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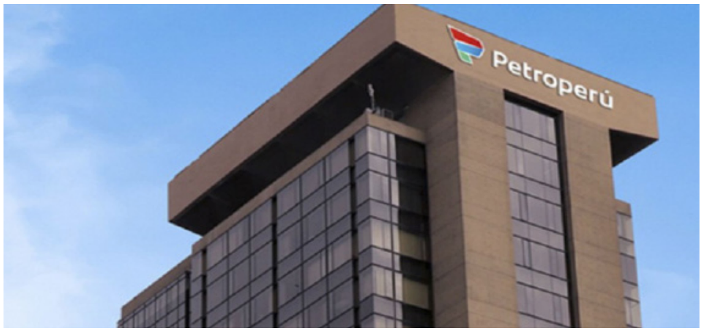
FEATURED Q&A

What Would Help Turn Around Peru's Struggling Oil Firm?



Struggling state oil company Petroperú is facing setbacks including escalating debt and an outage at its new refinery. // File Photo: Peruvian Government.

Q The board of Peruvian state-controlled oil company Petroperú said May 13 that it requested that the Peruvian government, which wholly owns the firm, sell a majority stake to the private sector. Petroperú has struggled for years against mounting losses, as well as a recent outage at its new Talara refinery. The company has said that without privatization, it would require a $2.2 billion bailout and funding from the nation's treasury indefinitely to continue operating. President Dina Boluarte has signaled that her government will not support privatization. How likely is it that Petroperú could be privatized under Boluarte or a successive government? What would be the merits of selling a large stake in Petroperú to the private sector—and how large a stake should be sold, if any? How much is Peruvian state control to blame for Petroperú's struggles?

A César Gutiérrez, director of utilitiesperu.com in Lima: "There is diverse, dispersed and disorderly reporting about the critical situation at Petroperú. For the first quarter of this year, the company had negative gross and operating profits and net results with losses of $183 million, total debt of $8.53 billion and a working capital deficit of $2.79 billion. The referenced $2.2 billion is only to mitigate the lack of working capital. The origin of the problem is excessive debt and falsehoods about the company's capacity to repay. The responsibility lies with the six governments that the country has had since 2011. The current situation is one of insolvency. There is no possibility of a private company taking over unless the state assumes a large

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TOP NEWS

OIL & GAS

Venezuela National Assembly Eyes Extending PDVSA-Chevron Deal

Venezuela's National assembly began consideration of an extension of a joint venture between state-owned oil company PDVSA and U.S.-based oil company Chevron.

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RENEWABLES

BNDES Lends $40 Million for Energy Projects

The Brazilian Development Bank, BNDES, approved loans of 214.4 million reais ($39.7 million) for solar and hydropower projects.

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OIL & GAS

New Petrobras CEO Announces Management Team

The new CEO of Brazilian state oil company Petrobras, Magda Chambriard, on June 14 announced a new management team, including a new chief financial officer and a new chief of engineering, technology and innovation.

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Chambriard // File Photo: Agência Brasil.

OIL & GAS NEWS

Petrobras' New CEO Announces Management Team

Petrobras' new CEO, Magda Chambriard, on June 14 announced a new management team to run the Brazilian state-run oil firm, Reuters reported. The three new executives are Fernando Melgarejo, who will serve as chief financial officer; Renata Baruzzi, the new engineering, technology and innovation chief officer; and Sylvia dos Anjos, who will lead exploration and production. Dos Anjos and Baruzzi were promoted from within Petrobras, while Melgarejo has worked for state-run bank Banco do Brasil for 37 years and also serves as a member of the board of directors and audit committee of Brazilian energy distributor Neoenergia, Reuters reported. The new leadership announcement came a month after Brazilian President Luiz Inácio Lula da Silva sacked former Petrobras CEO Jean Paul Prates amid disagreements over policy and investment. The new appointments must be approved by the company's corporate governance before the executives take up their posts. Following the announcement last Friday, Petrobras' preferred shares fell by as much as 3.6 percent, Bloomberg News reported. Chambriard is looking to expand Petrobras' oil exploration, likely turning to the Equatorial Margin to replenish the nation's oil reserves, the news service reported. [Editor's note: See related **Q&A** in the May 24 issue of the Energy Advisor.]

Venezuela Assembly Considers Extending PDVSA-Chevron Deal

Venezuela's National Assembly on Monday started discussing a proposal that would extend a contract between state oil company PDVSA and U>S.-based oil major Chevron to operate their Petropiar joint venture in the South American country's Orinoco Belt, Reuters reported. Under the proposal, the contract would be extended until 2047, the wire service reported. PDVSA and Chevron currently have four joint ventures in the Andean nation that are producing approximately 200,000 barrels per day of crude oil. Of the joint ventures, the Petropiar venture produces the most oil, Venezuela's deputy oil minister, Elianny Palencia, said in a presentation at the National Assembly in Caracas. The extension is part of a plan to drill 386 oil wells in the area, Reuters reported, citing a document that was presented to lawmakers. During the proposed extension, which would last from 2033-2047 and would be in effect after the current concession expires, would increase the joint venture's crude output to 150,000 barrels per day, Reuters reported. The request for the extension also includes $2.39 billion in investment and an additional $8 billion in operational expenses, according to the presentation by the deputy oil minister. The joint ventures produce oil under a license that the U.S. Treasury granted to Chevron in late 2022 as an exemption to U.S. sanctions on Venezuela.

Brazil's Petrobras to Pay $3.49 Billion in Back Taxes

Brazilian state-owned oil company Petrobras will pay 19.8 billion reais ($3.49 billion) in back taxes under a settlement approved by the company's board on Monday, Bloomberg News reported. Brazil's Superior Court of Justice denied Petrobras an appeal in May, Reuters reported. The settlement, which does not include interest payments, coincides with Finance Minister Fernando Haddad's plans to balance the budget by reducing the deficit and increasing revenue this year, with the funds going toward clearing outstanding tax debts, Bloomberg News reported. In recent weeks, markets in Brazil pulled back amid concerns that the finance minister would not succeed in reaching the fiscal target. The settlement, which was made public through a court filing, is among the first major decisions made by new Chief Executive Officer Magda Chambriard. President

NEWS BRIEFS

Top Saudi Arabian Official to Visit Chile to Discuss Lithium

Chile's government announced June 15 that Saudi Arabia's minister of industry and mineral resources, Bandar Alkhorayef, would visit Chile in July, Reuters reported. Chile is the world's second-largest lithium producer, and Alkhorayef told Reuters in March that Saudi Arabia was interested in entering the electric vehicle sector and sourcing lithium from abroad. While in Chile, Alkhorayef will meet with Chile's minister of mines.

Brazil Environmental Agency Strike Will Cut Oil Output: Lobby Group

A partial strike by employees at Brazil's environmental agency will lead to a decrease in the nation's oil output by approximately 80,000 barrels per day, Roberto Ardenghy, the head of oil lobby group IBP, said Monday, Reuters reported. Employees at the agency, which is responsible for approving oil licenses, voted to strike last week due to disputes over wages, career structure and working conditions after delaying licensing procedures for months. Over a dozen firms in the oil and gas sector have been affected, said national union Ascema.

Chile's SQM to Provide Lithium to Hyundai, Kia

Chilean lithium miner SQM announced on Monday that it reached a deal with Hyundai and Kia to supply the car manufacturers with the commodity, Reuters reported. The deal for the white metal, fundamental in the production of electric vehicle batteries, is a long-term agreement. SQM, the world's number-two producer of lithium, has already been supplying Ford and LG Energy with lithium hydroxide. SQM did not disclose the deal's financial details, but it said there was "strong motivation to continue with [its] lithium hydroxide expansion plan."

Luiz Inácio Lula da Silva appointed Chambriard in May after dismissing former CEO Jean Paul Prates due to disagreements over the use of the firm's extraordinary dividends. To regulate the company's finances amid the turbulence, "Magda will likely step on the company's gas pedal to meet Lula's expectations but will also retain its profitability in the coming years, short of another external shock," Mark S. Langevin, senior advisor at Horizon Engage, told the Energy Advisor in a **Q&A** published May 24.

RENEWABLES NEWS

Brazil's Development Bank Lends $40 Mn for Energy Projects

The Brazilian Development Bank, or BNDES, has approved loans of 214.4 million reais ($39.7 million) for solar and hydropower projects, Renewables Now reported Tuesday. State-run utility Celesc will use the financing to install solar panels to provide 5 megawatts of capacity, along with transmission infrastructure, in the municipalities of Capivari de Baixo, Lages and Videira, the news site reported. Celesc will also expand the capacity of the Salto Weissbach hydropower plant in an initiative that will grow its capacity to 29.28 megawatts, up from its current capacity of 6.28 megawatts. The utility is also adding 1 megawatt of capacity to the Maruim small hydro plant, which has not been active since 1972. Once that hydropower project is complete, it will be able to power the energy needs of 70,000 homes, Renewables Now reported, citing BNDES. The deployment of wind and solar projects and strong capacity at hydroelectric reservoirs in Brazil led to country to import its lowest amount of natural gas in two decades last year, according to data released in February by the National Agency for Petroleum, Natural Gas and Biofuels, Reuters reported at the time. Gas imports in 2023 fell to 6.5 billion cubic meters, their lowest level since 2003. Gas imports were 9 billion in 2022 and 16.9 billion cubic meters in 2021, according to data from the agency, Reuters reported.

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part of Petroperú's debt. The government has proposed no solutions. Negotiation is required with bondholders and other creditors, and then the company must also deal with suppliers. Petroperú needs a financial restructuring by specialists, who, unfortunately, the government will not call upon. The company will continue to operate at a loss and with an uncertain future. There is little hope for a comprehensive solution. The call to privatize the company is an illusion with no technical basis."

A **Jose L. Valera, partner at Mayer Brown in Houston:** "Petroperú's struggles are long-dated and deep-rooted. The company is insolvent, and a financial bailout from the government would be throwing good money after bad if nothing else changes. As it is, the government has already invested several billion dollars in support of Petroperú's new Talara refinery. These amounts equal a large percentage of what the government otherwise spends on public health, education and housing. It will take about 20 years to recover this invested capital. In addition, Petroperú does not have the financial resources and technical capacity to operate and extend the life of fields under recently terminated license contracts that will be handed over to it. Its crude oil and fuel importing business to supply the domestic market results in losses year after year. What the government should do is to restructure the company in preparation for a privatization, whereby 100 percent of the ownership and control should be transferred to the private sector. From a financial perspective, there is no justification to spend more government resources on Petroperú. It is unlikely that a privatization will happen during the Boluarte government. The government is weak, and it would be unable to overcome resistance from those who benefit from the status quo."

> **"There is no justification to spend more government resources on Petroperú."**
> **— Jose L. Valera**

A **Jeremy M. Martin, vice president for energy and sustainability at the Institute of the Americas:** "Privatization is an important policy tool and lever. For years, Latin American governments, often at the behest and in collaboration with international lenders and multilateral finance entities, have sought to leverage privatization of state-owned enterprises to boost revenue and innovation, but also to confront corruption and inefficiency. The current developments at Petroperú offer another case study in the debate around the role of the state and particularly in the energy sector vis-a-vis national oil companies and budget allocations. Across the region, state oil companies have played major roles in energy development and in their countries' economic fortunes. Their role in the energy transition and the global climate debate is increasingly key, and that should be understood as part of the debate in Peru over the future of Petroperú. Most importantly for the case of Petroperú is a strong argument that increased private participation in the ownership and operation of the company would lead to clear-eyed incorporation of ESG and Net Zero strategic planning and with those goals, important advances with the latest technologies and innovation at the firm. Without formally incorporating those aspects and creating a viable and attainable strategy, even with private participation, there is scant hope to reset the company's financial health and long-term outlook. That said, offering a stake in Petroperú will require deft management of the Talara refinery's woes and guarantees from the state to entice possible investors. Despite its current opposition, the Boluarte administration would do well to consider

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POLITICAL NEWS

Ecuador Hit by Rolling Blackouts

Eighteen million people in Ecuador were left without power for several hours on Wednesday during a nationwide blackout, a senior government official said, the BBC reported. Public Works Minister Roberto Luque blamed the problem on insufficient investing in the state electrical system, writing on X that "for years we have stopped investing in these systems and today we are experiencing the consequences." Quito's metro system, which is powered by a separate grid, was also brought to a halt and did not return to service until mid-afternoon on Wednesday. Earlier this year, President Daniel Noboa declared a state of emergency on April 19 and began rationing electricity, NPR reported. Homes and businesses were cut off from the power grid for up to eight hours a day, and traffic lights were also turned off. The power scarcity is caused by a lack of rainfall, in part due to the El Niño weather phenomenon, which has depleted reservoirs and limited hydroelectric plant production, the source of 75 percent of Ecuador's energy, The Guardian reported. Neighboring Colombia has also been similarly affected, with the capital Bogotá rationing water after warming temperatures in the southern Pacific Ocean caused both floods and droughts in the Andean valleys.

Haiti Replaces Head of National Police Force

Haiti is replacing the head of its national police force, removing Frantz Elbe from the position and replacing him with Rameau Normil, Reuters reported last Friday. Elbe's replacement came amid criticism that he wasn't doing enough to protect police officers from attack by gangs, the Associated Press reported. Just days before Elbe was dismissed, three police officers who were on patrol in Port-au-Prince were ambushed and killed by gang members working under powerful gang leader Jimmy "Barbecue" Chérizier. Twenty police officers have been killed this year, and more than 350 have been killed since 2015, Reuters reported, citing local rights group RNDDH. "The results of Elbe at the helm of the police are catastrophic," said Pierre Esperance, the rights group's director, Reuters reported. "He spent his whole time establishing relationships with the gangs, reinforcing the gangs and preventing cops from doing their job and risking their lives," Esperance added. He said Elbe should be prosecuted. Elbe did not immediately respond to Reuters' request for comment. A spokesperson from the office of Prime Minister Garry Conille confirmed Elbe's dismissal and Normil's appointment, Reuters reported. The change came just after Conille named his new cabinet. Normil headed Haiti's national police force from mid-2019 to late 2020. The Citizens' Protection Office, Haiti's ombudsman, called on Normil to come up with a plan "without delay" to fight the gangs and

ADVISOR Q&A

Will Brazil Be Able to Continue its Growth This Year?

Q Brazil's economy grew 0.8 percent in the first quarter, a turnaround from a slight contraction in last year's fourth quarter, according to figures released June 4 by state statistics agency IBGE. Federal outlays increased in the quarter, and the labor market remained strong, contributing to higher levels of household spending. What are the major headwinds and tailwinds facing Brazil's economy? Which sectors are thriving, and which are struggling, and why? What will be the economic impact of the catastrophic and deadly flooding in Rio Grande do Sul state?

A Allison Fedirka, director of analysis at Geopolitical Futures: "Agriculture remains the economic engine for Brazil and accounted for the highest levels of growth this year. Services, particularly commerce and information/communication, came in a distant second place. Gross fixed capital formation and consumer spending also helped to spur some GDP growth. Industry and exports remained stagnant. There are several worrisome indicators of mounting economic challenges for Brazil in the near term. Soy profitability is down this season, prompting farmers to reduce planting areas for next season. Fertilizer purchases this season have also been delayed. While they are expected to resume, the rush in demand and related logistical challenges will put inflationary pressure on crops. Additionally, government efforts to keep energy prices (and inflation) in check remain difficult due to the new spending constraints and revenue situation it faces. Lastly, Brazilian companies are now spending more on financial expenses (like interest) than investments at a time when the country's IPO market is still dormant and not expected to be revived until the end of this year at the earliest. Rio Grande do Sul contributes about 5 percent to national GDP, and officials estimated initial flood damages at 62 billion reais. This will create a drag on the economy, but it will not single-handedly ruin it. One major area of concern, however, is rice production as about 70 percent of Brazil's rice (and oats) is produced there. While the government is currently working through tenders to import more rice, the situation will likely drive up the price of a food staple in the county."

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

NEWS BRIEFS

Brazil's Workers' Party Files Suit Against Head of the Central Bank

The ruling Workers' Party of President Luiz Inácio Lula da Silva filed a lawsuit on Wednesday against the head of the country's central bank, Roberto Campos Neto, that would bar him from making political statements, the Financial Times reported. The move marks an escalation in attacks against Campos Neto by the Workers' Party who have criticized the bank head over the pace of rate cuts and alleged political bias.

California Boosts Nat'l Guard Presence Along Border to Fight Fentanyl

California Governor Gavin Newsom announced last week he would more than double the number of National Guard members deployed across the state—from 155 to 392—to combat the flow of fentanyl into the United States, Southern California's City News Service reported. "The state's Counter Drug Taskforce is making a profound difference to hold smugglers accountable and take deadly drugs off our streets," Newsom said in a statement, City News Service reported.

Russian Warships Depart Havana After Five-Day Visit

A fleet of four Russian military ships left Havana on Monday after a five-day visit that was seen as a show of strength by Russian President Vladimir Putin, Reuters reported. It was unclear where the submarine, frigate, oil tanker and rescue tug were headed, though U.S. officials have said the vessels could head to Venezuela. The United States has said the ships did not pose a threat. After the arrival of the Russian vessels, the United States docked a submarine at Guantanamo Bay Naval Base, and Canada docked a patrol ship in Havana.

strengthen the police force. The office also said authorities should explain the "spectacular" escape of approximately 4,500 prisoners amid what it called the "complete indifference" of previous officials, Reuters reported. Gang violence has continued to surge in Haiti, and the United Nations estimates that gangs control 80 percent of Port-au-Prince. More than 2,500 people were killed or injured across the country in the first three months of this year. [Editor's note: See related **Q&A** in the June 7 edition of the daily Latin America Advisor.]

ECONOMIC NEWS

Mexican Court Orders Elektra to Pay $1 Bn in Back Taxes

A court in Mexico ruled last week that Mexican retailer Grupo Elektra must pay $1 billion in back taxes, The Wall Street Journal reported. Grupo Elektra is owned by Mexican billionaire Ricardo Salinas under his conglomerate Grupo Salinas, and the ruling was part of a series of cases in which authorities are attempting to recover taxes owed by Salinas' firms—plus interest. In total there are 17 tax disputes related to Salinas' businesses, some spanning more than a decade back. Grupo Salinas, which also owns television broadcaster TV Azteca, among other businesses, announced last week that it would appeal the judgment. "We regret the lack of diligence and objectivity of some judges," the conglomerate said in a statement, The Wall Street Journal reported. At a press conference on March 20, the head of Mexico's tax authority said that in total $3.8 billion is owed by four companies owned by Salinas. President Andrés Manuel López Obrador, speaking at the same event, said he hoped Salinas "will not keep using delay tactics so that my administration ends and the matter remains there, pending," Bloomberg News reported. The remarks followed a video released by Salinas a day earlier on X, in which the billionaire said his companies pay "obscene" amounts of taxes and declared "we are not going to pay more than what is correct," Bloomberg News reported.

Colombia's Lower House Approves Pension Reform

The lower house of Colombia's Congress voted last Friday to approve President Gustavo Petro's pension reform, marking a major victory for his administration, Reuters reported. The Senate already approved the bill. The reform will come into force in July 2025 and mandate that workers who earn 2.3 times the minimum wage or less will pay their contributions into state pension fund Colpensiones. [Editor's note: See related **Q&A** in the May 8 issue of the biweekly Financial Services Advisor.]

MercadoLibre Mobile Card Readers Succeeding in Mexico

Mercado Pago, the financial technology unit of e-commerce giant MercadoLibre, has seen adoption of its mobile credit card readers more than double over the past year in Mexico, Reuters reported Monday, citing a company executive. In Mexico, the percentage growth of the company's digital readers is in the "low triple digits," said Brigitte Brousset, Mercado Pago's head of financing for merchants in Mexico.

IMF Executive Board OKs $793 Million Payout to Argentina

The International Monetary Fund's executive board approved a payout of $793 million last week to Argentina as President Javier Milei continues his agenda of economic reforms, Agence France-Presse reported. The disbursement, under the IMF's eighth review of its loan program with Argentina, brings total disbursements under the program to more than $41 billion. The announcement followed the Argentine Senate's approval of Milei's "omnibus" economic reform package.

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the longer-term horizon for the company in the nation's energy sector beyond the near-term economic crisis that demands budget allocations the government has shown it is uninterested in providing the firm."

A **Beatriz de la Vega, partner at KPMG Peru:** "The government has ruled out the possibility of privatizing Petroperú. This issue has been addressed since the 1990s. In contrast, in recent years, in addition to refinery activities, Petroperú has increased its portfolio of assets related to upstream operations. Currently, Petroperú's risk rating is CCC+. Fitch Ratings has estimated that its EBITDA for 2024 is $119 million, as compared to payments of $175 million. The Talara refinery is not yet fully operational, and its share of the hydrocarbon market continues to plummet. In this context, a presidential spokesperson has categorically ruled out privatization, pointing out that it will remain under government control (even though it stated that the company requires approximately $2.2 billion to solve its financial problems). Instead, its board of directors has said that a private administration may be a solution to regain financial self-sustainability. The government has still not explained why it has denied the possibility of privatization, but it could well be based on energy security or the provision of clean and accessible fuels for the population. However, to date, it has not issued a reasoned explanation for the decision, which revives fears about the future of Petroperú.

> "A presidential spokesperson has categorically ruled out privatization..."
> — Beatriz de la Vega

Also under debate is the divestment of some assets that the company owns, for example, those related to upstream activities. In general, Petroperú has no foreseeable plan for the future. Privatization should be seriously considered to define the role of the company in the context of Peru's energy transition."

A **Rafael Romero, economist and financial advisor:** "The probability that a private company will acquire Petroperú is practically non-existent, since its debt (approximately $8.5 billion) is much higher than all future cash flows discounted at its cost of capital. In other words, for a private party to acquire it, the government would have to pay he buyer more than $1.5 billion, according to a valuation carried out by an independent entity that Petroperú itself hired. However, if the government seeks to undertake the path of a private management contract, in a context in which the company loses money at a rate of $2 million per day, such management could only reverse the current situation to the extent that it has broad margins of action and discretion to initiate major surgery that includes at least: 1.) a deep reduction of costs and expenses and their subsequent strict control; 2.) recovery of the market share of fuel sales (currently at 25 percent); and 3.) a reduction of debt with the sale of assets, also seeking longer terms and grace periods. However, given the current government's weakness, it is unlikely that it will be able to undertake the restructuring that the company needs, so the most realistic scenario is that it will end up in a payment default, since the treasury also faces serious risks of once again failing to comply with its commitment to the fiscal deficit target with the eventual loss of its investment-grade rating."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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