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FEATURED Q&A

Will Argentina's Upcoming Oil Auction Succeed?



Several multinational oil firms, including Norway-based Equinor, U.S.-based Anadarko Petroleum and China's Cnooc have expressed interest in Argentina's auction of offshore oil blocks, Energy Minister Juan José Aranguren said last month. // File Photo: Argentine Government.

Q Argentina last month invited oil companies to present bids for drilling and exploration projects in offshore areas. Major firms such as Shell and Equinor are considering presenting bids in the auction, Reuters reported. What are the prospects for the areas that are up for exploration, which include blocks on the continental shelf? Can Argentina avoid the fate of Uruguay, whose oil auction on April 26 failed to attract any bids? If so, how? Have the country's recent issues controlling the devaluation of its currency, as well as talks over a potential stand-by loan deal with the IMF, affected investor confidence in Argentina's oil and gas sector?

A Megan Cook and Rebecca O'Connor, specialists in the political and regulatory risk/strategic affairs practice at Cefeidas Group in Buenos Aires: "Argentina's upcoming offshore bid round is part of a larger push from the Argentine government to increase domestic production and reduce imports. Despite its abundant hydrocarbons resources, Argentina has come to rely heavily on imports as conventional areas have matured without sufficient investment in new exploration to offset the drop. The national government, which will set the terms for this auction because of the basins' distance from shore, aims to add to production with these resources. Currently, offshore production represents a small percentage of Argentina's output (2 percent of oil and 17 percent of gas in 2016), and exploration activities are limited. The Energy Ministry, headed by a former Shell executive, has updated offshore exploration permitting regulations and sought significant private-sector input on the bid design and conditions to make the

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TOP NEWS

OIL & GAS

Equinor, Exxon Snap Up Blocks in Brazil Oil Auction

A consortium made up of Equinor, ExxonMobil and Petroleos de Portugal won the largest block in Thursday's auction of offshore oil blocks in Brazil. Chevron, BP and Royal Dutch Shell also offered winning bids.

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POWER SECTOR

Enel Buys 73% of Eletropaulo for \$1.48 Billion

Italy's Enel and Spain-based Iberdrola had been in a bidding war for control of Eletropaulo. The acquisition makes Enel the largest power distributor in all of Latin America.

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POWER SECTOR

Colombia Raises Alert for Residents Near Dam Project

The government of Colombian President Juan Manuel Santos warned communities near the Hidroituango hydroelectric dam project that landslides increased the risk of flooding.

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Santos // File Photo: Colombian Government.

OIL AND GAS NEWS

Equinor Consortium Grabs Blocks in Brazil Oil Auction

A consortium comprised of Norway's Equinor, U.S.-based ExxonMobil and Petroleos de Portugal made the most aggressive play in Thursday's auction of offshore oil blocks in Brazil, Reuters reported. The consortium offered in excess of three times the minimum bid for the Santos Basin's Uirapuru block. The companies will have to partner with Brazilian state-run oil



Monteiro // File Photo: Petrobras.

company Petrobras, which joined every winning consortium in the auction, the wire service reported. Chevron, BP and Royal Dutch Shell also offered winning bids. The Brazilian government collected signing bonuses worth 3.15 billion reais (\$800 million) in the auction, which was held amid concerns of political meddling in Brazil's energy sector. Unexpected changes to the price of diesel fuel last month in Brazil raised concerns about political influence at the state oil company and also led to the sudden exit of Petrobras' chief executive officer, Pedro Parente. The company will continue seeking to increase its exploration portfolio, said Ivan Monteiro in his first public comments as Petrobras' CEO. On Tuesday, the company's board tapped Monteiro, who had been serving as chief financial officer, as CEO. Parente resigned last week under the threat of an oil-worker strike and week-long national transportation stoppage over fuel price policies that Parente had championed. Monteiro will serve out the remainder of Parente's term, which expires next March, Petrobras said in a regulatory filing.

Venezuela Releases Two Chevron Employees

Venezuelan authorities on Wednesday released two employees of U.S.-based oil major Chevron. "Our colleagues are in good health and have been reunited with their families," the company, based in San Ramon, Calif., said in a statement. The employees, Carlos Algarra and Rene Vasquez, were arrested by Venezuelan intelligence agents on April 16 amid a corruption probe of Venezuela's oil sector, local daily newspaper El Universal reported. They were the first executives of a foreign oil company to be arrested since President Nicolás Maduro's government launched investigations last year into the oil industry. Some 80 people, including 22 high-level managers, have been arrested since then. Among them are a former oil minister and a former president of Venezuelan state oil company PDVSA. The two Chevron employees had been facing possible charges of treason after refusing to sign some parts of a contract for a joint venture with PDVSA, Reuters reported, citing unnamed sources. The men had been arrested at Chevron's offices in Puerto La Cruz, where it has approximately 150 employees. Chevron also has two other offices in the country. The arrests were part of escalating tensions between PDVSA and foreign oil companies over the governance of joint ventures and control of supply contracts, sources told Reuters. Venezuelan authorities have not disclosed the reasons for the employees' arrests and have not said whether they had been formally charged with any crimes, the Associated Press reported. Venezuelan authorities in January arrested several managers at Petro-Piar, a joint venture between Chevron and PDVSA. Authorities charged the managers with embezzlement and conspiracy in connection with accusations of illegal manipulation of production data. The Chevron employees' release came just days after Venezuela released Joshua Holt, an American who had been jailed in the South American nation for two years without a trial.

NEWS BRIEFS

China State Grid to Invest \$37 Billion in Brazil Over Next Five Years

China State Grid Corp. is planning to invest 140 billion reais (\$37.4 billion) in Brazil over the next five years, Reuters reported last month. Qu Yang, vice president of the firm's Brazilian operation, said at a conference in São Paulo that 90 billion reais of the investment would be in the electricity transmission sector. Yang touted his firm's improved technology, which allows for high-voltage electrical transmission with low losses, even over long distances.

Ecuador Repairs Small Cracks in Turbine at Coca Codo Sinclair Plant

Officials in Ecuador announced that they have discovered and repaired 805 microfissures in an inspection of one turbine of the Coca Codo Sinclair hydroelectric plant, the country's largest, El Universo reported last week. Carlos Pérez García, the country's minister of energy and natural resources, announced the preliminary findings during a visit to the plant, adding that the ministry will shut down and inspect other portions on a rotating basis.

Argentina Reaches Deal With Oil Companies to Raise Fuel Prices

Argentina's government on June 1 announced it had reached a deal with oil companies to raise prices on gasoline and diesel fuel by 5 percent in June and 3 percent in July, Argentine newspaper La Nación reported. The announcement came less than three weeks after the government said it had agreed to freeze prices for 60 days in order to ease pressure on the Argentine peso, which was rapidly depreciating. Officials said they agreed to raise prices after new taxes and rising oil and biofuel prices put too much pressure on suppliers.

POWER SECTOR NEWS

Enel Buys 73 Percent of Eletropaulo for \$1.48 Billion

Italian power company Enel purchased 73 percent of Brazilian power distributor Eletropaulo on Monday for 5.55 billion reais (\$1.48 billion), making Enel the largest power distributor in all of Latin America, O Estado de S.Paulo reported. The purchase ends a months-long battle between Enel and Spain's Iberdrola for control of Eletropaulo, Brazil's largest power distributor by number of clients. The battle for control of the firm began on April 17 when Enel submitted a bid of 28 reais per share, topping Iberdrola's original offer of 24 reais per share. After subsequent bids further raised the price, Brazilian securities regulators organized a live auction. Enel triumphed with the highest bid at 45.22 reais per share, 64 percent higher than its original offer. The purchase also makes Enel the largest power distributor in Brazil, bringing it from seven million to 17 million clients, according to Reuters. "The greatest challenge that Enel will face will be making the necessary investments for improving the quality of Eletropaulo's power distribution, which was falling," Nivalde Castro, professor at the Federal University of Rio de Janeiro, told O Estado.

Colombia Raises Alert for Residents Near Dam Project

Colombian officials raised a red alert for communities around the Hidroituango hydroelectric dam project in the country's north after landslides increased the risk of flooding, the Bogotá Post reported last week. The level of alert is now at its highest since May 16, when officials from Colombian public utility EPM's disaster management unit ordered the evacuation of more than 25,000 people. "The level of alert at Hidroituango is high, has not decreased, and will continue to rise," Colombi-

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offer as attractive as possible. Companies can also nominate blocks for inclusion in addition to the initial series of blocks published by the government. The government hopes these efforts will make its first offshore exploration auction in three decades a success, especially as this is the first of two planned rounds. However, the auction is still in its preliminary phases; there is limited information on the resources' profiles, and the government does not anticipate awarding exploration rights until the end of the year. With regard to the recent exchange-rate volatility, it is important to keep in mind that oil and gas investment decisions are long-term and will be more heavily influenced by the Macri administration's general economic reforms, which the industry sees as very positive. The administration's response signals its commitment to pursuing these policies and should reassure investors. However, confidence in Macri's economic agenda is not the only issue at stake. The areas up for auction in this round must compete for limited exploration resources with an attractive slate of opportunities available in other countries in Latin America and the world, as well as with other resources in Argentina like the famous Vaca Muerta shale formation."

A **Jose L. Valera, partner at Mayer Brown LLP:** "Argentina's continental self is larger than that of the United States in the Gulf of Mexico. The offshore blocks on offer, all for exploration, cover approximately 200,000 square kilometers and are located in the Austral and West Malvinas basins in

an President Juan Manuel Santos warned June 2 after receiving reports from two teams of engineers lead by the United States and United Nations, El Tiempo reported. The flooding began on May 12 when a landslide blocked a tunnel that was meant to divert excess water while construction took place on the project, leading to flooding in the basin. Due to recent heavy rains and landslides, the water in the basin is

the south of the country, and in the northern portion of the Argentine Basin closer to Uruguay. Argentina's current offshore production comes almost all from the Austral Basin, with the main operators there being Total, YPF and Sipetrol. As a whole,

“At least it can be said this time that the ‘above ground’ risks will be the lowest since the late 1990s.”

— Jose L. Valera

Argentina's offshore is underexplored. At least it can be said this time that the 'above ground' risks will be the lowest since the late 1990s. Coupled with foreign exchange reforms already in place, the government is preparing a very competitive legal and contract framework. There will be no mandatory association with a state-owned company, and aside from the general corporate income tax, the only government take will be a royalty of between 5 percent and 12 percent. There will be no local content obligations, although there will be obligations to hire and train nationals. Contracts will not be subject to pre-set termination dates, and areas may be held for so long as there is production through optional extensions. Disputes will be subject to international arbitration. The country's recent issues should not affect investor confidence in Argentina's oil and gas sector. Private investment will be essential

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now at risk of flowing over the dam's walls. Landslides have also frustrated evacuation efforts, blocking roads to villages on higher ground and cutting off access to supplies. The dam had been expected to generate 17 percent of Colombia's total capacity, but officials now say that its introduction to the grid has been delayed indefinitely as they scramble to raise the basin walls.

POLITICAL NEWS

OAS Takes Step Toward Expelling Venezuela

The Organization of American States passed a resolution on Tuesday to call an extraordinary assembly to vote on whether to expel Venezuela from the group over violating democratic norms and human rights, the Miami Herald reported. The resolution passed with 19 votes in favor, four opposed and 11 member nations abstaining. Under article 20 of the OAS Charter, members may be suspended if they “impair the democratic order” and if diplomatic measures to restore democracy prove unsuccessful. Suspending Venezuela would require 24 members to vote in favor. Venezuelan Foreign Minister Jorge Arreaza blasted the vote, accusing those who voted in favor of Tuesday’s resolution of “supporting military intervention in Venezuela.” Venezuela’s government began the process of withdrawing from the OAS last year and said Tuesday that the organization “has never done anything for the people of the Americas.” The vote came just a day after U.S. Secretary of State Mike Pompeo ratcheted up rhetoric about Venezuela at the OAS General Assembly in Washington, where he reiterated Vice President Mike Pence’s call last month to suspend Venezuela. “There is no greater challenge [in the Western Hemisphere] today than the full-scale dismantling of democracy and the heart-breaking humanitarian disaster in Venezuela,” Pompeo added.

Cuba Assembles Commission to Update Constitution

Cuba’s National Assembly on Saturday approved a list of members for a commission to begin rewriting the country’s constitution, the Associated Press reported. The commission, whose members were chosen by President Miguel Díaz-Canel, will be led by former president

THE DIALOGUE CONTINUES

Will Higher Levels of Growth Return to Panama?

Q Panama’s economy, one of the strongest performers in recent years among Latin America and Caribbean countries, in March recorded its slowest pace of growth since mid-2015 at 3.49 percent, the country’s comptroller general’s office said. What is behind the slower rate of growth? What is the outlook for Panama’s economy today, which most analysts at the start of the year expected to grow more than 5 percent? What headwinds does Panama’s economy face over the rest of this year and next?

A Nicolás Ardito Barletta, former president of Panama: “Panama had the highest rate of growth in Latin America from 2003 to 2017, some 6 percent per year on average. It decreased from 8.5 percent per year from 2003 to 2014 to some 5.5 percent in recent years. Panama has a small population of about four million people. In order to grow, it relies on relating to wider markets through exports. Its geographic location provides four basic connectivities—maritime (the canal), air (Copa Airlines and some other 26 carriers to Europe and elsewhere), telecommunications (with seven submarine fiber-optic cables, the most of any Latin American country), and a strong regional banking sector. It is a service-based economy. Panama’s services exports and its stable banking sector provide great stability for international business. Panama will be adding copper exports next year. Panama invests 27 percent of its GDP on average, the largest proportion in Latin America.

and current Communist Party leader Raúl Castro. Díaz-Canel, seen as Castro’s hand-picked successor, assumed office in April after nearly 60 years of rule by brothers Fidel and Raúl Cas-

All those factors plus a responsible public finance policy have earned Panama an investment-grade rating by the international agencies since 2010. In 2018, the first quarter growth rate was slower, but the IMF and World Bank expectations were for 5.4 percent for the year, still the largest in the region. Yet a one-month strike by construction workers has forced a review of those figures. The IMF now projects 4.6 percent for the year. The first quarter slowdown was due to internal factors, such as wholesale and retail commerce, and construction and housing sales. But most projections predict a strong 2019 growth rate. Corruption cases, mostly the notorious Odebrecht case, have affected the economic environment, but the attorney general’s office is pursuing the case diligently. In the last year, Panama has complied with OECD international requirements to keep high international standards. Panama has a good outlook, and these key international performers will remain strong. However, this is also a pre-election year. Presidential and congressional elections will take place in May 2019. Parties are already in the process of having primaries, and will choose candidates in the last quarter of this year. Investors and businesses are becoming more cautious about their investments and activities.”

EDITOR’S NOTE: More commentary on this topic appears in the Q&A of the June 6 issue of the Latin America Advisor.

tro. “This gives rise to a process of particular importance for the country, and we must all be aware of the duty and the civic responsibility that this demands,” Díaz-Canel said in a speech

NEWS BRIEFS

Guatemalan Disaster Agency Accused of Negligence After Eruption

Opposition lawmakers in Guatemala on Wednesday called for an investigation into whether criminal negligence at the country's emergency response agency, Conred, led to the deaths of nearly 100 people in the wake of Sunday's eruption of the Volcán de Fuego, or Volcano of Fire, outside Guatemala City, El Periódico reported. "They did not care and they did not take precautions," said Congressman Mario Taracena. Conred officials said they had issued alerts that day, but locals generally do not respond to evacuation alerts because they are used to the risk of eruption.

Ecuador's Espinosa Elected President of U.N. General Assembly

In a decisive victory Tuesday, Ecuadorean Foreign Minister María Fernanda Espinosa was elected president of the 73rd United Nations General Assembly, BBC News reported. Espinosa, only the fourth woman to hold that position, defeated Honduran U.N. Ambassador Mary Elizabeth Flores Flake in the race, which was slated to elect a leader from Latin America or the Caribbean. Espinosa will assume the role on Sept. 18.

IMF Officials Arrive for Talks in Barbados

A delegation of International Monetary Fund officials arrived in Barbados this week for talks with the government of Prime Minister Mia Amor Mottley, other top officials and private-sector representatives, the Barbados Advocate reported. Mottley said the talks with the IMF officials are needed as her government is seeking to stabilize the economy following a 0.7 percent contraction in the first quarter. The Caribbean nation is facing ballooning debt, a large fiscal deficit and low economic growth.

to the 600-member National Assembly, which unanimously approved his list of commission members. The revised constitution is expected to impose a two-term limit on Cuban presidents, as well as introduce a maximum age for holding the office, Reuters reported. In May, Raúl's daughter Mariela Castro, who leads the country's Center for Sexual Education, said she would campaign for the new constitution to acknowledge same-sex marriage. Officials have indicated that Cuba may change the way it regulates private property in order to attract investment, according to Reuters. Castro downplayed the notion of radical change, ruling out any reform that would eliminate one-party rule by the Communist Party, which he is set to lead until 2021. Cuban officials have also maintained that Cuba's revised constitution will continue to limit freedom of expression for "the purposes of socialist society." Cuba's current constitution has been in place since 1976 and has been amended three times.

ECONOMIC NEWS

Mexico Imposes Tariffs on U.S. Steel, Agricultural Goods

Mexico's government on Tuesday imposed tariffs on some \$3 billion worth of U.S. agricultural goods and steel products, NPR reported, citing a decree signed by President Enrique Peña Nieto and published in the country's federal gazette. The list of targeted steel products includes rolled steel, as well as steel bars, rods and plates from the United States. The move comes as a retaliatory measure following U.S. President Donald Trump's announcement last week that his administration would be placing tariffs on imports of steel and aluminum from Mexico, Canada and the European Union. The products targeted by Peña Nieto's decree include foodstuffs such as cheese, pork and potatoes, as well as Tennessee whiskey and bourbon. Almost all of Mexico's new tariffs will be levied at rates between 15 and 25 percent. On Monday, Mexico announced that it would complain to the World Trade Organization

over the U.S. measures, saying that the United States had violated the WTO agreement's established procedure for implementing such tariffs. Mexico's economy minister, Ildefonso Guajardo, defended the retaliatory tariffs to reporters on Tuesday, saying that his country had not violated the WTO or NAFTA agreements. "Within the context of the rights that the existing accord gives us, we are answering," Guajardo said, Bloomberg News reported. In related news, National Economic Council Director Larry Kudlow said Tuesday that Trump is "seriously considering" renegotiating NAFTA with Mexico and Canada on bilateral terms, in two separate processes. The Mexican peso fell for the fourth consecutive day following Kudlow's comment.

Mexico Sees Record Level of Remittances in April

Mexico's central bank released data Friday showing workers abroad sent home a record \$2.72 billion in remittances in April, a 17.9 percent increase over the same month last year. Remittances totaled \$9.75 billion between January and April, up from \$8.94 billion sent home during the same period in 2017, a 9 percent increase. Given the stronger Mexican peso, which was up 2.2 percent in April as compared to the same month last year, the value of remittances measured in local currency grew more than 15 percent in April, Goldman Sachs analyst Alberto Ramos said Friday in a research note. "We expect workers' remittances to remain solid in the near term—given healthy employment growth in the United States," Ramos said. The outlook for the peso could be less certain, however, as market jitters over trade tariffs last week sent the peso to its lowest value against the U.S. dollar in 15 months. Changes to immigration policy in the United States could also influence money flows in months ahead. U.S. President Donald Trump's hash rhetoric on immigration has likely driven up remittances since last year as workers fear deportation, Banorte analyst Francisco Flores told clients in a research note, Reuters reported.

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to developing Argentina's vast and varied hydrocarbon resources. Despite serious setbacks in policy implementation, the Macri government is implementing investor-friendly policies, and it should overcome continued resistance to the measures that must be taken to reverse institutional weakness and reduce the fiscal deficit, inflation and market distortions that are the legacy of the prior government."

A Leni Berliner, president of Energy Farms International: "There is a lot of competition at present for South American offshore exploration and production rights, mostly from Brazil, Mexico and Guyana. Whether it makes sense for a company to bid on such rights depends on several factors: its reserves, its technological capabilities, the availability of processing and transport infrastructure, the revenue sharing offer from the government, and the company's view of medium and long-term price movements. The oil and gas business, including the shale business, is very capital intensive, and corporate financing is a function of proven, accessible reserves. The ability to manage medium- and long-term currency risk is thus an important factor in decision-making. Beyond currency

risk, is there adequate infrastructure? Will there be enough rail, refining and pipeline capacity to finally get Vaca Muerta off the ground? Are there adequate on-shore support facilities near enough to the desirable offshore blocks? What are the risk-sharing

“There is a lot of competition at present for South American offshore exploration and production rights...”

— Leni Berliner

rules for environmental disasters on the continental shelf? No doubt Argentina has contemplated these and other questions such as human resource availability and the role of YPF and structured the auction accordingly. The success of the auction from the perspective of the companies boils down to the collective answer to the question: buy or build?"

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

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