LATIN AMERICA ADVISOR

ENERGY ADVISOR

A WEEKLY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

January 26, 2024

FEATURED Q&A

Will Mexico's New Olmeca Refinery Achieve its Targets?

Mexico's new Olmeca refinery, in Tabasco state, started producing fuel last September, and state oil company Pemex's CEO, Octavio Romero, has said the refinery will be at its full production capacity by late March. // File Photo: Mexican Government.

Q Mexican state-owned oil company Pemex's CEO, Octavio Romero said on Jan. 4 that the country's new Olmeca refinery is estimated to be producing a combined 274,000 barrels per day of gasoline, diesel and jet fuel by the time President Andrés Manuel López Obrador leaves office in September. How likely is the Olmeca refinery to achieve that target, considering scheduling setbacks that it has already faced? How important is the new refinery to Mexico's energy needs? To what extent can the refinery help strengthen the finances of Pemex, the world's most indebted oil company?

A Larry B. Pascal and Carlos Alva, partners at Haynes Boone: "Although the commencement of operations of the Olmeca refinery has been postponed on several occasions, and estimated production figures have changed, Pemex issued a statement on Jan. 8 stating that the refinery will start operations in February. Pemex has also announced that the refinery will gradually increase production, producing 65,000 barrels per day (bpd) in February; 128,000 bpd in March and 176,000 bpd in April and thereafter for the year. Due to the upcoming commencement date, one has reason to believe that these production estimates are realistic. The refinery plays an important role in Mexico's energy security plans because a fundamental purpose is to reduce fuel imports and to strengthen Mexico's refinery system by adding domestic production capacity. However, the start of operations does not mean that Mexico can be considered self-sufficient in fuels, even when it reaches its full production capacity of 320,000 bpd, because imports will

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OIL & GAS

U.S. Court OKs Claims Ahead of Planned Citgo Auction

A court in the U.S. state of Delaware approved claims by 17 creditors of Venezuela as they seek proceeds from an upcoming auction of shares in Citgo's parent company.

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RENEWABLES

Brazil's Petrobras to Increase Renewables

The CEO of Petrobras said the state oil company will buy new stakes in domestic solar and wind projects.

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OIL & GAS

Peruvian Gov't Will Not Dedicate New Funding to Petroperú: Otárola

Peruvian Prime Minister Alberto Otárola said the government would not provide indebted state oil company Petroperú with a $2.5 billion bailout that it had requested.

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Otárola // File Photo: TV Perú.

OIL & GAS NEWS

U.S. Court Approves Claims Ahead of Citgo Share Auction

A court in the U.S. state of Delaware on Jan. 19 approved claims by 17 creditors of Venezuela as they seek proceeds from an upcoming auction of shares in the parent company of Citgo Petroleum, Reuters reported. The creditors, which include ConocoPhillips, Rusoro Mining and Koch Industries, are seeking payment following Venezuela's debt defaults and appropriations. Creditors had been seeking some $24 billion in claims, but a court officer reduced that figure to $20.8 billion by excluding some arbitration awards and judicial rulings that failed to satisfy the Delaware court's requirements on time, Reuters reported. The first bids for shares of Citgo's parent, PDV Holding, were due Monday, and a second bidding round is scheduled for later this year. The winners would not be announced for several months, and awards would require the approval of the U.S. Treasury. Last week, the Treasury extended until April 16 a measure that protects Citgo from creditors, Dow Jones reported. The extension allows a board that supervises the refiner to engage in settlement talks with creditors. However, it would not stop the planned auction. The court's Jan. 19 decision also gave priority to companies including Canadian mining company Crystallex, which originally filed the case, along with Tidewater, O-I Glass and Huntington Ingalls, Reuters reported, citing a court filing. The auction for Citgo, which is valued at between $11 billion and $13 billion, could lead to one of the largest court sales ever in the United States, Reuters reported. Judge Leonard Stark launched the process last October after receiving approval to do so by the U.S. Treasury. Earlier this month, the U.S. Supreme Court denied Venezuela's petition for an appeal in the case, and Stark allowed a greater number of creditors to participate in the auction. Some of those creditors, including Contrarian Capital Management, Pharo Gaia and Gramercy, also received court approval on Jan. 19 to participate, Reuters reported. The auction could lead to Venezuela losing control of Citgo, Michael C. Lynch, president of Strategic Energy & Economic Research told the Dialogue's weekly Energy Advisor in a Q&A published Jan. 19. "Crystallex and ConocoPhillips have sued for an amount nearly equal to the value of the company and with the addition of further creditors, the likelihood that PDV Holding will be left with a significant ownership share is diminished," said Lynch.

Brazil's 3R Engages Banks to Advise on Potential Merger

The Brazilian oil junior 3R Petroleum Oleo e Gas is assessing proposals in anticipation of a potential merger and acquisition, Bloomberg News reported Jan. 19. Maha Energy, which owns about 5 percent of 3R Petroleum's capital through derivatives, submitted a proposal for a corporate reorganization with local driller PetroReconcavo, people familiar with the matter told Bloomberg News. In a letter to the oil junior, Maha stated there are "sound" synergies that could lead to a stronger balance sheet and reduction in debt costs, the news service reported. The company is proposing the carve-out of 3R Petroleum onshore assets that PetroReconcavo would reincorporate, but offshore assets would not be included. The driller is said to be working with Banco BTG Pactual and Banco Itaú BBA, as well as seeking advice from PetroReconcavo, sources with knowledge of the matter told Bloomberg News. 3R Petroleum said it is only evaluating the proposals and has not yet hired any banks for the merger, Bloomberg News reported.

Trinidad & Tobago Wants Natural Gas Deals With Venezuela

Trinidad and Tobago is looking to secure more deals for natural gas in waters shared with Venezuela, with Mark Loquan, president of

NEWS BRIEFS

Peruvian Gov't Will Not Dedicate New Funding to Petroperú: Prime Minister

Peruvian Prime Minister Alberto Otárola announced on Jan. 21 that Petroperú, the indebted state oil company, will not receive any new financial support, Reuters reported. Experiencing a liquidity crisis, the firm had days earlier announced that it needs $2.5 billion in funding after a modernization project's cost surged. Otárola said resources would instead go toward water and sanitation projects, as well as to preventing adverse impacts from the El Niño weather phenomenon.

German Energy Group RWE Proposing Solar Farm in Chile

Germany-based energy group RWE has submitted a project proposal for a 257-megawatt-peak solar farm in Chile, Renewables Now reported Wednesday. The environmental authority in Chile's Antofagasta region has accepted the project, known as Los Durmientes, for consideration, according to the publication. RWE is planning to invest approximately $400 million to build the project. The facility will include more than 467,000 photovoltaic modules.

Bolivia's YLB, Chinese Consortium Sign Deal for New Lithium Plant

Bolivian state-owned Yacimientos de Litio Bolivianos (YLB) signed an agreement with Chinese consortium CATL, BRUNP & CMOC (CBC) on Jan. 18 to install a new lithium plant at the Uyuni salt flat, MercoPress reported. The lithium carbonate plant will involve an investment of $90 million and make use of direct lithium extraction technology to produce 2,500 tons of lithium per year. YLB and CBC previously signed an agreement one year ago to install two industrial lithium plants.

Trinidad and Tobago's national gas company, saying Tuesday that there is an "open door" for other countries to explore gas fields in mutual territories, Bloomberg News reported. Loquan highlighted the recent decision by Venezuelan President Nicolás Maduro to issue a license for Trinidad and Tobago and British oil giant Shell to tap into the Dragón project, a gas field located in shared waters. The Dragón deal could facilitate an initial output of 175 million cubic feet per day—with gas being transported to Trinidad and Tobago via an offshore platform owned by Shell—and output could increase to up to 350 million cubic feet per day. "There is not only Dragón. There are other fields that are joined in Trinidad and Venezuela which can be taken further," Loquan said, Bloomberg News reported. According to data compiled by Bloomberg, Trinidad and Tobago exported 8.4 million tons of liquified natural gas in 2023, a noticeable decline from the previous year due to the nation's declining gas reserves.

RENEWABLES NEWS

Petrobras to Increase Renewable Energy Portfolio: CEO

Petrobras, Brazil's state-owned oil firm, is planning on purchasing stakes in domestic onshore wind and solar projects to create a roughly 2-gigawatt renewable energy portfolio, Juan Paul Prates, the company's chief executive, told Reuters in an interview on Tuesday. Prates said Petrobras is interested in buying stakes in assets that are already operational in its transition toward green energy, a marquee of President Luiz Inácio Lula da Silva's agenda, as well as a complete reorientation away from the policies of former President Jair Bolsonaro, who prioritized deep-water exploration and production, Reuters reported. Prates did not make clear how much the company is planning on investing in domestic renewables projects this year, but the company has vowed to invest $5.2 billion in solar and wind power by 2028, according to its business plan released in No-

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continue to be required until demand for fuel is reduced in the long term due to the introduction of electric or hybrid automobiles or other energy transition factors. Finally, the refinery will help Pemex to reduce its level of imports of refined fuels. However, with the refinery costing an estimated $17 billion, it remains to be seen whether the long term net effect of this investment will be positive in terms of reducing its current debt of approximately $106 billion."

A **Diego Marroquin, senior research analyst in the Global Economy and Development program at the Brookings Institution:** "Mexico's oil boom peaked in 2004 at 3.8 million barrels per day (bpd). Today, it is down to around 1.6 million bpd, coinciding with increased flaring, methane emissions and Pemex's growing financial woes. To counter this, billions of dollars in public funds—a sum exceeding double Mexico's public safety budget, according to the Mexican think tank IMCO—were injected into Pemex, aiming to manage debt and reverse the country's status as a net oil importer. The new Olmeca refinery in Tabasco is the centerpiece of this strategy, but for two key reasons it's unlikely to be a game-changer. First, its $21 billion price tag (almost triple the initial estimate) nudges refining capacity to 1.98 million bpd. This hefty sum diverts resources from potentially more profitable ventures like deepwater exploration and extraction. While this is a slight increase, it misses the mark on Pemex's deeper troubles: corruption, technological limitations and crushing debt. Second, focusing solely on oil production overlooks Mexico's vast potential in renewable energy and natural gas. This strategy will hinder Mexico's ability to meet rising demand from nearshoring and Mexican households, both demanding cleaner energy at competitive prices. In sum, while Olmeca might alleviate some pressure, it doesn't solve the fundamental challenge of Pemex's inefficiency and lack of innovation. Instead of doubling down on the past, Mexico should look beyond Tabasco and invest in modernizing Pemex, diversifying its energy portfolio and capitalizing on its renewable energy potential. Only then can Mexico truly ride the nearshoring wave and thrive in times of grand geoeconomic realignment."

A **Duncan Wood, senior advisor to the Mexico Institute at the Woodrow Wilson International Center for Scholars:** "Mexico's new Olmeca refinery at Dos Bocas in the state of Tabasco is the fulfillment of one of the main promises that President Andrés Manuel López Obrador made on the campaign trail in 2018. Lamenting his country's growing dependence on imported gasoline and other refined products, AMLO pledged to cease exports of crude oil and refine it all within Mexico, thereby covering

> **"Pemex's refined products division has lost billions of dollars year after year for decades..."**
> **— Duncan Wood**

national demand for gasoline. There have always been two main problems with that plan: first, the margins on crude oil production are typically much higher that on refined products; and second, that Pemex's refined products division has lost billions of dollars year after year for decades. (In the last quarter of 2023, Pemex's existing refineries were running at only 38 percent capacity.) Add in the massive overspending on the new refinery (likely to be more than $10 billion in excess of the original price tag of $8 billion), and the Olmeca refinery does not make a lot of economic sense. But AMLO's logic is a political and ideological one, and he cares little about the financial aspects of his favorite infrastructure projects. The govern-

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vember. “We will practically reign alone in this market,” Prates said, Reuters reported.

POLITICAL NEWS

Venezuela’s Machado Announces Alliance With Political Parties

Venezuelan opposition presidential candidate María Corina Machado on Tuesday announced the formation of a new alliance of political parties and civil society groups in an effort to help her unseat President Nicolás Maduro, Reuters reported. “We’re going to reach every last village ... we’re already building governability,” Machado told hundreds of supporters at an event in Caracas, the wire service reported. Venezuela’s comptroller general has barred Machado from holding office, but Machado called the ban unfair and has appealed the order to Venezuela’s Supreme Court. The high court has yet to make a ruling. On Tuesday, Machado also called on the government to set an exact date for the election. While Maduro’s government and the opposition signed an agreement last year in Barbados to hold a presidential election this year, no date has been set for it. “No one will remove us from this electoral route,” said Machado, Reuters reported. “Set the date for the electoral process once and for all, leave the fear behind,” she added. After the government and the opposition signed the agreement to hold an election this year, the administration of U.S. President Joe Biden in October temporarily eased sanctions on the South American country’s oil industry. A week later, Venezuela’s government launched a criminal investigation into the opposition’s primary election, which Machado won. In launching the investigation, Attorney General Tarek William Saab accused the opposition of fraud in the vote, an allegation that Machado has denied. On Tuesday, Machado denounced what she called government attempts to intimidate her and her supporters, BBC News reported. The candidate said that two of her campaign workers had been abducted. Saab, a close Maduro ally, announced on Monday that authorities had arrested 32 people for allegedly participating in a plot to assassinate Maduro and Defense Minister Vladimir Padrino. Saab also said arrest warrants had been issued for 14 other people, including human rights activist Tamara Sujú and journalist Sebastiana Barráez both of whom live outside of Venezuela and have been critical of Maduro’s government, BBC News reported. Padrino claimed that the alleged assassination plot had the backing of the U.S. Central Intelligence Agency and the Drug Enforcement Administration. U.S. State Department spokesman Matthew Miller issued a statement Tuesday saying the United States is “deeply concerned” by the detentions and arrest warrants that Venezuela announced the previous day. “We call for the end of politically motivated harassment, including attacks upon opposition campaign offices and all efforts to stifle the democratic aspirations of the Venezuelan people through fear and intimidation” said Miller, adding that “arrests without due process

THE DIALOGUE CONTINUES

How Much Will Brazil’s Renewables Grow This Year?

Q **Brazil’s power sector regulator, Aneel, announced Jan. 2 that the country added an additional nine gigawatts of solar and wind power generation capacity last year. Wind power accounted for nearly five gigawatts of new generation capacity, while solar accounted for about four gigawatts. How much will Brazil’s renewable power capacity grow in the year ahead? What are the most important wind and solar projects on the horizon in Brazil? How well are the government’s policies encouraging growth in the sector?**

A **Camila Ramos, founder and CEO of CELA - Clean Energy Latin America in São Paulo:** “Renewable energy has been consolidated as the cheapest source of power in Brazil. In addition to the 9 gigawatts (GW) of wind and solar of utility scale projects—basically all of them bilateral power-purchase agreements (PPAs) and self-production projects with large consumers in the free market, an additional 7.6 GW of solar distributed generation projects were added to the Brazilian matrix in 2023 alone, according to Aneel data. There are another 7 GW of solar projects (utility scale) under construction, according to Aneel, and another 4.5 GW of wind projects, most of which should be online by the end of 2024, driven by the free market. Even though it is getting harder to secure long term PPAs in the free market, due to the low prices in the spot market, PPAs signed in the last three years could come online this year, as should another 4 to 6 GW of solar distributed generation projects. Government policies are decreasingly supporting renewable energy projects, as these sources have become the cheapest in the country. Examples of eliminated incentives include: the end of transmission charge discounts for renewable energy projects, changes to the distributed generation regulatory framework and the recent end of the import tax exemption on solar panels. All of these mean that renewable energy costs are increasing. However, a significant silver lining is the low carbon hydrogen regulatory framework that the Senate recently approved and which could soon become law. This could support a nascent green hydrogen sector in Brazil and consequently drive new growth for renewable energy. The opening of the free market to all high-tension consumers as of this month should also spur renewable energy growth.”

EDITOR’S NOTE: The comment above is a continuation of the Q&A published in the Jan. 12 issue of the Energy Advisor.

NEWS BRIEFS

Embattled Guatemalan Attorney General Refuses to Resign

Guatemalan Attorney General Consuelo Porras said Wednesday in a video message that she would not resign ahead of a meeting with the president, the Associated Press reported. For months Porras has been widely criticized for investigations and legal moves that appeared aimed at preventing a transition of power to President Bernardo Arévalo, who took office Jan. 15 and has said he would ask her to resign. Porras said no law mandates that she must meet with the president and promised legal action against anyone attempting to force her to step down.

Colombia Captures Submarine Carrying 800 Kilograms of Cocaine

The Colombian navy announced Monday that it had captured a submarine used by narcotraffickers, the Associated Press reported. The 15-meter-long submersible was apprehended on Saturday morning, carrying 800 kilograms of cocaine, according to a navy spokesman, the AP reported. The navy added that last year it had caught 10 such narco-submarines.

Beijing Welcomes Brazil's Backing of 'One China' Policy: Foreign Minister

Beijing welcomes Brazil's support of the "One China" policy, which maintains that Taiwan is an inseparable part of China, Chinese Foreign Minister Wang Yi said Jan. 19 at the conclusion of a two-day visit to Brazil, Reuters reported. Wang met with Brazilian President Luiz Inácio Lula da Silva at an air force base in Fortaleza before heading to Jamaica, the wire service reported. Earlier in Brasília, Wang said Brazil and China need to work together to construct a multi-polar world that focuses on security and peace, the wire service reported.

run contrary to the spirit" of the agreement between the government and the opposition last October.

ECONOMIC NEWS

Argentine Unions Launch 12-Hour Strike in Capital

Large sections of Buenos Aires were paralyzed Wednesday as Argentina's unions launched a 12-hour national strike in protest of newly inaugurated President Javier Milei's economic policies, Reuters reported. Milei has pushed sweeping reforms to address the country's deep debt and spiraling 211 percent inflation rate, including cutting subsidies for energy and transportation, proposing a bill to privatize state companies and issuing an emergency decree that deregulated industries and rolled back worker protections. "Their labor reform aims to take away workers' rights," Pablo Moyano, head of the truckers' union, proclaimed at the protest, Reuters reported. The national strike was called by Argentina's General Federation of Labor, an umbrella union group, whose leaders accused Milei of walking away from negotiations with the labor sector, the Financial Times reported. Public transportation, airlines, banks and medical services were all crippled as demonstrators blockaded roads. Patricia Bullrich, Milei's security minister, accused the protesters in a social media post of being "mafia unionists, poverty managers, complicit judges and corrupt politicians, all defending their privileges, resisting the change that society chose democratically," Reuters reported. "Milei's labor reform puts the government in open tension with the CGT," Graciela C. Romer, president of Save Democracy América, told the Advisor in a Q&A published Monday, "Milei's objectives are to lower labor costs, expand freedom of contracting, stimulate formal work, discourage judicial conflict, promote the renewal of obsolete collective agreements and allow free choice in union membership, among others." However, Romer added, "of the 56 percent support Milei received in the presidential election, only 30 percent belongs to him in terms of ideological identity ... The government is convinced that it has the support of the majority of the population without understanding that the support that brought it to power is of a different nature."

Brazil Announces $60 Billion Plan to Boost Industries

Brazilian President Luiz Inácio Lula da Silva on Monday unveiled his government's new plan to revitalize the nation's aging industries, Bloomberg News reported. The government's new proposal, called "New Industry Brazil," will involve investment of 300 billion reais ($60 billion) into industries such as agriculture, health and defense. Roughly 250 billion reais of that amount will come from Brazil's national development bank, and the money will provide

Lula // File Photo: Brazilian Government.

credit and funding for critical, aging national industries, the government said. The plan also focuses investment into environmental goals like decarbonization and modernization. "For Brazil to become competitive, it has to finance some of the things it wants to export," Lula said Monday at an event announcing the new funding plan, Bloomberg News reported. "The international market debate is very competitive. It's a war," he added. Investors and traders seemed to react skeptically to the plan, with the Brazilian real falling 1.2 percent in value, trading at its worst intraday price in months and with some Brazilian sovereign bonds falling by 1 cent on the dollar. "The market is very skeptical of large industrial policy programs, Alberto Ramos, a Latin America analyst at Goldman Sachs told Bloomberg News.

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ment's 2023 claim that the refinery would be processing 340,000 bpd by the end of 2024 has now been replaced by an estimate from Pemex CEO Octavio Romero that the refinery will be processing 243,000 bpd by the end of 2024. If the past is prologue, we should expect further delays and cost overruns. Reducing dependence on imported fuels is proving to be a costly goal for both Pemex and the Mexican taxpayer."

A **Heidi Smith, professor in the Economics Department of Universidad Iberoamericana in Mexico City and Gabriel Farfan Mares, president and managing director of the Mexican Community on Public Management for Results:** "The launch of the Olmeca refinery will mark a pivotal moment for Pemex's production processes, representing a strategic shift aligned within the National Refinery System. This comprehensive system, including the Salina Cruz and Tula coking plants and the Deer Park refinery, underlines the government's optimistic outlook, projecting a substantial increase in gasoline, diesel and jet fuel production by 2026. This, in addition to Pemex's ambitious target of 7.4 billion barrels of crude oil equivalent by 2024, signals a 6 percent increase in the nation's hydrocarbon output since 2019. This robust performance underscores the effectiveness of Pemex's operational strategies, incorporating contributions from both emerging and established fields. An essential metric reflecting efficiency and cost-effectiveness is the reduction in the cost of developing hydrocarbon reserves. This declining cost signifies Pemex's dedication to optimizing resource utilization and streamlining production processes. Another noteworthy aspect is the substantial contribution that the Deer Park refinery has made since 2022. The upcoming operationalization of the Olmeca refinery is anticipated to mirror this impact. These developments underscore a concerted effort to enhance self-sufficiency and fortify the nation's energy independence, which, in essence, outlines a positive trajectory. The focus on new fields, fostering private partnerships and ensuring cost efficiency position Pemex favorably for sustained growth in the hydrocarbon sector."

> **"The launch of the Olmeca refinery will mark a pivotal moment for Pemex's production processes..."**
> **— Heidi Smith & Gabriel Farfan Mares**

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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