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FEATURED Q&A

Can New Leadership Revitalize Ecuador's Reeling Oil Sector?

José Agusto Briones takes the helm of Ecuador's energy ministry as the oil industry is trying to recover from several serious setbacks in recent weeks, Jorge León writes below. // File Photo: Government of Ecuador

Q **Ecuadorean President Lenín Moreno announced last week that José Agusto Briones will replace Carlos Pérez as the country's oil minister, who is also in charge of the energy and mining sectors. Agusto is taking office weeks after violent protests shook Ecuador over a planned fuel price that Moreno later scrapped. Pérez has said the unrest severely hit the country's oil production, causing losses of more than $100 million. What are the most pressing challenges that Agusto will face as Ecuador's new oil minister, and is he likely to maintain Pérez's approach and goals? Is oil production back to normal now, and what else should the Andean nation do to boost output in the period ahead? Beyond oil and gas, what should Agusto's priorities be going forward in his new position?**

A **Jorge León, member of the Energy Advisor board and oil and gas supply economist at the BP Group:** "Ecuadorean crude production dropped to 450,000 barrels per day in October, almost 100,000 lower than a month before, according to secondary sources. This was the result of social unrest against austerity measures that the government imposed, particularly the elimination of fuel subsidies. The government estimates that the losses amounted to $137 million. This has clearly been a big shock to the oil sector. Moreover, Ecuador's oil sector was stunned by the news that Carlos Pérez was leaving his role as oil minister due to personal reasons. This is unfortunate news. Pérez and his team have done an excellent job in the last two and a half years of heading the ministry. He has been a cornerstone in the transformation and modernization of the sector. But more importantly,

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TOP NEWS

OIL & GAS

ConocoPhillips Files Court Motion for Citgo Shares

The Houston-based oil company says Venezuela has fallen behind on payments owed to it under a $2 billion arbitration award. However, the U.S. government has thus far protected Citgo, which Venezuelan state oil company PDVSA owns, from creditors.

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BIOFUELS

ECB Picks Acciona to Build Paraguay Biofuels Plant

Brazil's ECB plans to build the $800 million advanced biofuels plant in the Paraguayan municipality of Villeta, outside the nation's capital, Asunción.

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OIL & GAS

Brazil Sets Fees, Schedule for New Subsalt Auction

Waldey Rodrigues, a special secretary for finance in Brazil's Economy Ministry, said the auction would be held in eight months and that two-thirds of the proceeds would go to the Treasury.

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Rodrigues // File Photo: Brazilian Government.

OIL AND GAS NEWS

ConocoPhillips Files Court Motion for Citgo Shares

Houston-based oil major ConocoPhillips on Tuesday filed a court motion seeking to seize shares in the parent of U.S. refiner Citgo Petroleum to collect on an arbitration award against Venezuelan state oil company PDVSA, which owns Citgo, Reuters reported. Several companies, including Canadian miner Crystallex, have targeted Citgo's assets as payment for debts due from either Venezuela or PDVSA.

Palacios // File Photo: Citgo.

However, U.S. sanctions aimed at forcing out socialist President Nicolás Maduro have so far spared Citgo, which opponents of the Maduro government say will be critical to providing funds needed to rebuild Venezuela's oil sector after he leaves office at some point in the future. The International Chamber of Commerce last year awarded ConocoPhillips $2 billion as compensation for Venezuela's 2007 takeover of its assets. ConocoPhillips said that PDVSA has made $754 million in installment payments toward that award, but the cash-strapped company has lately fallen short in scheduled payments, giving ConocoPhillips the right to enforce the award. In its filing Tuesday, ConocoPhillips acknowledged that actually seizing the shares in Citgo parent PDV Holding would be "more complicated" and that much depended on the "status and interpretation of sanctions, authorizations and/or licensing from the Office of Foreign Assets Control of the U.S. Department of the Treasury." Earlier this year, opposition leader Juan Guaidó, whom the United States and scores of other countries recognize as the legitimate interim president of Venezuela, appointed a shadow board of directors for Citgo, which operates entirely in the United States. Led by chairwoman Luisa Palacios, the board has been lobbying the U.S. government to protect Citgo assets from Venezuela's creditors. [Editor's note: See related **Q&A** in the Oct. 11 issue of the Energy Advisor.]

Ecopetrol Plans to Increase Investment at Least 25 Percent

Colombian state-owned oil company Ecopetrol said Monday that its 2020 investment plan will increase capital expenditures to between $4.5 billion and $5.5 billion, up from the $3.5 billion to $4 billion in 2019 forecast at the start of the year, S&P Platts reported. The new figures are 25 percent to 53 percent higher than the estimated figure for organic investment this year. Eighty percent of investments will be concentrated on upstream activities, the company said in a statement. Ecopetrol said the company would generate net positive earnings at approximately $30 per barrel of oil, with plans to organically produce at least 750,000 barrels of oil-equivalent per day in 2020. The company added it will invest more than $150 million in energy transition, carbon reduction and management of wastewater from operations, with expected investments of $126 million for innovation and technology, focusing on the use of artificial intelligence, block chain and bots to improve productivity and efficiency. [Editor's note: See related **Q&A** in the May 24 issue of the Energy Advisor.]

Financial Pressure on Pemex Delaying Payments: Report

Pressure from Mexico's government on state oil company Pemex to reduce spending has resulted in a decision to delay payments to suppliers due in December, Bloomberg News

NEWS BRIEFS

Samsung Agrees to $75 Million Penalty in Petrobras Bribery Case

South Korea-based Samsung Heavy Industries has agreed to pay criminal penalties of $75.5 million to authorities in the United States and Brazil over a scheme to pay bribes to officials at Brazilian state oil company Petrobras, Compliance Week reported Monday. According to the company, from 2007 until 2013, SHI conspired to violate the Foreign Corrupt Practices Act by providing $20 million in commission payments to a Brazilian intermediary, knowing portions of the money would be paid as bribes to officials at Brazil's state-owned oil company, Petrobras, to obtain a shipbuilding contract.

Pemex Communications Systems Hindered by Cyberattack: Report

Some of the communications systems at Mexican state oil company Pemex are still struggling to recover two weeks after a cyberattack hit the company, Bloomberg News reported Monday. Internet access is limited for some staff, and employees told reporters that access to email and computer files has not yet returned to normal. The company disclosed on Nov. 10 that a cyberattack had affected less than 5 percent of the company's personal computing devices.

U.S. Blacklists Cuban Firm Over Venezuela Oil Deals

The administration of U.S. President Donald Trump on Tuesday blacklisted a company it accused of helping a Cuban state-run oil firm evade Venezuela-related sanctions, Reuters reported. Cuba-based Corporación Panamericana has been blacklisted for acting on behalf of oil import and export company Cubametales. The sanctions freeze any U.S. assets held by Corporación Panamericana and prohibit Americans from doing business with it.

reported Saturday, citing a person familiar with the situation. Pemex already faces months of overdue payments to offshore suppliers. One company, Marinsa de México, is owed about $8 million, nearly a third of which is seven months late, a company executive told Bloomberg News. President Andrés Manuel López Obrador has set a goal to end the year with a government-wide surplus in order to avoid a possible sovereign debt ratings downgrade, according to the report. However, Lisa Schineller, S&P's head of Latin American sovereign ratings, said at an event in Mexico City last week that the government's prudent fiscal policy positions have already been incorporated into its sovereign credit rating for the country, Reuters reported. The ratings agency is unlikely to modify its credit rating on Pemex as well, at least in the near term, according to the report. Pemex is burdened with about $100 billion of debt, the most of any major oil company, and Mexico's national budget relies on Pemex revenue for a fifth of its funding.

Brazil Sets Fees, Schedule for New Subsalt Oil Auction

Brazil's government on Tuesday set signing fees totaling $8.72 billion for a new oil auction of the Sepia and Atapu presalt blocks that had no takers in a disappointing auction on Nov. 6, Reuters reported. Waldery Rodrigues, a special secretary for finance in Brazil's Economy Ministry, said the auction would be held in about eight months and that two-thirds of the proceeds would go to the country's Treasury. In the previous auction, which officials hoped would generate more than $25 billion in proceeds, only Brazilian state-run oil company Petrobras and Chinese-held firms bid for two of the four blocks offered, as international oil companies decided to hold off for better terms.

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he has exemplified transparency, common sense efficiency and honest administration. That, unfortunately, has not been the case in previous years. Pérez's replacement, José Agusto, definitely has big shoes to fill. The main challenges will be attracting investment in the upstream sector to be able to boost production in the near future. This is particularly important given Ecuador's weak fiscal position. The long-term goal of producing 700,000 barrels per day of crude is exigent, but with the right measures, it is achievable."

A **Isabella Alcañiz, associate professor in the Department of Government and Politics at the University of Maryland:** "Ecuador's newly appointed minister of energy and nonrenewable natural resources, José Agusto Briones, will maintain in all probability the approach of his predecessor, Carlos Pérez García. That is, the new minister will continue to attempt expanding exploration, drilling, refining and mining operations in order to make up for dire economic conditions and fiscal deficits. Agusto will also try to move ahead with the projected merger of state-owned oil companies, Petroecuador and Petroamazonas, to create significant economies of scale and increase production. Yet, the political climate is grim. Less than two months ago, President Lenín Moreno urgently retreated to Guayaquil because Quito was the site of mass protests. The demonstrations, carried out by indigenous Ecuadoreans, forced the president to restore fuel subsidies and withdraw from an agreement with the IMF. The new minister is proposing a 'social energy pact' in order to avoid conflict resulting from the proposed development of oil fields in the vulnerable Ecuadorean Amazon and other protected areas. Given the political volatility and instability of the country, which is similar to many other Latin American states, it will have to be the president who commits to a new and effective social pact that avoids further conflict."

A **Jeremy Martin, member of the Energy Advisor board and vice president for energy and sustainability at the Institute of the Americas:** "Ecuador has grabbed headlines for the announcement that it would depart OPEC and, more dramatically, for the unrest set off by the proposed reduction of fuel subsidies. The former was a conscious choice as part of the government's effort to reinvigorate and boost the oil sector, and the latter was part of an IMF

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BIOFUELS NEWS

ECB Picks Acciona to Build Paraguay Biofuels Plant

Brazil's ECB Group on Monday announced it had contracted Spanish engineering group Acciona to help build what it calls Latin America's first plant to produce advanced biofuels at scale, Reuters reported. ECB plans to build the $800 million plant in the Paraguayan municipality of Villeta, outside the nation's capital, Asunción. The plant will be capable of producing 20,000 barrels per day of HVO, or hydrotreated vegetable oil, a renewable substitute for diesel, and SPK, or synthetic paraffinic kerosene, a renewable aviation fuel. Erasmo Carlos Battistella, the president of ECB Group, made the announcement at an event alongside Paraguayan President Mario Abdo Benítez. Launched in February, ECB's Omega Green Project represents the largest private investment in Paraguay's history, Battistella said. Barclays and UBS are providing structured finance for the project. Minnesota-based Crown Iron Works and Honeywell are providing the core technologies for the facility. Honeywell says its green biofuels offer a 60-85 percent reduction in the life cycle of greenhouse gas emissions compared to petroleum fuels and provide better performance in diesel turbine engines. The plant's construction will begin in the first six months of 2020 and should be concluded in 30 months. The facility is expected to employ 2,400 people once operational.

TECHNOLOGY NEWS

Xoom, Paykii to Offer Utility Bill Payment Service in Jamaica

San Francisco-based Xoom, PayPal's international money transfer service, on Tuesday announced it is teaming up with Paykii to offer bill payment services in Jamaica. The venture will allow Jamaican customers to use money transfers to pay their bills for electricity and other utilities, according to a statement. A Mexico-based startup, Paykii provides a business-to-business platform for customers in one country to directly pay expenses for their family members back home.

ECONOMIC NEWS

López Obrador Unveils $44 Billion Infrastructure Plan

Mexican President Andrés Manuel López Obrador on Tuesday announced the first phase of a massive infrastructure plan underwritten largely by the private sector, Reuters reported. The plan would commit some $44 billion for 147 transportation and other public works projects over five years. While the first phase targets transportation, tourism and telecommunications, a second phase of projects will be announced in January and will focus primarily on the energy sector, according to the report. López Obrador, who has struggled to keep the economy out of recession, described the first phase of the infrastructure plan as giving a jolt to growth. "We're providing a huge push with this investment program," he said. At the event announcing the plan, Luis Niño de Rivera, the head of the Mexican Bankers Association, said banks had $4.3 billion available a year to finance infrastructure development, the Financial Times reported. Pension funds and private investment funds could supply another

ADVISOR Q&A

What Does the Closer-Than-Expected Presidential Election Mean for Uruguay?

Q Former Senator Luis Lacalle Pou appeared to have edged out his rival, former Montevideo Mayor Daniel Martínez, in Sunday's presidential election in Uruguay. Martínez has not conceded, however, and a recount is underway. A victory by Lacalle Pou, a conservative and the son of a former president, would put an end to 15 years of rule by the leftist Broad Front coalition. What are the biggest takeaways from Uruguay's election? What challenges will the eventual winner need to address first as Uruguay's next president? What will the closer-than-expected election result mean for the next president's ability to govern and set his own agenda?

A David Nelson, CEO of Global Business Policy and former U.S. ambassador to Uruguay: "Although the final results may not be available before Friday, Martínez would need to win 90 percent of the ballots left to count, but those are mostly from the interior of the country where Lacalle dominated. So it seems highly likely there will be a transition to the 'traditional' parties after 15 years of rule by the Frente Amplio. The close vote probably ensures that Lacalle will seek to unite the country, rather than pursue policies that would imply a 'domination' by the right. The non-Frente Amplio parties have a majority in Congress, but they are fragmented so it will be a challenge for Lacalle to maintain his coalition to pass laws—particularly with the new hard-right party led by General Manini Ríos. It may be time for Uruguayans to recognize a sea change in their traditional political structure—for many years the dominant parties, the Colorados and Blancos, were in fact each coalitions with diverse ideologies. Once again, Uruguay now has two major political coalitions—with the Blancos and Colorados united as one facing the Frente Amplio. Can the traditional parties overcome historical rivalries to make that work? Immediate policy issues the new government faces include improving personal security, education and the somewhat stagnant economy. In the regional context, dealing with the new government in Argentina could be a challenge, and it seems likely Uruguay could move toward the majority South American view of Venezuela. But the big story is that at a time of popular political upheavals throughout the region, Uruguay celebrated a democratic election in which the popular will is respected."

A Sergio Abreu, former Uruguayan minister of foreign affairs: "Lacalle Pou leads a coalition of five parties with a majority in Congress. The new government must reach macroeconomic stability due to the 5 percent fiscal deficit. Social programs will be maintained, although a strict evaluation of destined resources and results is needed. Dialogue will be key to governability because the country is divided. The new governments in Brazil, Paraguay and Uruguay will promote an open market within Mercosur, a new strategy that could affect Argentina's protectionist model. They will consolidate the European Union-Mercosur Treaty and other free-market agreements, including one with the United States. Uruguay is a hinge in the Southern Cone and is also part of the agriculture business chain..."

EDITOR'S NOTE: More commentary on this topic appears in the Nov. 26 issue of the daily Latin America Advisor.

NEWS BRIEFS

Colombian Teen Protester Dies After Being Struck by Police-Fired Projectile

A Colombian teenager who took part in a protest march last week to demand better access to education has died after being hit on the head by a projectile fired by riot police, BBC News reported. Outrage over the death of Dilan Cruz has sparked calls for fresh marches by protesters who object to the heavy-handed police response to marches that started last Thursday. President Iván Duque said he deeply regretted Cruz's death.

Brazil's Lula Vows to Fight Bolsonaro's Government

Former Brazilian President Luiz Inácio Lula da Silva on Friday told a crowd of cheering supporters that he would fight the country's right-wing government and those he said unjustly imprisoned him, saying he would make "their lives hell," the Associated Press reported. Lula was freed this month after 19 months in prison when the Supreme Court ruled that a defendant cannot be jailed before appeals are exhausted.

Chile's Interior Minister Makes Appeal for Calm as Street Violence Continues

Following a fresh eruption of street violence last week, Chile's interior minister last Friday made an appeal for peace and the "recovery of public order," Reuters reported. "I think we've reached a breaking point at which all citizens must say no, no more violence," Gonzalo Blumel told reporters. Looters raided a hospital in the city of Coquimbo early Friday morning, setting it on fire. Local police, who have been criticized for heavy-handed tactics that have left hundreds of protesters blinded by pellets, clashed with protesters Friday in Valparaíso as they tried to break into the country's Congress.

$3.3 billion, and international banks and funds were also on board, he said. Mexico's economy fell into a recession in the first half of the year and saw no growth in the third quarter, according to revised data released Monday, Agence France-Presse reported. In the first and second quarters, Mexico's economy contracted by 0.1 percent and experienced zero growth in the third, according to national statistics institute INEGI. Preliminary figures had reported earlier that Latin America's second-largest economy had contracted 0.2 percent in the first quarter, grew 0.1 percent in the second and grew 0.1 percent in the third. In this year's third quarter, the economy contracted 0.2 percent as compared to the same quarter last year, according to the statistics institute's revised figures. The data came as bad news for López Obrador who on Sunday marks one year in office. He had promised to deliver economic growth of 2 percent this year and 4 percent across his six-year term.

POLITICAL NEWS

Peru Tribunal Frees Keiko Fujimori After More Than a Year

Peru's Constitutional Tribunal on Monday approved a habeas corpus request to free opposition leader Keiko Fujimori from preliminary detention while she is investigated for alleged corruption, the Associated Press reported. The ruling does not constitute a judgment of Fujimori's guilt related to accusations that she accepted bribes from Brazilian construction giant Odebrecht. Prosecutors are investigating accusations that Fujimori, the daughter of imprisoned former president Alberto Fujimori, laundered money from Odebrecht to finance her 2011 and 2016 presidential election campaigns, allegations that she denies. She was jailed more than a year ago, while she was leading the opposition in Peru's Congress. Analysts say Fujimori's release will strengthen her Popular Force party for the 2020 parliamentary elections scheduled Jan. 26, El Comercio reported today. "I think that having a visible leader who articulates the candidates will help them a lot in the campaign," political scientist María Alejandra Campos told the newspaper. Hundreds of people took to the streets Monday evening to protest Fujimori's release, clashing with riot police, Bloomberg TicToc reported via Twitter. The rally was organized mainly by youth through social media with the hashtags #TomaLaCalle and #FujimoriNuncaMas, according to the report. All of the former presidents of Peru still living are currently in prison or under investigation for corruption or other misdeeds. [Editor's note: See related **Q&A** in the Nov. 19 issue of the daily Latin America Advisor.]

Bolivia Appoints First Ambassador to U.S. in 11 Years

Bolivia's interim government on Tuesday appointed the country's first ambassador to the United States in 11 years, BBC News reported. Walter Oscar Serrate Cuellar formerly served as the Andean country's representative to the United Nations. Under socialist President Evo Morales, who fled Bolivia amid accusations of election fraud earlier this month, the country's relations with the United States were often tense, and the two nations withdrew envoys in 2008. Facing a succession crisis after Morales resigned, right-wing senator Jeanine Áñez declared herself interim president and promised to organize fair elections soon. Áñez on Sunday signed into law a bill annulling the results of last month's elections, which an Organization of American States audit found were severely flawed, and calling for a new vote within 120 days. "We are returning to normal after something so hard and so dramatic, but I think we are moving forward," Áñez told reporters on Monday, the Financial Times reported. However, Áñez has also antagonized Morales' supporters, who view his departure as a coup, by taking a series of steps to reverse Morales' policies. She quickly broke diplomatic ties with the socialist governments of Cuba and Venezuela, and dismissed all Morales' envoys abroad, except those to the Vatican and Peru, according to the report.

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loan agreement aimed at enhancing the nation's fiscal outlook and sustainability. Ecuador's departure from OPEC is set for January, despite the change in ministers, while the fuel subsidy issue remains a major challenge for the Moreno administration. Over the last year and a half, the Moreno government has undergone a major shift with regard to its energy policy and investment outlook. But certain issues remain that continue to cast shadows over the reset. Principal among those are the need for the current administration and government to reboot and significantly revamp investment protection treaties and protocols. More specific to the energy sector are the focus on rewriting the oil contract terms and model, restructuring the national oil companies and reinvigorating a dormant bid round process to compete both regionally and globally. On this latter point, the Intracampos round and blocks awarded to international firms such as GeoPark, Gran Tierra and Frontera with investment surpassing $1 billion is important. Building on the round and leveraging it to boost the outlook for production and diversify the roughly 80 percent that comes from state firm Petroamazonas will be one of newly installed Minister Agusto's principal challenges. Nowhere is this trickier or more critical for the country's oil outlook than the ITT field. But, as countries across the region are also confronting, Ecuador must balance the need for increased hydrocarbon revenues while diversifying its energy matrix and navigating the trends of the global energy transformation. There must also be a far more conscientious approach to community and environmental issues and the so-called social license to operate that both government and companies alike must improve."

> **"There must be a far more conscientious approach to community and environmental issues..."**
>
> — Jeremy Martin

A **Sebastian Maag, consultant at FTI Consulting:** "Carlos Pérez—the Moreno administration's longest-lasting minister to date—leaves office in a context of lingering disarray, a fragile government and a bleak outlook for Ecuador's economy. But Pérez's two-year stint at the head of Ecuador's energy and mining sectors leaves a positive legacy, which José Agusto Briones will have the chance to build on. An industry expert, Pérez returned certain confidence to a sector long ridden by inefficiency and political meddling. He managed to renegotiate oil export financing contracts known as 'pre-sales,' left as a legacy of scarce transparency in Ecuador's energy sector under the Correa administration. Pérez also set ambitious production goals in the range of 700,000 barrels per day. Although unmet, these goals spurred openness in various fronts of Ecuador's oil and gas industry: the opening of bidding rounds for mid-sized oil field concessions, Ecuador's exit from OPEC and an initiative to streamline the government's role in hydrocarbons through a merger of state-owned companies Petroecuador (downstream and logistics) and Petroamazonas (upstream). This agenda raised hopes of increased energy competitiveness and modernization. But a lack of political capital undermined this vision. Just as it put market-oriented reform efforts to rest amid recent social outcry. A former political planner for President Moreno, Minister Agusto will have to use his experience and wide-ranging connection across the administration to navigate this pressing governability challenge, all while continuing his processor's efforts to increase production by setting Ecuador on the track of openness. Moving toward a competitive extractives sector, including the incipient mining boom, will not be the answer to all of Ecuador's problems. But it can certainly begin to address questions about how the country will bounce back."

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