FEATURED Q&A

Will Private Capital Solve Ecuador’s Refining Problems?

Ecuador is looking for a private partner to invest in state-run oil company Petroecuador’s Esmeraldas refinery, the largest in the Andean nation, Energy Ministry René Ortiz announced this month. Ortiz said the process seeks to transfer and delegate a portion of the operations to the private partner, but the refinery would remain property of the Ecuadorian state. Is bringing on a private partner to invest in the Esmeraldas refinery a good idea, and to what extent is such an investment necessary to revamp the refining plant? Is new funding likely to solve technical issues that have been rampant at the refinery over the past years, and how big of an impact would a restored and fully operating Esmeraldas refinery have on Ecuador’s oil sector? What else should the government focus on in order to strengthen the country’s refining capacity?

Q

Jose L. Valera, member of the Energy Advisor board and partner at Mayer Brown LLP: “Bringing on a private partner to invest in and manage the Esmeraldas refinery is a good idea. Such an investment is absolutely necessary to revamp the refining plant. The Correa administration spent $2.2 billion on this refinery with almost nothing to show for it. The recurring problems include obnoxious odors and emissions that are making the local population sick, air pollution and no reduction of greenhouse gas emissions, substandard product fuel quality and inefficiencies, as measured by the amount of output relative to the amount of input. The Moreno administration is rightfully putting a stop to more waste of governmental resources. The intention of this measure is that a private partner will invest the capital necessary

A

Continued on page 3
Venezuela Exports Stagnant in July As Compared to June

Venezuela exported approximately 388,100 barrels per day of crude and fuel in July, almost the same as the previous month, as state oil company PDVSA continues to struggle amid U.S. sanctions, according to Refinitiv Eikon and internal PDVSA data, Reuters reported Monday. The administration of U.S. President Donald Trump has been exerting more pressure this year on PDVSA’s customers, trade partners and shippers in a bid to stop the re-sale of Venezuelan oil by hiding or changing its country of origin. The move makes it increasingly difficult for PDVSA to find partners for transporting the crude. “What you will see is most shipowners and insurance and captains are simply going to turn away from Venezuela,” U.S. special envoy to Venezuela Elliott Abrams said last month, referring to recent pressure from Washington. A total of 20 cargoes of oil and refined products were shipped in July from the Andean nation, mostly India, which is re-emerging as the main destination for Venezuelan crude. A third of Venezuela’s oil exports went there in July, according to the data. India’s Reliance Industries resumed oil trade with Venezuela early last month after a nearly three-month hiatus as it sought to avoid violating U.S. sanctions. The company requested permission from the U.S. Treasury Department to swap Venezuelan oil for diesel, Reuters reported. However, the rise in exports to India was not enough to compensate for the loss of other customers of Venezuelan oils, leaving July exports 1.8 percent above June but 60 percent below the average of July last year, according to the data.

Petroperú Strikes Deal to Sell Fuel to Bolivia’s YPFB

Peruvian state oil company Petroperú said on July 31 that it had signed a deal with Bolivian state oil firm YPFB to supply it with diesel and gas until the end of the year, a contract that is subject to renewal, Reuters reported. Under the deal, Petroperú will be able to sell as much as 2,600 barrels per day of diesel and 650 barrels per day of 84 octane gasoline until December, according to the report. The volume of fuels sold is subject to increase. "With this exporting contract, Petroperú heightens its sales levels and reinforces its economic recovery to continue playing a key role in the reactivation of the national economy," the Peruvian company said in a statement. The firm is currently carrying out an expansion project, with an estimated investment of $4.7 billion in order to boost the processing capacity of its Talara refinery from 95,000 barrels per day of crude, from the current capacity of 65,000 barrels per day, Reuters reported. In related news, Petroperú announced Saturday that it had resumed operations at its pipeline "under strict security protocols" following its shutdown in April as a preventive measure to curb the spread of Covid-19, the firm said in a statement, Reuters reported. The company said all employees were tested for the novel coronavirus before resuming operations.

Apache, Total Make Third Oil Discovery Offshore Suriname

U.S.-based oil producer Apache and its joint venture partner Total announced last week that they had made their third oil discovery off the coast of Suriname, Reuters reported July 30. Apache said the discovery was made at the Kwaskwasi-1 well in the 1.4 million acre Block

Former Pemex CEO Accused of Corruption Leaves Hospital

Emilio Lozoya, a former head of Mexican state oil company Pemex who is on trial in a corruption case, has been released from the hospital, Reuters reported Saturday. Lozoya had been hospitalized due to anemia upon his arrival in Mexico a few weeks ago following his extradition from Spain, where he was arrested in February. Lozoya, who led Pemex from 2012 to 2016 during former President Enrique Peña Nieto’s administration, has pleaded not guilty to the corruption charges.

France’s Voltalia Begins Construction of Wind Farm in Brazil

French company Voltalia has begun the construction of a 59 megawatt wind farm in Brazil’s Rio Grande do Norte state, Renewables Now reported Monday. The power plant is part of the 2.4 gigawatt Serra Branca wind and solar project, the largest such plant in the world, the renewable power plants operator said. Germany’s Nordex will supply the wind farm’s 17 turbines, which are set to be assembled locally in Brazil, according to the report.
Oil Slick Washes Up On Venezuela’s Western Coastline

An oil slick washed up on the coastline of Venezuela's western Falcón state over the weekend, two opposition lawmakers said Monday, Reuters reported. María Hernández, who chairs the opposition-held National Assembly’s environmental committee, expressed concern over the effect of pollution on marine life as well as water supplies onshore. A satellite image posted on Twitter by vessel tracking service TankerTrackers.com showed black oil sludge approaching the coast south of Venezuela’s Morrocoy National Park, which is known for its pristine beaches and mangrove swamps, Reuters reported. “This affects one of our most exquisite coastlines, which is very important for tourism,” Hernández told the wire service.

Jorge León, member of the Energy Advisor board and energy economist at BP: “The Ecuadorian government is seeking a private investor to transfer the operations of the Esmeraldas refinery. This refinery was built in 1977 and has a capacity of 100,000 barrels per day; that is more than 65 percent of total Ecuadorian refining capacity. Minister René Ortiz, a very experienced and knowledgeable oil man, has stressed the fact that this would be a process to transfer and delegate a portion of the operations, but the refinery would remain the property of Ecuador. Furthermore, employees’ stability is assured. The aim of the process is to improve the quality of the fuels the refinery produces and, in particular, to produce fuels that are at least compliant with the Euro 5 standard. At the same time, the refinery produces low-value residual fuels that could be better processed and used. Preliminary estimates suggest that the refinery desperately needs around $2.5 billion in new investment. Given the fiscal situation that the country is currently facing, finding a private partner seems to be the only way to attract that level of investment. In the last few days, it was mentioned that more than 90 firms have shown interest in participating. Even though there is not an official timeline to strike a deal, the clock is ticking as the current government has less than eight months remaining in office.”

August 7, 2020

FEATURED Q&A / Continued from page 1

to make the required improvements and upgrades and manage the investment and subsequent operation. The private partner will have an economic incentive to ensure efficiency and to incorporate technological innovation and best practices. The Esmeraldas refinery has 65 percent of the country’s refining capacity. The impact of this measure will be substantial because the domestic fuel market is very poorly served at present. As to additional measures, the government should follow this model to encourage the construction of incremental refining capacity. There is no reason for a government to be in the oil refining business, with all the attendant costs and economic risks. Instead of owning refineries, the government should instead direct its efforts to offering a good framework of regulations and contracts for the private sector to take the economic risks and contribute to economic growth.”

Luis Calero Hidalgo, Ecuador-based oil analyst: “Ecuador has a deficit in its production of fuels in order to be able to supply internal demand; about 50 million barrels of derivatives are imported annually, equivalent to 55 percent of demand. Additionally, the fuels produced nationally are of low quality, with a high sulfur content, above international standards. The production deficit means that Ecuador, with a dollarized economy, spent about $17 billion on fuel imports over the last five years. Solving the two deficits (in quantity and quality) is a national imperative in order to improve Ecuadorians’ quality of life by having a less polluted environment and strengthening dollarization by restricting the outflow of foreign currency. How can we do it? There are three ways: 1.) directly through public investment, 2.) completely delegating the management of the public company to the private sector and 3.) allowing the participation of the private sector to participate in public management. The government has opted for the third one, although partially, in a restricted way, according to the decree it issued. It would have been ideal if the two aforementioned problems of quality and quantity had been addressed in a comprehensive manner, which would have then led to an expansion of the current national processing capacity (175,000 barrels per day) and, simultaneously, to a modernization of the three refineries (Esmeraldas, La Libertad and Shushufindi). A replacement of the refinery management model should be included as an objective, based on the autonomy that was constitutionally granted to public companies.”

Continued on page 6
in an interview. Neither national nor local authorities have issued a comment on the spill. A second opposition legislator, Luis Stefanelli, who represents Falcón state and serves on the energy committee, said the oil likely came from a ship’s fuel tank. Venezuelan authorities have begun cleanup measures at the site, the Ecosocialism Ministry said Tuesday, Reuters reported. The ministry said the cause of the spill was still under investigation.

**POLITICAL NEWS**

Peru’s Congress Rejects Cabinet in No-Confidence Vote

Peruvian President Martín Vizcarra is facing a new political crisis, left with no ministers on Tuesday after Congress refused to approve his recently appointed cabinet in an unexpected move, El Periódico reported. After more than 20 hours of discussion, Congress issued a no-confidence vote in the new cabinet named by Prime Minister Pedro Cateriano, who had taken office just 19 days before. Congress voted with 37 votes in favor of the cabinet and 54 against it, as well as 34 abstentions. Lawmakers alleged the tapped ministers were favorable to the business community and did not offer new alternatives to handling the Covid-19 pandemic. The health crisis has hit Peru particularly hard. The Andean nation has registered with one of the worst outbreaks worldwide. Additionally, the World Bank expects the Peruvian economy to contract by 12 percent this year. Tuesday’s no-confidence vote led to the resignation of all 19 cabinet ministers, the Associated Press reported. Under Peruvian law, the president has 72 hours following the vote to present a new cabinet to the 130-member Congress, where Vizcarra has no party representation. In a nationally televised address, Vizcarra said some legislators put “their own interests above national interests.”

**ADVISOR Q&A**

Is the Government of Cuba Exploiting Medical Workers?

U.S. Senators Rick Scott (R-Fla.), Marco Rubio (R-Fla.) and Ted Cruz (R-Tex.) in June introduced legislation to require the State Department to publish a list of countries that receive doctors from Cuba through its medical program, and to consider that as a factor in its annual Trafficking in Persons report. What does Cuba’s doctors program consist of, and how important is it for Cuba in terms of both diplomacy and revenue inflows? To what extent and in what ways does the program exploit Cuban medical experts, as its critics allege? Which countries benefit the most from the program, and if the bill is enacted, how much would they stand to lose?

**This subject has much more nuance and sides than the belligerent narrative that demonizes it.**

— Lenier González

Lenier González, founder and deputy secretary general of Cuba Posible: “This subject has much more nuance and sides than the belligerent narrative that demonizes it. There are currently more than 30,000 Cuban health personnel in many countries assisting vulnerable communities. Over the years, they have provided assistance in three ways. First, they have intervened in world catastrophes without charging anything in return. Second, they have cooperated with third-country agencies to assist in disaster situations, like Norway and the United States have done. And third, Cuba has exported medical services as part of its economic strategy. The country successfully faced the Covid-19 pandemic and also gave its support to 21 nations, a unique experience these days. This has translated into an enormous benefit for developing countries and also a high recognition for the doctors and for the island at an international level. The subject articulates solidarity with a criterion of economic opportunity, since it contributes billions of dollars to GDP. Cuban doctors participate in the missions on their own free will. Before leaving Cuba, the doctor signs a contract for a certain amount of money (set by the government). Physicians’ wages should be higher, their working conditions should be better, and control over doctors should be lessened. Control and centralization are distinctive features of the Cuban sociopolitical and economic systems, not only in the medical missions. It is something that must change to make Cuba’s future sustainable. That said, let’s be frank: the accusations of ‘slave labor’ have a clear political connotation, and they only make sense as the electoral cycle in the United States and Florida becomes relevant.”

**EDITOR’S NOTE:** More commentary on this topic appears in Tuesday’s issue of the Latin America Advisor.
NEWS BRIEFS

Former Colombian President Uribe Tests Positive for Covid-19

Former Colombian President Álvaro Uribe, who is currently a senator, has tested positive for Covid-19, CNN reported Wednesday, citing Gabriel Velasco, a spokesman for Uribe. Uribe has not experienced any major symptoms, said Velasco. The announcement came just a day after Colombia’s Supreme Court ordered Uribe to be placed on house arrest in connection with witness-tampering allegations against him. Uribe denies wrongdoing.

Ex-Guatemalan Economy Minister Charged in U.S. With Money Laundering

U.S. prosecutors have charged former Guatemalan Economy Minister Acisclo Valladares in a money-laundering scheme involving Miami-based companies, Miami television station Local 10 reported Wednesday. Prosecutors allege that Valladares, who held the post from 2018 to 2020, regularly received money linked to drug trafficking and used it to help bribe corrupt politicians in the Central American country. Valladares, who currently lives in South Florida, has previously said he is innocent.

Brazil’s Embraer Reports $315 Million in Losses for Second Quarter

Brazilian aircraft manufacturer Embraer on Wednesday reported its second-quarter results, with losses in the quarter amounting to $315 million as sales plummeted amid the coronavirus pandemic and a proposed joint venture with U.S. company Boeing fell through, Mercopress reported. Embraer registered quarterly profits of $7.2 million. The branch that was hit hardest was commercial aviation, which fell 82.8 percent as compared to the same period last year.

He added that it was the first time in 20 years that Congress rejected a new cabinet. “Despite the health and economic crises we are going through, Congress has decided to add another political crisis to this country,” Vizcarra said.

Mexico’s Oaxaca Bans Sale of Sugary Drinks to Children

Mexico’s Oaxaca state has banned the sale of sugary drinks and high-calorie snacks to children in an effort to fight obesity, The Guardian reported Thursday. Under the measure, stores that are found to be selling sugary drinks and high-calorie snacks to children could face fines or closure, the newspaper reported. Magaly López Domínguez, the state lawmaker who proposed the measure, introduced it more than a year ago, but she said the Covid-19 pandemic has created new urgency to limit the sales of such drinks and foods in order to protect children’s health. Mexico’s coronavirus tsar, Hugo López-Gatell, has blamed the consumption of soft drinks for deaths related to diabetes, obesity and hypertension. However, Mexico’s soft drinks industry has accused López-Gatell of “satanizing a strategic economic activity and a product that is of preference of millions of Mexicans,” The Guardian reported. It added that Mexicans consume just 5.8 percent of their daily calories from soft drinks, according to government statistics. Critics have also accused López-Gatell of seeking to scapegoat the industry as Mexico’s Covid-19 cases and deaths soar. The country has more than 450,000 confirmed cases of the disease, the sixth-highest in the world, according to a tally by Johns Hopkins University. It also has nearly 50,000 confirmed deaths from the disease, the third-highest in the world, after only the United States and Brazil.

Hugo López-Gatell, Mexico’s coronavirus tsar, has blamed the consumption of soft drinks for deaths related to diabetes and obesity.

ECONOMIC NEWS

Brazil’s Central Bank Cuts Key Interest Rate to Record Low

Brazil’s central bank cut its key Selic lending rate to a record low on Wednesday, leaving the door open for more cuts, albeit gradual ones, as the outlook for inflation is still below target amid the economic fallout brought on by the coronavirus pandemic, Marketwatch reported. The bank lowered the rate by 25 basis points to an all-time low of 2 percent in an easing cycle that has cut 450 basis points off borrowing costs. In a statement, policymakers said recent indicators point to just a partial economic recovery, noting that uncertainty remained high and warning that expanded government spending in response to the pandemic risks faster-than-expected inflation, Bloomberg News reported. “The remaining space for monetary policy stimulus, if it exists, should be small,” they wrote. “Consequently, further adjustments to the current degree of monetary stimulus would occur with additional gradualism and would depend on the perception of the fiscal trajectory,” they added.

Colombia’s Central Bank Sees Growth of 4.1 Percent Next Year

Colombia’s economy will recover next year, with growth of nearly 4.1 percent, after a recession this year, according to the country’s central bank, Reuters reported Tuesday. The bank’s technical team said it expects GDP growth of between 3 percent and 8 percent next year, with a figure close to 4.1 percent being the most likely. According to the bank’s forecast, the Colombian economy will contract between 6 percent and 10 percent this year.
Oil derivatives (diesel and gasoline) will reduce the amount of imported goods, giving a positive balance to a country that does not have its own currency and depends on the existence and entering of dollars to its economy."

Marc Becker, professor of history at Truman State University: "Dating back to the 1970s oil boom, careful observers have noted that for every barrel of oil that Ecuador exported, the country became a dollar poorer. This has long been a key feature of resource extraction from marginalized economies—petroleum rents benefit industrialized countries to the detriment of those on the periphery. A central problem is the export of raw material from the Global South and the importation of finished goods, with all of the accrued value from their processing remaining in the industrial north. Over the past 20 years, a series of left-wing governments in Latin America have sought to reverse this pattern, but to no avail. Former Ecuadorean President Rafael Correa engaged in one of these honorable but ultimately futile ‘neo-extractivist’ experiments. On the surface, refining petroleum in Ecuador instead of exporting crude oil and importing gasoline and diesel appears to be a logical solution to these long-standing problems of underdevelopment, but unfortunately, that has never played out as planned. Rather than moving forward to find a new and better solution—which would require a fundamental change on a global level in economic relations—Ecuador’s current right-wing government of Lenín Moreno is going backwards to previous failed and discredited neoliberal policies. The partial privatization of the refinery will only ensure that the petroleum rents will continue to flow out of the country and further impoverish Ecuadorans. The country would have been better off if it had never discovered oil, and instead sought to foster endogenous development strategies."

**Bringing a private partner for the refinery is not only a good idea, but an imperative solution.**

— Paola Gachet O.