High Oil Prices Lead to Windfall for Pemex

Mexican state oil company Pemex reportedly received $5.4 billion more than expected in the first five months of this year from crude oil sales amid higher international prices.

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OIL & GAS

Bolivia's YPFB, Petrobras Discuss Higher Prices for Natural Gas

Bolivian state oil company YPFB, led by Armin Dorgathen, is seeking higher prices for natural gas sold to Brazil and is in talks about the matter with Brazilian state oil company Petrobras.

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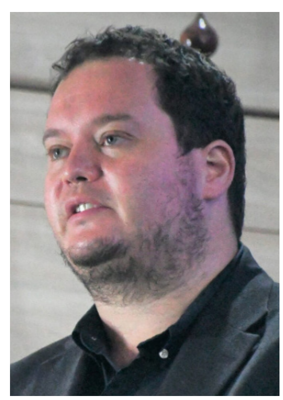

Dorgathen // File Photo: Bolivian Government.

OIL & GAS NEWS

U.S. Treasury Renews Chevron's License for Activity in Venezuela

The U.S. Treasury on May 27 renewed oil major Chevron's license to continue limited operations in Venezuela, which is under U.S. sanctions, Reuters reported. The license, which extends through the end of November, allows Chevron to continue operating in Venezuela under the same terms that the U.S. government has given the company since 2020. The license allows the company to perform basic maintenance of wells that it operates jointly with Venezuelan state oil company PDVSA, the Associated Press reported. The Treasury also authorized Halliburton, Schlumberger, Baker Hughes and Weatherford International to maintain their assets in Venezuela, Reuters reported. In March, a high-level U.S. delegation met with Venezuelan President Nicolás Maduro to discuss the possibility of easing some sanctions in exchange for the sale of oil and conditions including renewed negotiations with the Venezuelan opposition. [Editor's note: See related **Q&A** in the May 27 issue of the Dialogue's daily Latin America Advisor.]

High Crude Prices Lead to Windfall for Mexico's Pemex

Petróleos Mexicanos, or Pemex, received $5.4 billion more than expected in the period from January to May, reaching $13 billion for crude sold in international markets, Bloomberg News reported Wednesday, citing a person familiar with the situation. The Mexican state oil company's surplus revenue has been attributed to the year-to-date crude price rally. Furthermore, the figures do not take taxes into account. The company's debt stood at $108.1 billion at the end of March, and the company saw $6 billion in profits in the first quarter of this year, the news service reported. With the international price rally of oil prices, Pemex abandoned its previously announced plans to cut its exports by 50 percent this year, which had been an effort to make Mexico more self-sufficient in its oil consumption, Reuters reported. The company's crude oil exports in April went up 13 percent in comparison to the month before, reaching just over one million barrels of crude per day (bpd). Due to the high costs related to the importation of diesel and gasoline, the Mexican government has begun to subsidize prices at the pump, Bloomberg News reported.

Bolivia's YPFB, Petrobras in Talks on Higher Price for Gas

Bolivia's state oil company Yacimientos Petrolíferos Fiscales Bolivianos, or YPFB, is in negotiations with Petrobras, as YPFB is seeking higher prices for natural gas sold to the Brazilian state oil company, Bolivia's energy ministry said May 25, Reuters reported. Armin Dorgathen, YPFB's president, said that he hopes the negotiations bring about a good result, La Razón reported. The energy company loses approximately $70 million annually on current deliveries, the energy ministry said, Reuters reported. Dorgathen said YPFB has reduced its natural gas shipment volumes to Brazil by 30 percent and increased shipments to Argentina, which is paying a better price, La Razón reported. He added that with the company's increase in shipments to Argentina, Bolivia will receive an additional $100 million. "The agreement between Bolivia and Argentina allows for an increase in natural gas volumes, but not to the detriment of Brazil, simply depending on which of the two markets was going to pay us more for the agreed volume," Dogathen said. Brazilian President Jair

> **"It is not a political move; it is a commercial move."**
>
> **— Armin Dorgathen**

NEWS BRIEFS

Suriname Planning to Auction Deepwater Oil Blocks by Year's End

Suriname's state oil company, Staatsolie, is planning to auction deepwater oil blocks at the end of this year and will also auction shallow water blocks next year, Reuters reported Monday, citing the company's managing director, Annand Jagesar. TotalEnergies has discovered enough reserves to make production worthwhile, he said.

Petroperú to Present Financial Statements Audit by September

Petroperú is to present its 2021 financial statements audit by September, though it was due last month, the Lima-based state oil company said on Tuesday, Reuters reported. Bondholders approved the extension after accounting firm PwC refused to conduct the audit due to the oil company's recent corporate governance crisis. The company currently has two outstanding bond issues totaling at approximately $3 billion, which are due in 2032 and 2047, and were used to finance Petroperú's new Talara refinery, the wire service reported.

Brazil's Petrobras Agrees to Take Full Control of Italy-Based Ibiritermo

Brazilian state oil company Petrobras signed a deal to take full control of electricity company Ibiritermo, which is owned by Italy's Edison, the oil company announced Wednesday, Reuters reported. The deal gave Petrobras access to the 50 percent stake in Ibiritermo that it did not already own and is part of the company's effort to own assets in which it only had a partial stake. At the close of the contract, Edison is set to receive 2.5 million reais ($519,200) for the sale. The deal, which was announced in a securities filing, is subject to regulatory approval.

Bolsonaro has accused Bolivia's oil company of making the decision with the objective of harming him politically, Reuters reported. "It is not a political move; it is a commercial move," said Dogathen, La Razón reported.

Mexico's Pemex Offering to Pay Back $2 Billion in Debt

Pemex, Mexico's state oil company, announced Tuesday that it will use a peer-to-peer refinancing program to offer to pay back $2 billion in debt with suppliers and contractors, the Financial Times reported. One of the world's most indebted oil companies, Pemex currently holds $100 billion in outstanding debt. The company said in its announcement that it "structured a mechanism to exchange commercial debt for financial debt, an attractive opportunity to speed up payment to suppliers and contractors," Reuters reported. The state-owned oil company, whose debt to suppliers stood at $13.5 billion at the end of the first quarter of this year, has been acquiring significantly more debt to suppliers in recent years, the Financial Times reported. Schlumberger and Halliburton, two rival oil services companies, noted in January that they were experiencing payment delays from Pemex. Nymia Almeida, an analyst at Moody's Investors Service, noted that the recently announced deal will be neutral to Pemex's credit profile, the Financial Times reported.

RENEWABLES NEWS

Chile Signs Deals for Production of Green Hydrogen

Corfo, Chile's state development office, signed agreements with iron producer CAP, industrial gas supplier Air Liquide and regasification plant GNL Quintero in an effort to fund green hydrogen production, Reuters reported May 26.

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well-regarded minister of mines and energy, Bento Albuquerque. These personnel moves have damaged the relationship between the executive branch and Petrobras leadership, with shares of the company dropping in reaction to political intervention in its management. While Petrobras' strategic goals remain on track, the issue at the top of mind now is the risk of a diesel shortage. While Petrobras has formally alerted the government of this risk, Bolsonaro believes the state-owned company must abandon its pricing policy, which follows international prices. Petrobras executives have expressed concern that, amid the global fuel crisis, an alteration to its policy would severely disincentivize diesel imports and cause further shortage (especially since local supplies are at half capacity), negatively affecting Brazil's agribusiness exports and, ultimately, GDP. Andrade comes from an open market background, and considering the shortage risk, it is unlikely that he will change Petrobras' pricing policy and refrain from increasing fuel prices."

A **Joel Korn, president of WKI Brasil and senior international partner at UPITE Consulting Services:** "Bolsonaro's appointment of Caio Paes de Andrade as the new CEO of Petrobras was clearly driven by political considerations related primarily to highly sensitive fuel price hikes. It certainly raised concerns and the perception of investors and market analysts about undue government intervention in the company's operations. The negative implications of price escalation for the president's re-election bid are behind his populist and stubborn opposition to Petrobras' policy for establishing domestic diesel and gasoline prices in line with international market conditions. Past price subsidies by Petrobras have been disastrous to the company and, paradoxically, prompted its new management at the outset of Bolsonaro's government to establish a policy of no price subsidies. Petrobras is by far the main corporate taxpayer and, along with royalties and dividends, it has been consistently contributing more than $15 billion per year to the federal government's fiscal revenues. Just in 2021, the company paid close to $20 billion in royalties linked to offshore oil production and dividends, boosted by record earnings. The government could use these resources for temporary price subsidies without compromising the company's results and stability. Another action, which Congress is likely to pass, is a cap on state taxes levied on fuels, notwithstanding the tight fiscal budget faced by most of the state governments. Unless there is an indication by the government that the solutions envisioned will not affect Petrobras' existing policies, uncertainties will continue at least until the upcoming presidential election. The naming of the new CEO comes right after the appointment of the new minister of energy, both formerly members of the economic team and aligned to Economy Minister Paulo Guedes. The first action of the energy minister was a request to study a potential privatization of Petrobras, again a political move considering that it entails a long process that will inevitably exceed the term of the current administration."

A **Adriano Pires, founding partner and director of the Brazilian Center of Infrastructure (CBIE):** "Changes in Petrobras' leadership bring instability, with an immediate impact on the company's market value. Any movement in the presidency of Petrobras, in addition to affecting the company, can affect the value of other Brazilian companies with government participation and shares traded on exchanges abroad, for fear of intervention. Petrobras is in the process of divestment, including in the refining sector, and with this movement potential stakeholders in the assets being offered are on alert due to regulatory and legal uncertainty that also creates difficulties for the sale of other assets in the company's divestment

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José Miguel Benavente, Corfo's executive vice president, said the agreement will help with the energy transition and accelerate economic development in Chile. He added that the deal will also address the challenge of decarbonization, the wire service reported. Along with CAP, Air Liquide and GNL Quintero, Corfo selected three other projects to develop green hydrogen in Chile. Altogether, the six projects are expected to have a total electrolysis capacity of 388 megawatts, and the development office estimates that production will exceed 49,000 tons of hydrogen per year. Carolina Goic, a member of Chile's Senate, told the Energy Advisor in a **Q&A** published Jan. 28 that the production of renewable hydrogen fuel is important Chile's environmental objectives. "Domestically, the use of green hydrogen will be a key component in Chile meeting its goal of being carbon neutral by 2050," she said. Goic added that "there is a huge potential" for exporting the commodity.

POLITICAL NEWS

Petro, Hernández Virtually Tied in Colombia Race

Leftist Gustavo Petro and center-right populist Rodolfo Hernández, the two top vote-getters in the first round of Colombia's presidential election, are virtually tied ahead of the June 19 runoff, a new poll showed Wednesday, Reuters reported. The poll by Centro Nacional de Consultoria shows Hernández slightly leading with 41 percent support and Petro with 39 percent support. The difference is within the poll's margin of error of 2.8 percentage points. In the survey, approximately 14 percent did not respond or were undecided, and 5 percent said they would cast blank ballots, a protest move. The survey polled 1,200 people on Monday and Tuesday. In last Sunday's first round of the election, Petro, a current senator, former guerrilla and former mayor of Bogotá, won 40.3 percent of the vote. Hernández, an anti-establishment businessman and former mayor of Bucaramanga, garnered 23.9 percent of the vote. Center-right candidate Federico "Fico" Gutiérrez, who had been running in second place in some polls ahead of the first round, ultimately came in third, failing to win a spot in the runoff. Soon after the results were announced on Sunday, Gutiérrez endorsed Hernández. "Although anything can happen in the next three weeks, Hernández—who is likely to draw a huge proportion of Fico's supporters—seems to be in a stronger position," Michael Shifter, a senior fellow and former president of the Inter-American Dialogue, told the Advisor in a **Q&A** published Wednesday. "Petro was prepared to do battle with Fico. Now he will have to adapt and redo his campaign strategy before June 19," he added. Though Colombia's stock market and peso rose on the news that Hernández could beat Petro, the bounce could be short-lived as neither candidate is likely to pursue policies to improve Colombia's trade conditions or reduce its high level of debt, analysts told Reuters. Hernández has vowed to shrink the size of the government and use the resulting savings to pay off student debt, lower the value-added tax

ADVISOR Q&A

Which Candidate Has the Edge in Colombia's Runoff?

Q **Colombia's presidential election on Sunday saw center-right candidate Federico Gutiérrez lose his second-place position to populist firebrand Rodolfo Hernández—who styled himself as an anti-corruption crusader. Hernández will now face leftist Gustavo Petro in a runoff election on June 19. What were the most surprising results of the election, and what are the implications for both candidates in the lead-up to the second round? Will Petro and Hernández alter their campaigns? What sort of political alliances might take shape before the runoff vote?**

A **Silvana Amaya, senior analyst at Control Risks:** "For decades prior to this election cycle, Colombian elections were predictable enough, with traditional parties playing a decisive role and allowing only right-wing and centrist candidates to have a shot, but never the left. A month ago, very few people thought Rodolfo Hernández would have a chance to pass through to the runoff. Now, after the first round, many are asking who this independent, antiestablishment populist TikTok star, whose slogan 'neither Petro nor Uribe' really is. Rodolfo, a former mayor of Bucaramanga, has stuck to a very simple discourse around fighting corruption and putting the criminals who steal from the state in prison. From his successful time as a businessman to his striking performance as mayor, when he displayed a polarizing, intense and full-of-drama leadership, Rodolfo managed to take advantage of the perfect storm to become the strongest candidate to win the presidency. Leftist Gustavo Petro still remains the front-runner by 12 percent—having received 2.5 million more votes than Rodolfo—but is in a less favorable position ahead of the runoff election on June 19. The message is clear: Colombians are demanding a change of the socioeconomic paradigm, and a change that restores their hope, because everyone is tired of the status quo. But the trick is that Petro isn't the only one who offers that change. Rodolfo has taken full advantage of this and stands poised to capitalize on fear of a left-wing government, making him the most likely candidate to win the runoff."

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

NEWS BRIEFS

Argentina's Fernández Confirms Attendance at Summit of the Americas

Argentine President Alberto Fernández confirmed Wednesday in a call with U.S. President Joe Biden that he will attend next week's Summit of the Americas in Los Angeles, Reuters reported. Fernández has been among the leaders pressuring the White House to invite Cuba, Venezuela and Nicaragua to the summit. Other presidents, including Mexico's Andrés Manuel López Obrador, have said they will not attend if any countries in the region are excluded.

Rescuers Seeking to Reach 14 Trapped Miners in Colombia

A coal mine explosion near El Zulia in northern Colombia trapped 14 miners underground on Monday, and rescue teams have been working to save them, despite a gas build-up and heavy rains, BBC News reported Thursday. Jhon Olivares, the regional mining secretary, said that the explosion caused an impact that "was strong and the subsequent fire has generated contaminating gases." One miner on the surface of the coal mine died due to burns from the explosion. Last year, 148 mining-related deaths were recorded in Colombia.

World Bank Loans Ecuador $200 Million for Child Nutrition

The World Bank has approved $200 million in additional financing for the Social Protection Systems project in Ecuador, El Comercio reported May 26. The new resources will be used to support the fight against chronic child malnutrition in Ecuador, where 30 percent of children under the age of three lack sufficient food. The project aims to reduce malnutrition in pregnant women and children under 24 months with a complete package of education for parents and health check-ups.

and combine government subsidies into one basic income. Hernández has also vowed to fight corruption, though he himself is being investigated in connection with graft allegations, Reuters reported. Petro has gained recognition by condemning corruption and violence by right-wing paramilitaries and allied groups, the wire service reported.

Ecuador's National Assembly Votes to Dismiss Leader

Ecuador's National Assembly late on Tuesday voted to dismiss the legislature's leader, Guadalupe Llori, EFE reported. The first Indigenous woman to serve in the position, Llori was accused of failure to fulfill her duties and discrediting the assembly, the wire service reported. The move came as a blow to President Guillermo Lasso, who counted Llori as a close ally. In dismissing Llori, the National Assembly

Llori // File Photo: @GuadalupeLlori via Twitter.

appointed the chamber's vice president, independent lawmaker Virgilio Saquicela, to replace her, Reuters reported. In a statement, Saquicela said he invited Lasso to "seek solutions to insecurity, to seek laws that benefit the country [and] to sit down with all sectors to find ways to solve Ecuador's serious problems." Several political parties had sought to remove Llori as the assembly's president, saying she had blocked moves against her leadership and had also failed to convene pending sessions of the legislature. Llori had sought protection from dismissal from Ecuador's judiciary, but judges had left the decision to her fellow lawmakers. Though she was removed as the assembly's leader, Llori retains her position as a member of the body. Llori did not attend the session in which she was removed, and Reuters was unable to reach her for comment. Lasso's government has faced strong opposition in the assembly to his proposals on investment and security, and he has threatened to go around lawmakers by enacting decrees and taking other actions. In addition to legislative opposition, Lasso has faced high levels of violence in Ecuador, as well as deadly prison riots.

ECONOMIC NEWS

Mexico's Central Bank Cuts Economic Growth Forecast

Mexico's central bank, known as Banxico, cut its economic growth forecast for 2022 and 2023, given continued supply chain shortages and the war between Russia and Ukraine, according to its quarterly inflation report released Wednesday, Bloomberg News reported. The central bank expects gross domestic product to increase 2.2 percent for 2022, which is lower than the previously estimated 2.4 percent from its report three months ago. Banxico has also estimated that next year's economic growth will stand at 2.4 percent, a decline from the previously expected 2.9 percent increase, Bloomberg News reported. In a Wednesday Twitter posting presenting some of the report's findings, the central bank noted that its expectations for this year and next year's inflation have increased significantly. Referring to the inflation rates, Banxico said that the "medium-term ones increased, while the long-term ones have remained at levels above the goal." Alberto Ramos, chief Latin America economist for Goldman Sachs Group, expects that Banxico will deliver two consecutive 75-basis-point hikes to its key rate to end the year at 9.5 percent, Bloomberg News reported. He said that in Goldman Sachs' assessment, "only clear signs that inflation has peaked is likely to sway" the board from faster tightening in June. [Editor's note: See **Q&A** on Mexico's economy and the economic challenges facing the López Obrador administration in the Feb. 7 issue of the Dialogue's daily Latin America Advisor.]

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plan. The mixed capital company model in Brazil does not work. The country must decide what it wants, whether it is fully state-owned or completely private. The mixed economy model is the worst of both worlds. Due to the war in Ukraine, there is a global race for fuel, and refineries around the world are switching from natural gas in their respective processes to diesel. This represents lower fuel availability and high prices. However, the news of the possible lack of diesel seems to be coated with alarmism and electoral discourse. I don't believe in a lack of diesel. I believe in higher prices. I believe this for three reasons: the continuation of the war in Ukraine; hurricane season, which is now in the middle of the year in the United States; and the increase in consumption here in Brazil in the second half of the year due to agribusiness. Starting with the Temer government, the improvement of bylaws, governance and compliance gave Petrobras greater autonomy and ended up making it difficult for the government to interfere in the company, including in fuel price policy. According to the company's statute, Petrobras must be compensated if the government forces it to hold prices, and the company suffers damage. Therefore, it is difficult for any nominee to enable some control over fuel prices."

A **Vinícius Teixeira and Victor Freitas, energy consultants at BMJ Consultores Associados:** "We must keep in mind that President Jair Bolsonaro is running for re-election this year, and he is to trying to balance two competing objectives. On the one hand, he wants to signal to the population that he's acting to reduce fuel prices. On the other hand, he wants to show the market that he will not interfere in Petrobras. To this end, the three CEO changes at Petrobras follow the same strategy of meeting the president's electoral rhetoric, as he can claim to have made changes in the company aiming to reduce costs but without adopting effective changes. Besides, President Bolsonaro is pressuring Petrobras not to promote any readjustment until the election in October, which the company's shareholders reject. However, regarding the security of diesel supply, this uncertainty about Petrobras' performance poses a risk for private importers, who need the company's signal that it will adhere to market prices. That is, if Petrobras holds its prices, the market becomes inaccessible to private investors. In other words, the attempt to maintain lower prices increases the risk of shortages due to challenges to private importers. The Ministry of Mines and Energy has said the country has enough diesel until the beginning of July. The supply shortage scenario is remote, considering the electoral context and what this would imply in a loss of popularity for Bolsonaro. However, the solution to guarantee a supply scenario is through readjustments in the price of diesel. Thus, one of the measures that has been considered is the creation of direct subsidies for those most affected by price increases, especially truck drivers. The government and Congress have already discussed this proposal, but there are no signs of progress on this issue."

> **"The attempt to maintain lower prices increases the risk of shortages due to challenges to private importers."**
> — Vinícius Teixeira & Victor Freitas

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

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Leticia Chacón
Reporter
lchacon@thedialogue.org

Mark Kennedy
Reporter
mkennedy@thedialogue.org

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1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

Subscription inquiries are welcomed at
ebrand@thedialogue.org