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FEATURED Q&A

Is Colombia's Oil Sector Set For a Breakout?

Colombia is the third country in Latin America to hold an oil auction this year, after Mexico and Brazil. Orlando Velandia, the president of Colombia's National Hydrocarbons Agency, said the government has invested $200 million to study the areas on offer. // File Photo: ANH.

Q Colombia is slated to host a bidding round for 15 onshore blocks in the Sinu-San Jacinto area on May 3. Though the deadline for bids was pushed back at companies' request, the auction will be the country's first after a four-year hiatus forced by low oil prices. What can Colombia expect from the auction? Is the country's oil sector set for a breakout? How will the outcome of Colombia's May 27 presidential election affect oil production and investments?

A Lisa Viscidi, member of the Energy Advisor board and director of the Energy, Climate Change & Extractive Industries Program at the Inter-American Dialogue: "After several years of declining oil and gas production, due mainly to the drop in global oil prices and conflicts with local communities, Colombia is seeing an uptick in drilling activity this year. There is cautious optimism from the industry as international oil prices start to rise. However, companies continue to be wary of onshore projects because of challenges with local communities (as opposed to offshore projects where this is not an issue). In addition, the Sinu-San Jacinto area is believed to hold mostly natural gas so the development of fields there would not reverse Colombia's declining oil production and reserves. Many investors are waiting for the outcome of the presidential election. A more 'industry-friendly' government may try to make contracts more competitive, for example, by cutting taxes and royalties. But the most important question may be how the next government deals with the 'popular consultations,' whereby any community can veto infrastructure projects. Some candidates, such as Gustavo

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TOP NEWS

OIL & GAS

ConocoPhillips Wins $2.04 Bn Ruling Against PDVSA

An arbitration panel of the Paris-based International Chamber of Commerce made the ruling in a dispute over assets seized in 2007 by Venezuela's then-president, Hugo Chávez.

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OIL & GAS

Raízen Buying Shell Assets in Argentina

The Brazilian firm is buying the assets for $950 million.

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POWER SECTOR

Bidding War Escalates for Eletropaulo

Neoenergia and Enel increased their bids for Eletropaulo, which distributes electricity in São Paulo. The bidding war comes as Brazilian President Michel Temer has been eyeing privatizations in the power sector. He wants to privatize state power utility Eletrobras.

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Temer // File Photo: Brazilian Government.

OIL AND GAS NEWS

ConocoPhillips Wins $2.04 Billion Ruling Against PDVSA

Houston-based oil major ConocoPhillips on Wednesday won $2.04 billion in a lawsuit against Venezuelan state oil company PDVSA over expropriation of its oil assets, the Financial Times reported. The ruling was made by an arbitration tribunal of the International Chamber of Commerce in Paris. The dispute followed then-President Hugo Chávez's nationalizations of oil assets in 2007, during which time the Venezuelan government took possession of two Conoco projects in the Orinoco region. The company had previously sought $17 billion in compensation. "The ruling upholds the contractual protections to which ConocoPhillips is entitled under the applicable agreements and acknowledges PDVSA's independent contractual liability," Janet Langford Carrig, general counsel and senior vice president at Conoco, said after the arbitration ruling. It is unclear how ConocoPhillips intends to collect the award, which is more than double the $908 million the ICC found in favor of ExxonMobil in a similar suit. The two companies refused to hand over their assets to Chávez in 2007, unlike other firms that entered into joint ventures with PDVSA. Conoco may attempt to seize PDVSA assets abroad, though approximately 20 other companies that lost their assets to Venezuelan expropriation have so far been unsuccessful in such efforts, The New York Times reported. The Venezuelan oil firm is apparently bankrupt, producing 200,000 fewer barrels per day currently than it did than last year.

Raízen Buying Shell Assets in Argentina for $950 Million

Royal Dutch Shell announced Tuesday that it was selling its stake in downstream infrastructure in Argentina to Brazilian firm Raízen for $950 million, La Nación reported. The sale includes the company's refining capacity in Argentina, as well as its sales operations. The deal will reportedly also include the Buenos Aires refinery, 645 service stations, as well as Shell sales operations for maritime and aviation fuel, chemicals, lubricants and asphalt in Argentina. However, the deal does not include Shell's stake in oil and gas exploration and extraction in the country. São Paulo-based Raízen, in which Shell has a 50 percent stake, is one of the largest energy producers and distributors in Brazil. "Raízen is present in 68 airports, 68 gas distribution stations and sells approximately 25 billion liters of gas to the transportation and retail sectors," Shell said in a statement. The British-Dutch firm added that Raízen is "a leader in the production of sugar, ethanol and bioenergy in Brazil." The two firms also reached commercial agreements worth approximately $300 million that will allow them to cooperate in gas distribution. Shell, which has operated in Argentina since 1914, has invested millions of dollars in the Vaca Muerta shale gas and shale oil play in the country's west. The move is part of a larger plan by Shell to sell $30 billion in assets worldwide to reduce its debt, which led it to sell downstream operations in Chile and Brazil.

POWER SECTOR NEWS

Bidding War Escalates for Brazil's Eletropaulo

A bidding war escalated Thursday for Eletropaulo Metropolitana Eletricidade de São Paulo as Italy-based Enel increased its takeover bid for the Brazilian company to 32.20 reais per share, Reuters reported. Enel's increased offer followed a move by Neoenergia, a subsidiary of Spain-based Iberdrola, to sweeten its offer to 32.10 reais per share, up from 29.40 reais, MarketWatch reported. On Wednesday, Eletropaulo's board canceled its plan for a follow-on share offer and the same time it said that it

NEWS BRIEFS

Colombia's Ecopetrol Halts Operation of Pipeline Following Attack

Colombian state-run oil firm Ecopetrol announced Sunday that it has shut off the Transandino oil pipeline following a bombing by an armed group that spilled oil into a nearby river, Reuters reported. Authorities have not yet said who was behind the attack on the 190-mile pipeline in southern Colombia, though the National Liberation Army, or ELN, guerrilla group has carried out previous bombings on pipelines, as it did in January.

Bolivia Taps ACI Systems for Lithium Battery Manufacturing Plant

Bolivia has chosen German firm ACI Systems GmbH as its partner in a multi-billion-dollar lithium battery manufacturing plant, La Razón reported April 20. The firm was chosen over seven competing bids and is slated to invest $1.3 billion in the factory. Juan Carlos Montenegro, who oversees the country's lithium deposits, said the plant will produce mostly batteries for electric cars and will export to Europe. Montenegro said the venture is projected to bring in some $1 billion in revenue annually.

Total Vows to Stand By Venezuela Investments

French energy firm Total will stand by its investments in Venezuela, CEO Patrick Pouyanne said at an oil conference on April 19, OilPrice.com reported. Pouyanne reaffirmed the commitment to Venezuela despite difficult living conditions for employees and production shortfalls due to lack of resources from PDVSA, the state-run oil firm and partner in Total's joint ventures. The announcement came just hours before the European Union said it would impose new sanctions on the South American country unless it created "conditions for a credible and inclusive electoral process."

would proceed with a separate follow-on offer worth 1.5 billion reais ($430.5 million), which the company said is needed to reduce debt. Brazilian firm Energisa has also made a bid for Eletropaulo. Separately, Brazilian securities regulator CVM on Monday said that firms that want to acquire Eletropaulo must deliver their bids in a live auction on May 18 at Brazil's stock exchange in São Paulo. Eletropaulo distributes power in the city of São Paulo, Brazil's largest metropolitan area. The government of Brazilian President Michel Temer has been eyeing privatizations in Brazil's power sector by the end of the year. Temer has said he hopes to privatize state-run power company Eletrobras, though any such deal would require approval in Brazil's Congress.

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Petro, say the consultations represent a democratic process and the people's right to oppose oil and mining, and would not intervene. Others, such as Germán Vargas Lleras essentially say the popular vetoes are illegal since the subsoil rights belong to the nation. Most of the other candidates fall somewhere in the middle, recognizing that local communities are affected by projects and should be consulted while also saying that some projects are in the national interest and the consultation process needs to be more structured. I believe this more nuanced approach offers the best hope of resolving the controversy over local community opposition to extractive industries in Colombia."

A **RoseAnne Franco, head of oil & gas risk at Verisk Maplecroft:** "Initial interest in the licensing round, reflected in the companies that have qualified for the Sinu-San Jacinto tender (for example, Gran Tierra and Parex, among others), suggests incumbent companies in the country are eager to expand their footprint in northwest Colombia. A successful round could help jump-start the industry, but additional fiscal incentives and other relief would be needed as overall licensing in Latin America has picked up; competitiveness has moved front and center as governments vie for scarce investment dollars. The area appears to be more gas-prone, with any discovery helping address the local gas deficit but providing little relief to Colombia's slide in oil production. And

> **"A successful round could help jump-start the industry, but additional fiscal incentives and other relief would be needed..."**
> **— RoseAnne Franco**

while the blocks are removed from the more acute violence stemming from the rebel National Liberation Army, Colombia has registered an uptick in local mobilization and legal uncertainty stemming from popular referendums affecting oil and gas operations. In addition, recurring El Niño weather patterns intensify droughts in sections of the country and have soured sentiment toward oil companies. The upcoming presidential election injects additional uncertainty because of the wide political spectrum of leading candidates. While center-right Iván Duque of Centro Democrático currently has

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RENEWABLES NEWS

Iberdrola Gets $400 Mn Green Loan for Mexico Projects

Spain's BBVA and nine other banks approved a $400 million green loan with Iberdrola in Mexico, marking the first green corporate loan in Latin America, El País reported on April 20. The names of the other nine banks involved in the deal have not been released, according to a Reuters report. According to the company, the funds will go toward the building of three new wind power facilities in the country. The move further solidifies Iberdrola's place in Mexico, where the company is expected to produce more than 20 percent of all energy consumed by 2022. The Spanish energy giant in 2014 became the first to execute a corporate green loan, a type of lending that is conditional on the fulfillment of certain sustainability criteria. The deal was certified by independent agency Vigeo Eiris, which ensures that funds for green loans are being properly allocated. Iberdrola, a Spanish energy firm, was the largest issuer of green bonds in 2016 and 2017 and has integrated the United Nations' Sustainable Development Goals into its corporate strategy. BBVA, which is headquartered in Madrid, is the world's largest provider of corporate green loans.

Siemens Gamesa Wins 100-Megawatt Contract in Mexico

Spanish firm Siemens Gamesa announced on April 20 that it had signed a new contract to install 100 megawatts of wind power capacity in Mexico, Spanish news service Servimedia reported. The contract, which was completed in fulfillment of a renewable energy auction in November 2017, stipulates that the company will install 29 wind turbines in the Coahuila state in Mexico's north. "Siemens Gamesa is strongly committed to the Mexican market," said the CEO of Siemens Gamesa's Americas Onshore operation, José Antonio Miranda. "We were pioneers in this market, and we have established ourselves as the leading supplier thanks to our vertically integrated presence along the value chain and our ability to adapt to our customers' needs." Siemens Gamesa is Mexico's largest supplier of wind infrastructure with 2,120 megawatts of installed wind capacity, the company said in a statement. Mexico's 2015 energy sector reform requires that 35 percent of the country's energy come from renewable sources by 2024.

POLITICAL NEWS

Hundreds of Central Americans Arrive at Mexico-U.S. Border

Hundreds of Central Americans who are part of a caravan that traveled north through Mexico arrived Wednesday at the country's border with the United States, with many saying they would attempt to cross the border this weekend and seek asylum in the United States, Reuters reported. The caravan, which originally contained about 1,000 migrants, set out in late March from Mexico's southern border. U.S. President Donald Trump has threatened to scrap the North American Free Trade Agreement, which is currently being renegotiated, if Mexico does not do more to crack down on the flow of Central American migrants heading north. The caravan also led Trump earlier this month to order thousands of National Guard troops to the border. Migrants began arriving on Tuesday in the Mexican border city of Mexicali, which is opposite Calexico, Calif., Agence France-Presse reported. The migrants paused to rest before heading west to Tijuana, according to correspondents of the wire service who were traveling with them. Approximately 600 migrants are still traveling in various groups, via trains and buses, organizer Irineo Mújica of migrant group People Without Borders told AFP. About 200 of the migrants are planning to attempt a crossing into the United States as they flee from gang violence and political persecution in their home countries, said Mújica. Some have already been granted asylum in the United States, and the rest plan to seek asylum in Mexico, he added. The caravan is an annual event that has been held since 2010 around the time of Easter. The main goal of it is to raise awareness of the dangers that migrants face, not actually to cross into the United States, organizers say. In a tweet Monday, Trump vowed to repel the migrants. "I have instructed the Secretary of Homeland Security not to let these large Caravans of people into our Country," he said. "It is a disgrace. We are the only Country in the World so naive! WALL." In a statement late Wednesday, U.S. Homeland Security Secretary Kirstjen Nielsen said the agency was "doing everything within our authorities to secure our borders and enforce the law," The Wall Street Journal reported. "If you enter our country illegally, you have broken the law and will be referred for prosecution. If you make a false immigration claim, you have broken the law and will be referred for prosecution." The number of people arrested crossing into the United States illegally from Mexico has steadily risen since last summer. However, arrest figures at the border remain at multi-decade lows, not seen since the early 1970s.

> **"I have instructed the Secretary of Homeland Security not to let these large Caravans of people into our Country."**
> — Donald Trump

ADVISOR Q&A

What Will a New President Mean for Cuba?

Q: Cuban President Raúl Castro on April 19 handed over power to Vice President Miguel Díaz-Canel, marking the first time in decades that one of the Castro brothers has not been the country's leader. How much change can be expected from Díaz-Canel, and how long will he rule? How much of a role will Raúl Castro and other "old guard" officials continue to have? What must Cuba do in order to turn around its ailing economy, and will new leadership be willing to take such actions? What is the future of relations between Cuba and other countries in the Western Hemisphere, including the United States, in the post-Castro era?

A: Vicki Huddleston, retired U.S. ambassador and former chief of the U.S. Interests Section in Havana: "Cuba's new president, Miguel Díaz-Canel, is not Fidel Castro; but he may be a Raúl Castro clone. He is neither charismatic nor outspoken like Fidel, but rather a cautious, efficient and pragmatic party man whom Raúl personally selected as his replacement for two terms, ending in 2028. Díaz-Canel has succeed where many others who aspired to the top job have failed, but he faces a herculean task. Cuba's old guard wants to proceed cautiously. Already, they have stalled the reforms that Raúl initiated. But to gain credibility with the Cuban people, Díaz-Canel will have to resume opening the private sector, unify the currency and slim down and spruce up Cuba's tired bureaucracy. But he may not be able to do so as Cuba's longtime enemy grows more hostile. Since the Trump administration rolled back the Obama-Castro opening, a cloud of despair has hung over the island. The shuttering of the U.S. embassy consular section has prevented Cubans from visiting family and returning with cell phones, computers and televisions, which connect them with each other and the outside world. Making matters even worse, a State Department travel warning resulted in a substantial decrease in American visitors, who were fueling the private economy by purchasing rooms, eating in small restaurants and buying souvenirs. Unfortunately, it appears that with an increasingly hostile Trump administration, Díaz-Canel will have little choice but to circle the wagons rather than undertaking much needed reforms."

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

NEWS BRIEFS

Judge Rules U.S. Must Continue Accepting DACA Applications

The Trump administration must leave protections in place for undocumented young people and resume accepting applications for the Deferred Action for Childhood Arrivals program, or DACA, a federal judge ruled on Tuesday, The New York Times reported. Judge John D. Bates at the Federal District Court for the District of Columbia blocked the shutdown of the program, saying that the administration's claims that the program was "unlawful" were "virtually unexplained." The administration now has 90 days to justify ending the DACA program.

Ecuador Reaches Trade Deal With Bloc of Four European Countries

Ecuador's minister of foreign trade, Pablo Campana, announced on Wednesday that the country had reached a free trade deal with the four member countries of the European Free Trade Association, or EFTA, the Associated Press reported. The deal will allow for tariff-free trade between Ecuador and Switzerland, Norway, Iceland and Liechtenstein. The EFTA has said it was principally interested in having access to Ecuadorean bananas, shrimp, roses and tuna, among other products.

Argentina Receives 32 Bids for Road Projects

The Argentine Transportation Ministry announced on Tuesday that it had received 32 bids for six road-building contracts in the country, Reuters reported. The projects are being offered as public-private partnerships and will require an investment of approximately $8 billion. Winning bids for this round, which is the first phase of an infrastructure plan that will require $26.5 billion in investments, will be announced on June 1.

Nicaraguan Police Release Protesters, U.S. Blasts Gov't

Nicaraguan authorities have released some 180 protesters who were detained in the past several days amid violent anti-government protests, Nicaraguan daily newspaper El Nuevo Diario reported Tuesday. Some of the protesters said authorities shaved their heads and abandoned them along a road after being released from the Jorge Navarro penitentiary, also known as La Modelo, just outside Managua. In a statement, the National Police said the detainees were handed over to their families and religious committees. Five television stations also returned to the air after President Daniel Ortega's government cut their signals during the height of the protests, in which some two dozen people have been killed, the Associated Press reported. In a statement Tuesday, the White House condemned "the violence and repression propagated by the government of Nicaragua and any closing of media." The unrest began last week when demonstrators took to the streets to protest planned changes to the country's pension system. On Sunday, Ortega announced that he was scrapping the reforms.

Malaria Cases Soar in Venezuela, Outbreak Likely to Spread

Malaria cases in Venezuela grew last year at the fastest rate of any nation in the world and are likely to spread to other countries of the Americas, the United Nations' World Health Organization announced Tuesday, Reuters reported. Researchers estimate there were 406,000 cases of malaria in Venezuela in 2017, up nearly 70 percent from the year before and five times higher than in 2013. Economic migrants fleeing Venezuela are carrying the disease, which is spread by mosquitos, into other parts of Latin America, the WHO added. The organization is urging authorities to provide free screening and treatment regardless of citizenship status to avoid further spread of the disease. Venezuelan officials reported 240,613 malaria cases in 2016, many in the state of Bolívar on the border with Guyana, but migrants have been fleeing in large numbers to Colombia and Brazil as well. In related news, last month the Pan-American Health Organization warned that Venezuela has seen 886 cases of measles, a deadly contagious virus, since June, the Miami Herald reported. The second-largest outbreak in the hemisphere this year is in Brazil, with 14 cases, and all of them were imported from Venezuela. Colombia has also reported three confirmed cases, each from Venezuela. Just two years ago, the World Health Organization had declared Latin America to be free of measles.

ECONOMIC NEWS

European Ban to Hit a Third of Brazilian Meat Exports

About a third of Brazil's meat exports will be affected by a European Commission decision to ban imports from 20 suppliers, Brazil's agriculture minister said April 19, Reuters reported. Europe said the ban was related to "deficiencies detected in the Brazilian official control system." Blairo Maggi told reporters in Paraná that his ministry was working to start talks on re-establishing exports, claiming European trade restrictions were "not a health issue." In the meantime, he said, Brazilian companies "will have to search for new markets to quickly substitute these exports." Brazil's largest chicken processor, BRF, had 12 plants delisted by the ban, with the other eight operated by smaller companies. The latest bans on Brazil's meat industry follow a year of controversy hitting the sector. In March 2017, a host of global buyers curtailed imports of Brazilian meat after Brazilian federal police unveiled an investigation into alleged corruption in the sector. Brazilian authorities said at the time that meat companies made payments to government health officials to cover up health violations.

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the lead, Gustavo Petro of the left-of-center Colombia Humana registers second in the most recent polls. Ironically, a win by Duque could exacerbate social issues for oil and gas firms if local communities sense their grievances remain unaddressed. Attention toward providing more legal certainty surrounding local referendums and royalty reform in favor of major hydrocarbon-producing departments could help the industry and communities alike."

A **Carlos Bellorin, principal petroleum consultant at IHS Markit:** "It's always a challenge for a country to hold an oil bidding process during a presidential election year, especially when one of the candidates has radical ideas on the sector in Colombia and the industry in general. The Sinu-San Jacinto process has almost everything to be a successful bidding round. It has attractive terms and an interesting combination of assets. The ANH has also done a good job by putting together the comprehensive Acuerdo 002 of 2017, being open to suggestions from current and prospective investors and continuously assessing the super-competitive environment in the region. The question of the environmental permits is still pending, but again, making critical decisions in a presidential election year is difficult. I see all but one of the candidates taking concrete actions on this matter should they become president. Colombia's oil sector has a lot of potential, and with the right policies and leadership will return to be the player it was a few years back. There is still a lot of interest by many companies. I attended a meeting between oil companies and the ANH president and his team during the CERAWeek conference in Houston in March, and the room was packed. There was a lot of interaction, and I could tell that interest in Colombia is alive and kicking."

> **"Making critical decisions in a presidential election year is difficult."**
> — Carlos Bellorin

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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