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FEATURED Q&A

What Does Petro's Plan to Decarbonize Colombia Involve?

Colombian President-elect Gustavo Petro has promised to cut fossil fuel production in Colombia in order to stem global warming. He is pictured with coal miners in Boyacá province. // File Photo: @petrogustavo via Twitter.

Q **In his campaign, President-elect Gustavo Petro promised to "undertake a gradual de-escalation of economic dependence on oil and coal" in Colombia. Petro's pledge to cut fossil fuel production in Colombia is part of his effort to address global warming, for which he is also planning to create a National Institute for Clean Energies. What will "keeping fossil fuels in the ground" mean for Colombia's economy and fiscal stability? What role could state oil company Ecopetrol play in Petro's energy strategy? Will Colombia's Congress back Petro's energy plans, and what sort of energy transition could be realistically expected in the Andean nation over the next four years of Petro's term?**

A **José Vicente Zapata, partner at Holland & Knight:** "While President-elect Gustavo Petro's specific plans for mineral, oil and gas exploration and production are yet to be formally presented, it would appear that the economic relevance of these sectors will require a phased-out nonrenewable and phased-in renewables approach, as the president-elect has now begun to signal. Over the past few years, these industries have been able to factor in sustainable development goals as well as key regulations related to climate change recommendations. President-elect Petro has indicated that granted concessions will be respected and that the sanctity of contracts will be upheld; however, there will be no new concessions, particularly in the oil and gas sector. This policy may affect production estimates and reserves following President-elect Petro's four-year term, but it's clear that fossil

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Mexico Rejects Audi's Solar Power Plant Permit

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Venezuela's Oil Exports Rise Amid Europe Shipments

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OIL & GAS

Ecuador's Oil Output Rebounds Following Deal

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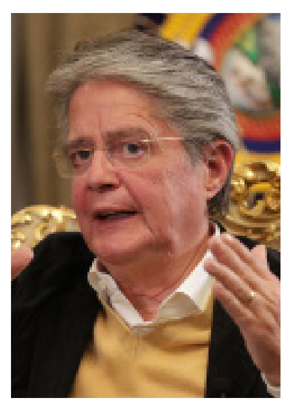

Lasso // File Photo: @Presidencia_Ec via Twitter.

OIL & GAS NEWS

Ecuador's Oil Output Rebounds After Gov't Deal With Protesters

Ecuador has seen a 90 percent recovery of is oil output since President Guillermo Lasso's government last week struck a deal with demonstrators who had taken to the streets for two weeks in protests, some of which had turned violent, the ministry of mines and energy said Monday in a statement, Reuters reported.

> **"Some 952 oil wells have been reactivated, which means that about 10 percent of the suspended wells still need to be recovered."**
> — Xavier Vera

On June 18, Ecuadorean state oil company Petroecuador issued a wide force majeure declaration across the country's oil industry in response to the protests. When Lasso's government and Indigenous leaders on June 30 signed the agreement to end the protests that led to at least eight deaths, Ecuador's oil production stood at 262,000 barrels per day (bpd), the wire service reported. As of Monday, the Andean country's oil production rebounded to more than 461,000 bpd. "Some 952 oil wells have been reactivated, which means that about 10 percent of the suspended wells still need to be recovered," Xavier Vera, Ecuador's energy minister, said in a statement, the wire service reported. Under the agreement between the Confederation of Indigenous Nationalities of Ecuador, or Conaie, and the Ecuadorean government, gasoline prices will be lowered by 15 cents to $2.40 per gallon, while the price of diesel will be lowered by the same amount, to $1.75, the Associated Press reported. The agreement also establishes new limits on the expansion of areas where oil exploration will be allowed, and it bans mining activity in protected areas, near water sources and in Ecuadorean national parks, the Associated Press reported.

Venezuela's Oil Exports Rise Amid Shipments to Europe

Venezuela's oil exports rose by 61 percent in June as compared to May, primarily due to the first crude cargoes that the Andean country sent to Europe in two years, Reuters reported, citing data from state oil company Petróleos de Venezuela, or PDVSA. Spain's Repsol and Italy's Eni were able to start importing crude from Venezuela following a U.S. State Department decision last month, which was made to help European countries make up for their loss of Russian oil due to the war in Ukraine. Along with its joint ventures, PDVSA shipped an average of 630,500 barrels per day (bpd) of fuel and crude in June—a similar production level as June 2021, according to PDVSA documents and Refinitiv data, the wire service reported. More than 60 percent of June's exports went to Asian countries, and Cuba received about 66,400 bpd of fuel oil, crude, gas oil and gasoline from Venezuela. In related news, U.S. investment funds Gramercy Funds Management and Atmos Global Energy on Tuesday said they have formed a joint venture with Caracas-based company Inelectra Group to conduct oil and gas exploration and production projects in the country, Reuters reported. The effort "will be beneficial to U.S. interests in the region and the U.S. economy by lowering fuel prices for American consumers," said Matt Maloney, a partner at Gramercy, the wire service reported.

> **In June, PDVSA shipped an average of 630,500 barrels of crude and fuel per day.**

NEWS BRIEFS

Brazil's Vibra Energia To Invest in Biogas Producer and Distributor

Brazilian energy company Vibra Energia has committed to investing 412 million reais ($76 million) in ZEG Biogas e Energia, a local biogas producer and distributor, over the next few years, following Vibra's Monday announcement that it is set to acquire a 50 percent stake in the company, Renewables Now reported. Vibra's investments will primarily go to the development of new biomethane and biogas projects. Brazilian antitrust regulator CADE must approve the transaction before it goes into effect, Renewables Now reported.

Chilean Government Introduces Legislation for Tax Reform

Chilean President Gabriel Boric's administration on Friday introduced a tax reform bill that raises taxes on high-income earners and increases copper mining royalties for companies producing more than 50,000 metric tons per year, Reuters reported. "This means an increase in revenue from royalties, an increase in state participation in mining income," said Finance Minister Mario Marcel. The new bill seeks to raise 4.1 percent of Chile's GDP over the next four years, the wire service reported.

Petroperú Requests Emergency Declaration for Oil Pipeline Attack

Peruvian state oil company Petroperú on July 1 asked that President Pedro Castillo's administration declare a state of emergency for an important crude oil pipeline, Reuters reported. The request followed a series of cuts described as "an unprecedented attack" in the Peruvian Amazon, the company said. Given the oil leak that resulted from the attack, Petroperú suspended pumping oil in the pipeline "in the face of the environmental emergency."

RENEWABLES NEWS

Mexico Rejects Audi's Solar Power Plant Permit

Mexico's Secretariat of Environment and Natural Resources, or Semarnat, rejected an environmental permit submitted by German automaker Audi in order to build a solar power plant at its Puebla factory, the ministry said on July 1, Reuters reported. The government office denied the permit request because, saying

López Obrador // File Photo: Mexican Government.

there will need to be further regional analysis, given the additional electrical infrastructure necessary for the plant. "From their initial conception, these types of projects require the establishment of a power station, an electric substation and internal transmission lines," the ministry said in its statement, the wire service reported. During President Andrés Manuel López Obrador's administration, Mexico has passed laws that limit how much electricity private gas and renewable energy facilities are allowed to sell, the Associated Press reported. Audi, a subsidiary of Germany's Volkswagen, said the solar panels would be used "exclusively to carry out part of the power consumption that enable the global production of the Audi Q5," and that they are only meant to be used for self-consumption of solar power, Reuters reported. "Audi Mexico is highly respectful of all legal requirements in the country," the company told the wire service in a statement on July 2. "[Audi is] cross-checking the authorization of the already existing transmission station with the delivery of the additional documentation requested by the competent authorities," Audi

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fuels will not remain in the ground for the next four years, given the number of valid concessions executed to date. What may likely have a greater impact for exploration and production are permitting and licensing timelines, as well as social reviews. Ecopetrol will have to address these challenges. Mainstream congressional parties, in particular, have shown growing support for the enactment of new laws favored by President-elect Petro, despite the divided national vote. With respect to Colombia's energy transition, this will continue to be an opportunity, as long as it does not sacrifice the mining, oil and gas sectors' generation of income, which is required to fund the proposed reforms."

A **Cecilia Aguillon, director of the Energy Transition Initiative at the Institute of the Americas:** "Colombian President-elect Gustavo Petro aims to put his money where his mouth is with regard to combating climate change and turning the country into a green economy. Fulfilling his pledge to ban new contracts for exploration of hydrocarbons and talks about changing the board of Ecopetrol will likely face political challenges. Nonetheless, Petro is an experienced politician and may find key allies to help him achieve his energy transition goals. Colombia is already on a path to decarbonization. It has been using hydroelectricity for decades, and it has growing solar and wind markets. The country has been a leader in the Renewable Energy for Latin America and the Caribbean (RELAC) group since its creation in 2019 and has a goal of 70 percent renewable energy use by 2030. Most recently, Colombian state oil company Ecopetrol embarked on green hydrogen studies and pilot projects, and it is already looking at powering its own operations with renewable energy. Ecopetrol has the infrastructure and know-how to produce green hydrogen, which could be exported to Europe and used for energy storage to manage the growing penetration of solar and wind energy in the local and international markets. The company has much to gain by scaling up its clean power and fuel development, which could attract international investments, help modernize Colombia's infrastructure, decarbonize its transport and develop a clean energy work force. Petro's approach to gradually decelerate fossil fuel production while accelerating the transition to clean energy could prove that when world leaders make bold political moves to combat climate change, global decarbonization is achieved sooner."

A **Karla Schiaffino, senior analyst of Latin America insights at Verisk Maplecroft:** "The extractive sector is an important part of Colombia's economy, representing 4 percent of GDP and 15 percent of total FDI inflows. The oil and gas sector is heavily represented in the exports portfolio and is an important source of employment in remote and rural areas. President-elect Petro's plan to halt the development of hydrocarbons risks diminishing income, further hurting a fragile fiscal position and medium-term energy self-sufficiency. This is why Petro has stressed the graduality of his transition plan, pledging to respect existing oil and gas contracts, in a bid to assuage concerns over contract sanctity and short-term energy self-sufficiency. Despite the challenges, Petro's supporters expect him to deliver on environmental pledges. He can take advantage of the increased development of clean energy projects, a green taxonomy and a domestic market for green bonds—which reflect political consensus around energy transition. Petro sees Ecopetrol as a key player in the development of clean energy, which suggests the company's financial health must be a consideration within his transition plan. Nonetheless, it is unlikely that Colombia can overcome operational challenges—especially regarding energy transmission—without private sector investment. Therefore, we expect fiscal

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added. Mexico's environment ministry said it will review any additional environmental impact statements that Audi submits for the solar plant at its Puebla factory, the wire service reported.

POLITICAL NEWS

Nicaraguan Police Take Over Towns Held by Opposition

Nicaraguan riot police have taken over the municipal headquarters of five towns held by the opposition, a move that came four months before scheduled municipal elections, the Associated Press reported Monday. The opposition Citizens for Freedom party, which President Daniel Ortega's government outlawed last year, has been in control of the towns since municipal elections in 2017. The opposition party's president, Kitty Monterrey, confirmed the police occupations in the towns of San Sebastián de Yalí, El Cuá, Murra and El Almendro, the AP reported. Oscar Gadea Tinoco, a member of the Citizens for Freedom party and mayor of the town of Pantasma, also confirmed that police had taken over his town. "All mayor's offices legitimately elected under the flag of Citizens for Freedom have been taken by the regime," Monterrey said Monday in a tweet. Monterrey, who had fled to Costa Rica after she was stripped last year of her Nicaraguan nationality, said the municipal takeovers were "a very serious attack against popular will and municipal autonomy," the AP reported. "With these actions the regime is confirming that it has no interest in rehabilitating the electoral path or even trying to maintain an appearance of legality in the next municipal elections," Monterrey added. Ortega's government has not commented on the takeovers of the town halls. Noel Moreno, who was ousted as mayor of San Sebastián de Yalí, said approximately 50 riot police entered the town's municipal headquarters early on Monday. Members of Ortega's Sandinista party "already named themselves mayor and vice mayor" and raised the Sandinista flag at the town hall, said Moreno. The Sandinista party now controls 140 of Nicaragua's 153 municipalities. The municipal takeovers came a month after Ortega's government outlawed 96 nongovernmental organizations, Agence France-Presse reported.

> **"All mayor's offices legitimately elected under the flag of Citizens for Freedom have been taken by the regime."**
>
> — Kitty Monterrey

ADVISOR Q&A

Where Will Petro Take Colombia's Foreign Policy?

Q **In the days following his election as the next president of Colombia, Gustavo Petro had phone calls with leaders including U.S. President Joe Biden and Venezuelan President Nicolás Maduro. Petro called his conversation with Biden "very friendly," and he said that with Maduro he discussed strengthening diplomatic ties and fully reopening the border between the neighboring nations. To what extent are Colombia's diplomatic relations with the United States and Venezuela going to change under Petro, and what is at stake? What sort of foreign policy agenda does Petro have for the rest of Latin America and the Caribbean as a whole? How might Petro orient his foreign policy with other countries such as China?**

A **Andrés Martínez-Fernández, senior analyst for Latin America at FrontierView:** "President-elect Gustavo Petro represents a departure from many of Colombia's previous policies, and that includes foreign policy, even as domestic issues will remain at the core of his administration's focus. Climate change and an accelerated transition away from fossil fuels are major foreign policy priorities for Colombia's next president. Indeed, Petro has stated his intention to build a regional alliance to confront this challenge. However, amid a global energy crunch, President Petro is likely to find little appetite for substantive action on this front, even from leftist governments in Mexico, Venezuela and Brazil, if this year's election returns Lula da Silva to office. Much of the U.S.-Colombia relationship, including trade, is ingrained in both nations' laws and institutions, and is therefore not easily upended by any one president. Petro's desire to shift the nature of U.S.-Colombia security cooperation could be a more substantive area of change, though the Biden administration will likely be a willing partner for change on this front, mitigating some of the diplomatic risks. Petro also stands to notably shift Colombia's approach to Venezuela, adding another voice in support of diplomatic engagement and against external pressure. Indeed, Petro has already signaled his intention to normalize relations with Venezuela. While this would be an important shift, it reinforces—rather than initiates—the regional swing against efforts to isolate the Maduro regime. Lastly, Petro will be less averse than his predecessor to expanding ties with countries such as China and Russia, though with shifting priorities for those nations the economic benefits for Colombia would be limited."

EDITOR'S NOTE: More commentary on this topic appears in the Q&A of the July 1 issue of the Latin America Advisor.

NEWS BRIEFS

Chile's Constitutional Assembly Presents Draft to President

Chile's Constitutional Assembly on Monday presented President Gabriel Boric with its proposal for a new constitution after months of debating and drafting the document, CNN reported. "There is something that all Chileans have to be proud about–that in the moment of the most profound political, institutional crisis that our homeland has lived through in decades, Chileans opted for more democracy, not less," Boric said Monday. Chileans are to vote on whether to adopt the new charter on Sept. 4, CNN reported.

Lula Has 14-Point Lead Ahead of Bolsonaro in Brazil Presidential Poll

Former Brazilian President Luiz Inácio Lula da Silva has support from 45 percent of voters ahead of the first round of the upcoming October presidential election, 14 percentage points ahead of his primary rival, President Jair Bolsonaro, a Genial/Quaest poll showed Wednesday, Reuters reported. In an expected runoff, Lula is favored to win, with 53 percent of the vote—19 points ahead of Bolsonaro—the poll shows. Forty-four percent of the poll's respondents consider Brazil's economic situation to be the country's biggest issue, the wire service reported.

Bid by Colombian Billionaire Gilinski for Argos Stake Fails

Colombian billionaire Jaime Gilinski's bid for a major stake in industrial conglomerate Grupo Argos has failed after it did not receive the required support of Argos shareholders, Reuters reported Wednesday. Gilinski, who owns GNB Sudameris Bank, had sought to acquire between 26 percent and 32.5 percent of Grupo Argos for $4.28 per share.

ECONOMIC NEWS

Mexico's Level of Remittances Hits $5.17 Billion in May

Mexico's remittances hit a monthly record of $5.17 billion in May, a 14 percent increase from the same month last year, the Mexican central bank, known as Banxico, announced July 1, Agencia EFE reported. From January to May of this year, Mexico received more than $22 billion in remittances, a 16 percent increase from the approximately $19 billion in the first five months of 2021. The new record follows an upward trend in Mexican remittances that began in March 2020, when the country received $4 billion in a single month for the first time, EFE reported. The majority of remittances is attributable to Mexican migrants who live in the United States. Nearly five million households and more than 11 million adults receive remittances from family members outside of Mexico, according to data from the Center for Latin American Monetary Studies, EFE reported. "Solid workers' remittance flows have been adding support to the current account and to private consumption," Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs, said in a research note. Low-income families, Ramos said, "have a high propensity to consume and are the overwhelming recipients of such transfers." Ramos said he expects Mexico's remittance flows to moderate in the coming quarters, given the United States' moderating activity and income growth profile.

Guzmán Resigns as Argentina's Economy Minister

Martín Guzmán unexpectedly resigned July 2 as Argentina's economy minister after two and a half years in the position, Reuters reported. Guzmán's departure came amid rising tensions within the ruling Peronist coalition over how to manage Argentina's economy, which has been hit by crises that have been worsened by a high inflation rate and Russia's invasion of Ukraine, the wire service reported. "I write to you to present my resignation as economy minister," Guzmán wrote to President Alberto Fernández in a letter that highlighted internal arguments within the administration, the Associated Press reported. "I consider it will be fundamental to work on a political agreement within the governing coalition so that the person who replaces me will have the centralized control of the necessary macroeconomic policy instruments ... to face the challenges ahead," Guzmán added in his seven-page resignation letter. On July 3, the Argentine president named economist and government official Silvina Batakis as the country's new economy minister, replacing Guzmán, Reuters reported. Batakis served as economy minister for the province of Buenos Aires from 2011 to 2015. Batakis has been more closely allied with the Peronist wing led by Vice President Cristina Fernández de Kirchner, who was president from 2007 to 2015, the wire service reported. Batakis will play a key role in shaping economic policy in Argentina, which has a tightly controlled market for foreign exchange, the wire service reported. Guzmán, a moderate, had spearheaded major debt restructurings including a $44 billion deal with the International Monetary Fund this year that replaced a failed 2018 program with the lender. Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs in New York, said in a note that Guzmán's departure was a blow to the president, who is already facing a drop in support. "A politically weaker and unpopular presidency would increase the risk that macro policy could turn more heterodox and interventionist," Ramos said in his note.

"A politically weaker and unpopular presidency would increase the risk that macro policy could turn more heterodox and interventionist."

— Alberto Ramos

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and operational realities to force a slow expansion of Colombia's energy matrix. The positive and negative implications of Petro's transition program will be evident beyond his term in office. The question remains whether his efforts will be enough to meet the expectations of his eager electoral base, and for more radical sectors of his coalition, which demand swift results."

A **Schreiner Parker, senior vice president and head of Latin America at Rystad Energy:** "Politics and pragmatism rarely mix, and it seems that Colombia's new president will be no exception to that rule. However, politicians are renowned for their ability to dream, and in the long term, that may be just as valuable. Colombia is already on a gradual de-escalation of economic dependence on oil. The country has gone a long time with no significant increases in proven resources, essentially since 2012. Crude resources totaled two billion barrels in 2021, and crude production has been on a steady decline since 2013, with the nation producing an average of below 750,000 barrels per day (bpd) in 2021, a 6 percent drop year-on-year from 2020, with production levels this year expected to mirror 2021. Natural gas production is also in dire straits. Although Colombia was able to produce 6 percent more natural gas in 2021 than in 2020, in the short-to-medium term the country will experience a natural gas deficit, where domestic demand is higher than domestic production. By the end of Petro's presidency it is forecasted that the Andean nation will need to import 1.74 billion cubic meters of liquefied natural gas (LNG) to meet demand. As there are no long-term LNG contracts in place to speak of, the Colombians will have to buy from the spot market. In today's world, that is an expensive proposition. So Petro may just be embracing the inevitable, although as with any experiment there should be a control and a variable. It looks like his presidential experiment will be mostly variable and with little control, considering the makeup of the Congress and the long-term nature of the energy transition as such."

A **Juanita Hernández Vidal, managing partner at Estudio Legal Hernández:** "Petro's plan is not at all convenient, mostly because it may have repercussions on social and strategic sectors. It is important to point out that a large part of Colombia's social, agricultural, housing and health programs, among others, are financed with royalties from mining and hydrocarbon exploitation, which for 2021 had a revenue of $20 billion. The coal industry, located mainly in the department of La Guajira, contributes to employment generation and community development. Petro has announced his intention to honor the hydrocarbon agreements already executed, therefore, no immediate impact is expected. Moreover, Ecopetrol is committed to the energy transition through the construction of solar projects, as well as the first pilots of blue, green and white hydrogen. Several of the initiatives proposed in Petro's energy agenda require congressional approval for their implementation. Colombia has a track record of investment protection, which is constitutionally guaranteed, and the associations who represent those sectors will for sure have a very proactive participation in order to conciliate and prevent radical decisions. Petro is determined to progress in the energy transition and decarbonization. During his presidential campaign, he mentioned immediate suspension of mining rights and hydrocarbon agreements, although he has recently stated that everything will be gradual, becoming more conciliatory toward the energy sector. Certainly, we will witness an important advance in the construction of renewable energy plants, and we are expecting Petro's definite posture on hydrogen, on which he has expressed concerns due to the high water consumption for its production."

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