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FEATURED Q&A

Is the Energy Shift Bringing Unintended Consequences?

Natural gas prices in Europe and the United States have soared recently, driving up costs to consumers and raising questions about the accelerated energy transition. // File Photo: Pennsylvania Public Utility Commission.

Q Natural gas prices in Europe have soared recently, with costs to consumers now six times higher than last year and continuing to rise, Euronews reported. The increase comes as the recovery of economic activity from the pandemic and the energy transition away from coal, especially in China, have led to higher demand for relatively lower-carbon but now-expensive natural gas, according to the World Economic Forum and The Wall Street Journal. Meanwhile, low wind speeds have reduced wind energy supply in Europe. Is the rapid shift away from fossil fuels causing unintended consequences such as shortages and rising prices for consumers, and is that situation likely to be replicated in Latin America and the Caribbean? How can policymakers ensure the right energy mix to provide reliable energy to consumers? Will economic disruptions lead to public push-back against climate change policies?

A David Goldwyn, president of Goldwyn Global Strategies and former U.S. State Department special envoy and coordinator for international energy affairs: "The current global energy crisis is the result of a conflation of factors—primarily, the global economic recovery from the Covid-induced demand collapse of 2020, a heavy draw on LNG supply from the winter of 2020-21 and sluggish investment in the hydrocarbons space. The lesson to draw from this crisis is the need to manage the medium-term outlook of the energy transition, when natural gas especially will need to be cheap, available and politically acceptable to deter the use of coal, and when

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TOP NEWS

OIL & GAS

Bolsonaro Vows Not to Interfere in Petrobras Pricing

Brazilian President Jair Bolsonaro said Sunday his government will not interfere if state-controlled oil company Petrobras raises fuel prices in the coming days in response to higher global prices for crude oil and a weakening real currency.

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OIL & GAS

Castillo Proposes State Takeover of Natural Gas Sector

Peruvian President Pedro Castillo called on Congress to nationalize the natural gas sector, backtracking on previous promises.

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OIL & GAS

Lasso Announces Fuel Price Freezes Amid Pressure

Ecuadorean President Guillermo Lasso announced that his government would halt a program of monthly price adjustments, effectively freezing fuel prices in a bid to quell growing social and political pressure.

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Lasso // File Photo: Ecuadorean Government.

OIL AND GAS NEWS

Lasso Announces Fuel Price Freezes Amid Social Pressure

Ecuadorean President Guillermo Lasso announced last week that his government would halt a program of monthly price adjustments, effectively freezing fuel prices in a bid to quell growing social and political pressure, Argus Media reported. "We know we need to provide stability for Ecuadoreans' pockets … so that's why I decided that from today the increases in monthly fuel prices are suspended," Lasso said. However, social groups rejected the move and reaffirmed their call for protests, with thousands of demonstrators marching and blocking roads in Quito and in the country's southern region on Tuesday and Wednesday. "We reject the new fuel price increase, which the president has deceptively called a price freeze," Leonidas Iza, president of Indigenous organization CONAIE, said following a meeting in the province of Chimborazo, the wire service reported. The adjustment program first took effect under former President Lenín Moreno in May 2020 as his government sought to gradually close the gap between Ecuador's long-subsidized gas prices at the pump and international prices by indexing them to WTI crude benchmark prices. The newly frozen prices are \$2.44/gallon for regular "extra" gasoline and \$1.90/gallon for diesel, according to the report. The new fuel prices took effect last Saturday. Lasso's decision came following pressure by Indigenous and other organizations, which had called for nationwide demonstrations in protest of fuel price hikes and the government's economic and social policies, Reuters reported. "We have listened to you, the people, and also to political and social sectors to reach agreements which bring us to a stable environment, in which the economy can grow and build jobs," Lasso said in a video broadcast. He also said he would continue enforcing fixed prices of basic supplies to help Ecuadoreans weather the economic consequences of the Covid-19 pandemic. Following Tuesday's protests, Lasso called for a dialogue with protesters. "I call once more for dialogue, for consensus, for thinking of the good of the country and not of pesonal, party or union interests," Lasso said Wednesday. "In these moments of economic recovery, it's time to be united," he said.

Bolsonaro Pledges Not to Interfere With Brazilian Fuel Prices

Brazilian President Jair Bolsonaro said Sunday his government will not interfere if state-controlled oil company Petrobras raises fuel prices in the coming days in response to higher global prices for crude oil and a weakening real currency, Bloomberg News reported. "Some want me to interfere in the price," Bolsonaro said during an event broadcast on Facebook. "We've done this in the past, and it didn't turn out well." There has been some investor concern that the government would try to make Petrobras keep prices artificially low by subsidizing fuel in a bid to contain soaring inflation, which hit double digits last month. Annual inflation hit 10.25 percent in September, up from 9.68 percent in August, Trading Economics reported. The country's National Broad Consumer Price Index, or IPCA, reached 1.16 percent in September, the highest inflation rate for the month since 1994, Agência Brasil reported earlier this month, citing data from national statistics agency IBGE. According to IBGE, the increase in the electric energy tariff, of 6.47 percent, helped drive an increase in housing prices. Likewise, a surge in fuel prices (2.43 percent) drove up transportation costs. Housing and transportation ultimately pushed up the inflation rate.

Guyana Eying Renewed Talks With India to Sell Crude

Guyana could revamp negotiations with India for a deal to sell the government's share of crude as production increases next year, Vice President Bharrat Jagdeo told Reuters in an

NEWS BRIEFS

Schlumberger Revenue Rises on Double-Digit Growth in Latin America

Houston-based oil services firm Schlumberger Limited said last Friday that Latin America led its international revenue growth in the third quarter. "Double-digit growth in Latin America" helped push the company's international revenue to \$4.68 billion, up 4 percent sequentially and 11 percent year-on-year, Schlumberger said in an earnings statement.

Icelandic Companies Join JV to Develop Geothermal Project in Chile

Icelandic geothermal companies GEG Power and North Tech Energy have formed Amsterdam-based Transmark Renewables in a joint venture to develop the Adobera geothermal project in Chile, GEG said Monday, Renewables Now reported. Transmark had secured a concession in 2018 to conduct geothermal exploration in the Peumayén area at the border of Chile's Auracanía and Biobío regions, where the Adobera project is to be located. The joint venture's drilling campaign is to begin in 2022.

Brazil's Petrobras Posts Mixed Performance For Third Quarter

Brazilian state oil company last week posted third-quarter production of 2.83 million barrels of oil equivalent per day, a 1.2 percent increase from the previous quarter but 4.1 percent lower than its output during the same period last year, Reuters reported. Crude production totaled 2.27 barrels per day (bpd), up 1.9 percent in quarterly terms but down by 4 percent from the third quarter in 2020. Petrobras highlighted the entrance into operation of the Carioca offshore production platform during the July-September period, as well as the company's move to commercially produce gas at its P-69 platform in the Tupi field.

interview published last week. "We have so much more oil coming on the market because, from early next year, we will have the new [floating production storage and offloading, or FPSO, vessel], which will be producing double the amount than the current FPSO," Jagdeo said. Earlier this year, Indian refiners bought at least two test cargoes of Guyana's Liza light sweet crude. However, government negotiations on a term supply agreement fell through because of pricing and other contract terms, according to the report. Guyana then signed a deal with a unit of Saudi Aramco for a one-year marketing deal. India's oil secretary, Tarun Kapoor, said last week that the Asian nation is to create a group that will bring together state-run and private refiners in a bid to establish better crude import deals. India is the world's third-largest oil consumer. Guyana produces as many as 120,000 barrels per day (bpd) through an ExxonMobil-led consortium, which recently discovered nearly 10 billion barrels of recoverable oil resources off the coast of the South American nation, Reuters reported. A second production facility is set to begin operations next year, a move that could increase production by 220,000 bpd. By 2024, a third facility is expected to boost output by an additional 220,000 bpd.

Peruvian President Calls on Congress to Take Over Gas Sector

President Pedro Castillo on Monday urged Peru's Congress to draft a bill for the nationalization of Peru's natural gas sector, backtracking on previous promises not to seek a state takeover of parts of the economy, Reuters reported. "We have just signed the supreme decree on gas recovery, and from here we urge Congress to make a joint law on the nationalization ... of Camisea gas," Castillo said during an event in Amazonas, El Comercio reported. "It is necessary to give Peruvians what the people have produced." Castillo came to power campaigning on the far-left platform of his Perú Libre, which included the nationalization of the gas and mining sectors. However, in the

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unfavorable weather temporarily affects renewables generation. Price and supply volatility management will be essential to sustain the political coalition for climate action. The autumn global energy crunch has come to Latin America despite the region's already diversified fuels mix. For the larger economies of the region, the La Niña cycle has strained hydroelectric supplies amid a severe drought affecting much of South America. Brazil and Chile are experiencing power supply shortages, raising demand for Argentine natural gas and LNG imports. Some of these economies depend on natural gas as a backup for renewable power and are now in the fray of competition for LNG supply. Latin America will need a robust strategy to manage the impacts of climate change while transitioning to a more sustainable energy system. The policy steps needed to manage future price volatility include a continued focus on demand-side management, accelerated deployment of renewable energies to minimize the impact of commodity price fluctuation and continued investment in local and regional infrastructure for natural gas. Increased gas storage capacity will be important to ensure adequate supply when demand spikes or supply is disrupted. Policymakers in Latin America and elsewhere should remember that we are in an energy transition, not an energy revolution. Latin America and the Caribbean is already well-positioned to lead in a more sustainable energy future, and can improve its position further by acknowledging the continuing importance of natural gas until batteries and other advanced forms of energy storage achieve the breakthroughs we all hope for."

A **Alfonso Blanco, executive secretary of the Latin American Organization of Energy:** "The increase in natural gas prices (attributable to geopolitics and the market) in the context of post-pandemic demand, and with gas being the immediate substitute for coal-fired generation, is the factor having the greatest impact on the current crisis. However, Latin America's energy systems differ from Europe's systems, and each country must be analyzed based on its energy mix. One factor that differentiates Latin America and the Caribbean is the low use of coal in its electricity generation. Second is the high participation of hydroelectricity (more than 44 percent of total capacity). A third factor is the gradual increase in nonconventional renewable energy sources (integrated under auctions with long-term contracts), which operate complement hydro. The last two factors help mitigate the impact of rising oil and gas prices as long as water regimes are normal. We should anticipate a high impact in markets that are highly dependent on fossil fuels, or if there are water shortages in some regional markets. Climate efforts must be backed by social demand. If the population observes energy prices that are higher than their willingness to pay, this does not contribute to generating climate awareness, which in turn hurts commitment at the political level. The discontent generated in terms of energy affordability, which could be to some degree attributable to climate efforts, is a step backward in the climate discussion."

A **Cecilia Aguillón, director of the energy transition initiative at the Institute of the Americas:** "Oil and gas price volatility is not a novelty and will likely continue even in the absence of decarbonization efforts. The lingering dependency on imported fossil fuels from limited localities will keep countries vulnerable to unexpected market swings. In addition, severe weather caused by climate change will only worsen energy supply issues, as it is already affecting hydro and wind energy output, which has exacerbated the current shortages, particularly in Europe and Brazil. This underscores the urgency to accelerate climate change mitigation and to increase the diversification of energy resources. Governments must

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face of pressure to preserve and attract foreign investment, Castillo had since softened the rhetoric and vowed to keep industries in private hands. Castillo's statements also contradicted comments earlier on Monday by his new prime minister, Mirtha Vásquez, who said that the administration respects private property. Under Peru's constitution, private companies can be nationalized only with congressional approval. Peru's Congress, in which Castillo's coalition does not hold a majority, is unlikely to back the nationalization push, Reuters reported. Earlier this month, Castillo dismissed far-left Prime Minister Guido Bellido following controversial statements threatening the nationalization of the Camisea-led consortium in the natural gas sector, which the president now seems to favor. Castillo replaced him with Vásquez, a moderate leftist and former interim president of Congress. Political observers said the cabinet shakeup helped calm markets in the short term but alone would not bring assurances of a more predictable business climate. "Investors will not be confident unless Castillo's words and deeds are consistently more moderate," Cynthia McClintock, professor at The George Washington University, told the daily Latin America Advisor in a Q&A published Oct. 13. [Editor's note: See related Q&A in the Oct. 8 issue of the Energy Advisor.]

THE DIALOGUE CONTINUES

Will AMLO's Energy Reforms Be Successful?

Q Mexican President Andrés Manuel López Obrador on Sept. 30 sent lawmakers a bill that would guarantee 54 percent of the electricity market to state-owned utility Federal Electricity Commission, or CFE, a move he says would keep prices low for consumers and end special treatment for private power firms. The legislation would also reportedly reserve any future mining of lithium for the state as well as transfer independent energy regulators' functions to the CFE and the Energy Ministry. How likely is Mexico's Congress to approve the reform, and what would its main effects be on the country's power sector and for consumers in particular? Why is López Obrador pushing for the changes, and would the move strengthen the energy sector as he envisions? To what extent are the proposed changes in violation of the United States-Mexico-Canada Agreement, or USMCA, and the country's commitments under the Paris Agreement, and could it lead to international arbitration against Mexico?

A **Claudio Rodríguez, partner at Holland & Knight LLP:** "Right now, it is difficult to assess whether the bill will be approved or not. The decisive votes are in the hands of the opposition as the governing party (Morena) does not have the qualified majority needed to amend the Mexican Constitution. Among the opposition, the PRI party has the decisive votes, but it is not clear if its legislators will support a bill that basically destroys the energy reforms they enacted in 2013, when the party governed Mexico. It will be interesting to see if the bill will be approved on its original terms or if the opposition will have the opportunity to propose changes or amendments. The energy sector is unified against the original version of the bill, which it believes is completely negative and even contrary to constitutional principles and international treaties. Therefore, we expect that important changes will be necessary to gain approval and prevent a situation that ultimately will destroy investment trust and have indirect expropriation effects. If the reform is approved on its original terms or even if the opposition's potential amendments still do not prevent the original aim of the bill, it is clear that international arbitrations can be triggered. However, if it is not approved, administrative paralysis affecting the normal course of electricity projects will continue until injunctions against previous reforms to the Power Industry Law are finally decided in favor of private investors."

EDITOR'S NOTE: More commentary on this topic appears in the Q&A of last week's issue of the Energy Advisor.

RENEWABLES NEWS

Colombia Awards 11 New Large-Scale Solar Projects

Colombia has awarded 11 new large-scale solar projects set to begin operations in early 2023, the government said Tuesday, Reuters reported. The projects, awarded to nine companies, are estimated to bring in some 3.3 trillion pesos ($875 million) and will generate a total of 796.3 megawatts, Mines and Energy Minister Diego Mesa said on Tuesday following the auction. Among the companies that received the 15-year contracts are new entrants to the Andean nation, including France's EF, U.K.-based TW Solar, Canadian Solar and two Spanish firms, Solarpack and Energen, the minister said. He added that the projects will be located in nine of Colombia's 32 provinces and are set to create about 4,700 jobs and reduce carbon dioxide emissions by 465,000 metric tons per year. The move is part of Colombia's efforts to promote the use of nonconventional renewable energy sources such as solar, wind and biomass power, which Mesa said would generate 15 percent of the country's energy matrix by 2023. "There are two reasons why nonconventional renewable sources have grown exponentially within Colombia's energy matrix. First is technological advancement, which has allowed prices to become increasingly competitive with

NEWS BRIEFS

Puerto Rico's Congress Approves Debt Measure

Both chambers of Puerto Rico's legislature on Tuesday approved a bill that would cut the U.S. territory's government debt by half, the Associated Press reported. The controversial measure aims to end a financial restructuring process that began after Puerto Rico defaulted on more than $70 billion in public debt five years ago. Critics say Puerto Rico does not have the finances to adhere to the proposed debt service and warned of the consequences of austerity measures. Puerto Rico's financial control board issued a statement Tuesday saying that it would carefully evaluate the measure, though it has said previously that it would not approve of the bill, according to the report.

Swiss Firm SUSI Invests in Chilean Renewable Energy Assets

Switzerland-based private equity firm SUSI Partners on Tuesday said it has made its first investment in a Latin American market by acquiring a portfolio of distributed renewable energy assets in Chile. The investment is with developer BIWO Renovables and its commercial partner Latsolar. The solar and wind assets have a total capacity of more than 200 megawatts with projects currently in a late-development stage.

Thousands in Migrant Caravan Moving North From Chiapas State

A caravan of thousands of mostly Central American migrants heading from southern Mexico toward either Mexico City or the border with the United States advanced only a short distance on Wednesday, Reuters reported. Eyewitnesses told the wire service the migrants left the village of Huixtla in Chiapas state on Wednesday morning and walked about 10 miles north to the town of Villa Comaltitlán.

conventional technologies, and second is the government's adjustments to the speed with which projects can obtain tax benefits," Natalia Gutiérrez, president of the Colombian Association of Electric Energy Generators (Acolgen), told the Energy Advisor in a **Q&A** published Dec. 4, 2020.

POLITICAL NEWS

Colombia Captures Most-Wanted Drug Lord: Duque

Colombian President Iván Duque on Sunday confirmed the capture of Dairo Antonio Úsuga, Colombia's most-wanted drug lord, CNN reported. In a nationally televised address, Duque said the capture of Úsuga, known as Otoniel, "is only comparable to the fall of Pablo Escobar in the '90s," referring to the notorious Colombian drug lord who amassed a fortune worth billions of dollars. "Otoniel was the most feared drug trafficker in the world, a murderer of policemen, soldiers, social leaders, and a recruiter of minors," Duque said. The United States, which had sought Otoniel's capture since 2009, issued a statement through its embassy in Bogotá on Sunday congratulating Duque's government, El Tiempo reported. The State Department had offered as much as $5 million for information leading to his arrest or conviction. Colombian authorities apprehended Otoniel during an operation in a rural area of Colombia's Urabá region, located in Antioquia province, Reuters reported. One police officer died during the operation.

Duque compared the capture of "Otoniel" to that of notorious drug trafficker Pablo Escobar in the 1990s.

ECONOMIC NEWS

Brazil's Central Bank Hikes Key Rate by 150 Basis Points to 7.75%

In a unanimous decision Wednesday night, the Brazilian central bank's rate-setting committee, Copom, hiked its benchmark Selic interest rate an aggressive 150 basis points, to 7.75 percent, the largest single increase since 2002, the Financial Times reported. Wednesday's move was the committee's sixth-consecutive rate hike, and it came a day after the country's statistics institute said annual inflation in Latin America's largest economy had surpassed 10 percent. That included a 1.2 percent monthly rise in consumer prices in mid-October, the quickest pace for that time of the year since 1995. The size of the latest rate hike came as a surprise to economists surveyed in a recent Reuters poll; only three of 36 had predicted a 150-basis point hike, with most expecting a third consecutive increase of 100 basis points and five predicting a rise of 125 basis points. At the same time, the central bank signaled another similar rate increase this year, Reuters reported. Policymakers have moved aggressively to contain inflation, raising the benchmark Selic rate from 2 percent at the beginning of this year at the same time that President Jair Bolsonaro has vowed to increase welfare spending ahead of the country's presidential election in October of next year. "Recent questioning regarding the fiscal framework increased the risk of deanchoring inflation expectations," the rate-setting committee said in a statement that accompanied the rate increase, Reuters reported. In a note on Thursday, Morgan Stanley analysts said they expected the central bank to increase the key rate to 11 percent by March, up from their previous forecast of 9.25 percent. Last week, Bolsonaro vowed to expand a cash-transfer program for the poor through next year, and his allies in Congress proposed amending the country's constitution in order to allow for an additional 100 billion reais ($18 billion) of new spending next year, Reuters reported.

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hasten decarbonization, but with increased resiliency and flexibility of their energy grids. Energy efficiency measures reduce demand, but a more concerted and expeditious effort to switch from fossil fuels to clean energy is of the essence. Policies that include incentives, mandates and carbon pricing for both demand and supply sides of the market must be considered. Market designs should encourage investments in clean hydrogen, long-term storage and decarbonization of liquefied natural gas to help move the energy transition forward while providing reliable electricity to diverse regions of the world. Volatility in energy markets may be impossible to stop, but it could be mitigated by diversifying and cleaning the supply mix. The 1970s oil shock led the world to produce fuel-efficient vehicles; the energy crisis of 2000 turned California into the Western Hemisphere's renewable energy leader. The current crisis could lead world economies to make zero-emission electricity their main source of energy."

A **Sylvia Escovar, chairwoman of GeoPark:** "Global concerns over climate change and the need to reduce the environmental impacts of economic development have been top priorities worldwide. Notwithstanding the noble objectives behind these policies, it is important to consider unintended consequences. The first is the impact on consumer prices (on people), derived from additional costs in carbon-dioxide emission rights, green taxes and higher oil, gas and carbon prices (shortages due to policy restrictions). However, there are stronger concerns around other types of contamination on the planet, such as those that Denise Mullen explains regarding growing energy demand (more people and more digital) that is trying to be fulfilled with 'clean energy.' This demands not only the use of nonrenewable fuels, which we are trying to avoid, but also large land extensions and materials that are not necessarily recyclable, such as plastics, metals, concrete and steel. In her paper, Mullen shows, for example, that 'a clean electricity system requires three times as much material to produce and store the same amount of electricity generated by fossil fuels, and two to three times more space to secure the same energy produced today.' This is true for wind, hydro or solar power sources, and it is similar for electrical vehicles (which run on batteries). All this makes visible some unintended consequences of offsetting gas emissions, which are worth analyzing to allow for more holistic and coherent sustainable policies around the world."

A **Pablo Ferragut, senior project manager at ARPEL:** "The rise in the prices of natural gas is the result of a combination of factors that have created an imbalance in supply and demand. Indeed, the rapid economic recovery after the pandemic-generated crisis, together with a long and cold winter in the Northern Hemisphere and the exceptional drought in Brazil, have driven natural gas demand. From the supply side, exceptional problems in some large export terminals have temporarily restricted global gas supply. As demand is recovering faster than supply, prices are rising. We can expect to see this volatility after large disruptions such as the pandemic. However, I am confident that supply will meet demand again in the mid-term, and things will go back to normal. In Latin America, the impact will vary depending on each country's need for natural gas imports. Brazil and Mexico are more exposed to the gas price risk. In general, I would not expect the European situation to be replicated in the region, as the energy matrices are very different. Finally, I think this demonstrates, once again, the strategic role of energy and the crucial role that natural gas is playing in the transition, providing energy security and affordability while reducing GHG emissions. Comprehensive energy planning is the answer to avoiding market imbalances, economic disruptions and finding cost-effective transitions pathways, where natural gas has a key role to play."

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