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FEATURED Q&A

What Will Become of Petrobras Under Lula's Presidency?

Brazilian President-elect Luiz Inácio Lula da Silva has signaled that he wants to overhaul state oil company Petrobras. // File Photo: Brazilian Government..

Q **Brazilian President-elect Luiz Inácio Lula da Silva, who takes office on Jan. 1, has signaled that he wants to overhaul state oil company Petrobras. Last month, he began interviewing candidates to run the company, Reuters reported. What are the most significant changes Petrobras could see under Lula? What revisions might be in store for Petrobras' fuel-pricing strategy and investments in areas such as renewable energy? Who are the most likely candidates to become the company's next CEO, and how likely is Petrobras to act independently of political pressure and interference, a problem that arose often in the previous administration?**

A **Anabel Teixeira, associate at the Brazil and Southern Cone practice at McLarty Associates:** "After much speculation, current Petrobras president and Bolsonaro appointee, Caio Mário Paes de Andrade has announced he will depart from his current role to join São Paulo Governor-elect Tarcísio de Freitas' government as part of the Secretariat for Management and Digital Government team. President-elect Luiz Inácio Lula da Silva is expected to appoint an executive and senior management team that shares his vision for overhauling Petrobras, redirecting much of Petrobras' investment strategy toward development of clean energy sources such as renewables and biofuels. Lula has also stated that Petrobras' role is one of economic development and job creation and that, unsurprisingly, privatizing the state-owned oil company is off the table. Lula has expressed his opposition to Petrobras' current fuel pricing policy (based on international markets and exchange

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Petroecuador Recovers 90% of Production

Ecuadorean state oil company Petroecuador said it recovered 90 percent of its output after a power outage affected hundreds of its wells.

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OIL & GAS

Petrobras Shares Plunge Over Fears of Political Interference

Brazilian state-owned oil company Petrobras' shares plunged after the lower house of the country's Congress approved legislation that would make it easier for politicians to take key roles in state firms.

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OIL & GAS

Ecopetrol to Invest as Much as $6.2 Bn Next Year

Colombia's majority state-owned oil company, Ecopetrol, headed by Felipe Bayón, will invest $6.2 billion in energy security, financial stability and energy transition.

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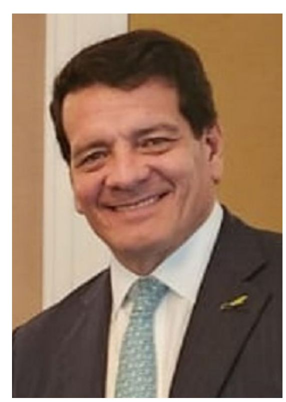

Bayón // File Photo: Colombian Government.

OIL & GAS NEWS

Ecopetrol Planning to Invest as Much as $6.2 Billion Next Year

Colombia's majority state-owned oil company, Ecopetrol, said Dec. 9 that it will invest as much as 30 trillion pesos ($6.2 billion) next year, Reuters reported. The bulk of the investment, some 15.8 trillion to 18.9 trillion pesos, will go toward achieving energy security, rather than promoting the green energy transition. It will also seek to ensure financial stability and boost the country's trade balance, Reuters reported. This year, Ecopetrol saw a surge in profits as a result of increased oil prices combined with a strong U.S. dollar. The company's third quarter profits doubled to 9.51 trillion pesos ($1.97 billion), the company reported. "Ecopetrol's operational and commercial figures in 2022 show an outstanding performance, which supports historical financial results. With the 2023 investment plan we will continue to grow with the energy transition, while generating value for society and our shareholders," Chief Executive Felipe Bayón said in the statement. Between 3.6 trillion to 4.1 trillion pesos will focus on making Colombia self-sufficient in gas, while 5.9 trillion to 6.8 trillion pesos will fund its energy transition, the company said, including investments in decarbonization, integrated water management, and fuel quality improvement projects. The company is also planning on socially investing in resources for regional development and the well-being of communities.

Petroecuador Has Recovered 90% of Output After Outage

Ecuadorean state-owned oil company Petroecuador has recovered 90 percent of its production after a majority of its oil wells were affected by a power outage, the company said on Tuesday, Reuters reported. Hundreds of its oil wells ceased to function on Sunday in the oil company's most productive area of the Amazon, after a surge in a power line caused a blackout, but the wells have since returned to normal activity. "The loss of 55,439 barrels was recovered almost in its entirety when most of the wells returned to production," the oil company said in a statement. "The effective work carried out by technical teams managed to recover 90 percent of the affected production in a single day," it added. Petroecuador's production had reached 385,029 barrels per day (bpd) before the blackout, according to the Energy and Non-Renewable Natural Resources Regulatory Agency. A similar incident occurred last month in the company's ITT block, mainly located inside Yasuní National Park in the Amazon rain forest, whose operation has led to resistance from Indigenous communities. Since taking office in May 2021, President Guillermo Lasso has promised to ramp up the country's oil production, and Ecuador's budget for 2023 plans for an estimated production of 188 million barrels of oil, or an increase of 35,000 bdp. [Editor's note: see related **Q&A** in the Dec. 2 issue of the Energy Advisor.]

Petrobras Shares Plunge Over Fears of Political Interference

Brazilian state-owned oil company Petrobras' shares plummeted on Wednesday after lawmakers approved amendments to a law offering protection against political interference in state-controlled companies, Bloomberg News reported. On Tuesday, the lower house of Congress voted 314-66 in favor of a bill that would facilitate the appointment of politicians to key jobs in state firms. The proposed changes to the State-Owned Enterprise Law would cut the quarantine period for politicians and campaigners from three years to a month, before they can assume high-level positions at state-owned companies, Reuters reported. The bill still needs the approval of the Senate before it can be signed into law. "It's an unspeakable setback," Francisco Petros, a Petrobras board member, told Bloomberg News. The

NEWS BRIEFS

Guyana Opens Bidding on 14 New Offshore Oil and Gas Blocks

Guyana on Dec. 9 opened bidding on 14 new offshore oil and gas blocks, the Associated Press reported. The South American nation, boasting one of the largest oil discoveries in the last decade, is expected to become a major oil producer. Companies can bid through April 14, after paying a $20,000 fee to gain access to a virtual data room that provides information about the offshore area. Results and awards will be made by May of next year.

Dominican Republic-Based EGE Haina Signs Deal for Power Project

Dominican Republic-based power producer EGE Haina signed a 25-year concession agreement with the local national energy commission for a 90-megawatt peak project, Renewables Now reported Wednesday. The construction of the Esperanza photovoltaic farm located in Valverde province will need an investment of some $94 million, EGE Haina said. The plant is expected to generate 200,000 megawatt hours per year, enough to satisfy the power demand of approximately 83,000 local households.

U.S. Companies to Build Two Power Plants in Guyana

A partnership of Houston-based Lindsayca and Puerto Rico-based CH-4 has been awarded a $760 million contract to build two power plants in Guyana, the Associated Press reported Wednesday. The companies will build a 300-megawatt power plant on the western side of Guyana's coast as well as a plant to provide it with gas. The two facilities are projected for completion over the next two years. When they are in operation, much of the gas that is produced at three nearby oil fields would be piped to the plants and converted to electricity.

proposed amendments would represent "an endless source of conflicts of interest between political parties and state-owned businesses," he added. Petrobras shares closed 10 percent lower on Wednesday and state-owned lender Banco do Brasil lost 2.5 percent, Reuters reported. Over the last decade, Petrobras has been enmeshed in a political graft scandal with political appointments in its senior management under the Workers' Party (PT). The party will return to power on Jan. 1 under President-elect Luiz Inácio Lula da Silva, who won the country's Oct. 30 runoff election against incumbent President Jair Bolsonaro.

CLIMATE CHANGE NEWS

European Union, Chile Reach Trade Agreement

The European Union reached a trade deal on Dec. 9 with Chile that will improve Europe's access to key minerals, including lithium and copper, to its green transition as it shifts away from Russian gas, the Financial Times reported. More than 60 percent of E.U. lithium imports are from Chile, the world's largest copper producer. Chile will drop tariffs on all imports other than sugar and will facilitate European investments under the agreement. The European Union, in return, will grant Chile more favorable access for its exports, especially food and professional services. "The landmark agreement is of key geopolitical importance: with the new Advanced Framework Agreement, the E.U. and Chile take their partnership to the next level to strengthen political dialogue, deepen cooperation and foster trade and investment opportunities," the European Commission said in a statement. The partnership, which also includes cooperation on climate change, human rights and gender equality, is part of the European Union's initiative to forge new alliances amid Russia's invasion of Ukraine and growing concerns over its economic reliance on China, Reuters reported. E.U. demands for similar commitments have stalled negotiations with the South American trading bloc Mercosur.

More than 60 percent of E.U. lithium imports are from Chile.

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rates) and has indicated plans to modify it, possibly migrating to a regional scheme that takes proximity to domestic refineries and import costs into consideration. Although the approach has raised some concern among investors, these changes are expected to occur at a gradual pace as modifications to fuel pricing policy will involve Congress and approval by Petrobras' board. In addition, the approval process for appointing new Petrobras leadership could take several months; while a few names have been rumored including former Senator Jean Paul Prates, the architect of Brazil's offshore wind legislation, what we know is that the new management will very likely be aligned with Lula's climate policy, which seeks to leverage climate diplomacy to better attract foreign investment in Brazil's renewables sector. Lula must also tackle the difficult task of disassociating himself and his party from previous corruption scandals involving Petrobras. Therefore, while significant changes in Petrobras' investment strategy can be expected, Lula will have to proceed cautiously and respect the company's autonomy as all eyes will be on him."

A **Daniel Hellinger, professor emeritus of international relations at Webster University:** "The challenge for Brazil and President-elect Luiz Inácio Lula da Silva is to ensure that Petrobras 1.) is shielded from corruption, 2.) adequately services the country's domestic energy needs, 3.) remains committed to defense of the environment, both globally and nationally, and 4.) maximizes capture of extraordinary profits in the present boom while preparing for leaner times when commodity prices fall. Lula's Workers' Party (PT) cannot afford to forfeit its political and moral capital through corrupt practice or use Petrobras to fund purchase of legislative votes. Other challenges loom. The new administration seems committed to maintaining low domestic prices, especially for diesel, but high domestic production costs likely mean continuing to import costly foreign oil. This may limit Lula's ability to channel natural resource profits toward emblematic welfare programs. Governments should now know to beware of relying excessively on natural resource extraction to fund domestic transfers. Just as important, the government should reject hand-wringing in the business press about government 'interference' in Petrobras negatively affecting the value of privately owned shares. A Reuters' analysis showed that Petrobras recently paid out more than double the average shareholder benefit paid by the five biggest Western oil producers. Windfall profits should be captured to capitalize national priorities, including alternative energy projects and financially managed funds to yield sustainable programs in leaner times. Market forces cannot be ignored, but Lula and the PT cannot let market imperatives and private shareholders 'interfere' with responsible political oversight of a company 64 percent owned by the state in the name of all Brazilians."

> **"Windfall profits should be captured to capitalize national priorities, including alternative energy projects..."**
> **– Daniel Hellinger**

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POLITICAL NEWS

Bolsonaro Backers Attack Brazil's Police Headquarters

Supporters of outgoing Brazilian President Jair Bolsonaro late Monday attacked the headquarters of the country's federal police in Brasília, the Associated Press reported. Law enforcement quelled the attack before any rioters could breach the headquarters, the wire service reported. The incident followed weeks of protests that have happened since Bolsonaro lost the country's runoff election on Oct. 30 to Luiz Inácio Lula da Silva. Some Bolsonaro supporters have called on Brazil's military to prevent Lula from taking office on Jan. 1. The attack at the police headquarters happened hours after Brazil certified Lula's victory. Bolsonaro has not urged his supporters to fight the result, though he has also done little to stop them. Lula faces a tough challenge when he takes office, Elena Lazarou, an associate fellow at Chatham House, told the daily Latin America Advisor in a Q&A published Dec. 6. "He will inherit a politically polarized country and an economy which by most credible predictions is likely to slow down in 2023; these two dimensions destructively reinforce each other," she said.

Peru Declares State of Emergency Amid Deadly Protests

The week-old government of Peruvian President Dina Boluarte on Wednesday declared a 30-day state of emergency that suspends some rights amid violent protests that have been happening since the ouster of her predecessor, Pedro Castillo, the Associated Press reported. The emergency declaration suspends the rights of assembly and freedom of movement, and it also gives police the power to search people's homes without the owners' permission or a judicial order, the wire service reported. Violence, vandalism and protests that have blocked roads in Lima and rural communities "require a forceful and authoritative response from the government," said Defense Minister Alberto Otárola. He said Peru's council of ministers agreed to the state of emergency, adding that there had been no decision yet on whether to impose a nightly curfew. At least eight people have been killed in protests since Peru's Congress removed Castillo from office on Dec. 7 after he unsuccessfully attempted to dissolve the legislative body and establish an emergency government to rule by decree, Reuters reported. Castillo was arrested hours after his impeachment, and his release is among protesters' key demands. Responding to protesters' demands for early elections, Boluarte said they could be held a year from now, in December 2023. In a handwritten note that Castillo's associate Mauro Gonzales shared with the AP, the former president asked the

ADVISOR Q&A

Can Ecuador Pump Enough Oil to Meet its 2023 Budget?

Q **Ecuador's budget for next year plans for an estimated production of 188 million barrels of oil in 2023, a significant increase from this year's output. The country currently produces oil at an average of 482,000 barrels per day (bpd), according to the central bank, a figure that will need to rise by 35,000 bpd to meet the state budget's expectations for next year. Energy Minister Fernando Santos, who was appointed in October, has pledged to increase national oil production. How likely is Ecuador to meet its oil production goal, and what will be the decisive factors? How will the country's national budget be affected if the yearly output is not reached, and which sectors will be most affected?**

A **Andrés Martínez-Fernández, senior analyst for Latin America at FrontierView:** "The production targets laid out in Ecuador's 2023 budget essentially contemplate a return to pre-pandemic levels of oil production, which is a realistic scenario that will nonetheless depend on some favorable conditions. However, a substantial shortfall of oil revenue for Ecuador would have ramifications for the country's fiscal consolidation process and future public spending. Disruptions to oil production will be a key variable, as they have in recent years. Indeed, on two recent occasions, Ecuador has been forced to declare force majeure for its oil contracts due to disruptions to production. First in December 2021 when erosion forced the shutdown of major pipelines, and then again in June 2022 when widespread indigenous protests targeted oil fields. The likelihood of another disruption is non-negligible and, depending on its severity, could prevent the realization of Ecuador's oil production target. Additionally, following this year's protests, the Lasso administration has been forced to make concessions to indigenous groups that include additional limitations on oil exploration and extraction. Nonetheless, important new oil fields are set to come online and point to increased production levels in 2023. At the same time, Ecuador's budget is also relatively conservative with its oil price assumptions for 2023, which is comfortably below what we at FrontierView are forecasting. This leaves a likely buffer for oil revenue for the government, even with a somewhat ambitious production target."

EDITOR'S NOTE: More commentary on this topic appears in the Q&A of Dec. 2 issue of the Energy Advisor.

NEWS BRIEFS

Chilean Gov't, Opposition Agree on Second Attempt at New Constitution

The government of leftist Chilean President Gabriel Boric and opposition lawmakers on Monday announced an agreement to begin drafting a new constitution, Bloomberg News reported. The announcement came three months after voters in a referendum rejected an attempt to replace the nation's dictatorship-era charter. The new process, which both chambers in Congress must approve for it to proceed, includes the creation of a constitutional council of 50 elected officials and a commission of 24 experts.

Colombia to Receive $55 Million From U.N. Fund for Peace Efforts

A United Nations multi-donor fund will grant a record $55 million to assist Colombia's peace process efforts in 2023, officials and ambassadors said on Wednesday, Reuters reported. The fund, established in 2016 after the government signed a deal with the Revolutionary Armed Forces of Colombia, or FARC, has thus far invested $181 million and will serve to bolster national programs relating to rural reform, the protection of social leaders and supporting victims of conflict. Supporting countries include Norway, Chile and South Korea.

Costa Rica Seeking to Join USMCA Trade Accord

Costa Rican President Rodrigo Chaves said Wednesday that he has sent a message to the administration of U.S. President Joe Biden expressing an interest in joining the USMCA trade accord, Reuters reported. "If you want to stay close to the country and share values, we need to strengthen relations and improve business opportunities and growth in the United States," Chaves told reporters after meeting with Chris Dodd, Biden's special advisor for the Americas.

Inter-American Commission on Human Rights to step in to protect his rights. In addition to setting up roadblocks, demonstrators have set fire to police stations and invaded the runway of the international airport in Arequipa.

Lula's Team Sues Bolsonaro Claiming Election Interference

Brazilian President-elect Luiz Inácio Lula da Silva's election team has filed two lawsuits against outgoing President Jair Bolsonaro, his running mate and two of his sons, alleging abuse of power over their conduct during the country's presidential campaign, Reuters reported Thursday. In one of the lawsuits, Lula's team accuses Bolsonaro, his running mate Walter Braga Neto and Bolsonaro's sons Flávio and Eduardo—both members of Congress—of interfering with the election by repeatedly attacking it and also for allegedly trying to build support for a military coup, the wire service reported. The second lawsuit accuses the current president of abuse of power for allegedly granting financial benefits illegally to voters with the "clear intention of gaining votes and, therefore, influencing the choice of Brazilian voters." The two lawsuits seek to ban Bolsonaro, his sons and Braga Neto from holding political office in the future. "Bolsonaro has maintained a narrative that challenges the legitimacy of the elections, so far it appears that he will give way to the transfer of power and possibly act as a critical and disruptive opposition," Elena Lazarou, an associate fellow at Chatham House, told the daily Latin America Advisor in a **Q&A** published Dec. 6. "To achieve this, Bolsonaro would leverage his influence in a highly divided Congress and in state and local governments where pro-Bolsonaro candidates have made important gains," she added.

The lawsuits seek to ban Bolsonaro ... from holding political office.

ECONOMIC NEWS

Ecuador on Verge of Closing Trade Deal With China: Lasso

Ecuador is close to finalizing a free trade agreement with China, Ecuadorean President Guillermo Lasso said Wednesday, Reuters reported. Such a deal is expected to increase Ecuador's exports to China and also increase employment in the Andean nation's manufacturing sector. "A highly efficient negotiation has been carried out in less than 10 months, and I can confirm that the agreement is practically closed," Lasso said during a meeting of Chinese and Latin American business leaders in Guayaquil, the wire service reported. The two countries began negotiations for the trade agreement in February with a goal of reaching a deal by the end of the year. "A free trade agreement could inject much-needed capital into Ecuador's pandemic-battered economy," Santiago Herdoiza, senior associate at Dentons Global Advisors-Albright Stonebridge Group, told the daily Latin America Advisor in a **Q&A** published Aug. 4. "Expected to boost commerce by 35 percent, it taps into increased Chinese investments and an expansion of export opportunities estimated at $1 billion," he added.

Argentina to Raise Floor for Income Tax: Economy Minister

Argentina's government will raise the floor for income tax in January, Economy Minister Sergio Massa said on Dec. 5, Reuters reported. The announcement comes amid labor union demands to ease the burden on workers. "With this tax relief, in 2023, no worker who earns less than 404,062 pesos (about $2,378 monthly) will pay the tax," Massa said in a tweet. The minister has not disclosed the fiscal cost of the initiative, which is set to benefit some 312,864 workers. The previous ceiling stood at 330,000 pesos.

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A Vinícius Teixeira, consultant in the area of Mines and Energy at BMJ Consultores Associados: "First, Petrobras' pricing policy will be revised under Lula's administration. After the Workers' Party (PT) administration, Petrobras was designated as a 'market company,' meaning it was aligned with the international market and with refined fuel prices tied to the international price of oil. Throughout his campaign, Lula always said that this pricing policy had to be reviewed, claiming that since the oil is extracted here, there is no reason for the price to be dollarized. During the Lula years (as well as those of his successor Dilma Rousseff), Petrobras did not operate as a private company and had its cash flow always under pressure to deliver cheaper fuels to the population. To a certain extent, it was a populist maneuver to deliver artificially low prices, while doing its social function to serve the Brazilian people. The most likely candidate to take over as Petrobras CEO is Senator Jean Paul Prates, who is also coordinating the oil and gas subgroup in the transition government. Prates is an expert in the oil sector and throughout his career has defended Petrobras as a company of the energy transition. In this sense, this is another change that should occur under the new management: greater investments in clean energy, especially in offshore wind energy, given the company's huge know-how in marine infrastructure. A third point is the investments in refining–diametrically opposed to the current Petrobras policy, which prioritized investments in deep and ultradeep water and sold downstream assets. In this sense, the sale of refineries should be halted–or at least curbed, since it was a commitment the company made to the Administrative Council for Economic Defense (CADE), in order to reduce market concentration."

A Raphael Figueredo, partner and chief technical analyst at Eleven Financial Research: "One of the biggest changes that Lula will bring is state-controlled companies' generous dividend payments. He will use dividend money to boost investments in areas such as refineries and renewable energy. We can expect growth in decarbonization and greater participation across the company. I expect there will be less independence. Lula will use the company for political aspirations. We have to remember that Petrobras is one of the biggest Brazilian companies. Just as Lula named Fernando Haddad as minister of economy and Aloízio Mercadante to the Brazilian Development Bank–both trusted left-wing names–he will do the same for Petrobras' future CEO."

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Lara Kovandova
Reporter
lkovandova@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