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FEATURED Q&A

Can Latin America's Oil Companies Meet Their ESG Targets?

How seriously state-run energy companies are taking their ESG commitments varies widely across the region. Colombian state-run company Ecopetrol's oil refinery near Cartagena, Colombia, is picutured. // File Photo: Ecopetrol.

Q **Mexican state oil company Pemex exceeded its greenhouse gas emissions in 2020, and the company was ranked 253 out of 261 in an environmental, social and governance (ESG) ranking of oil and gas companies by Sustainalytics. Meanwhile, Colombian state oil company Ecopetrol has been seeking to sell carbon-neutral oil that is offset by carbon credits from Colombian renewable-energy projects. How well are state-oil companies in Latin America and the Caribbean advancing toward ESG targets? What are the differences in challenges relating to ESG that face state-controlled energy firms as opposed to private companies? What specific steps should state-owned energy producers in the region take to strengthen their ESG practices, and what are the financial implications for them if they fall short?**

A **Jose Vicente Zapata, partner at Holland & Knight LLP:** "The differences between state-oil companies' ESG strategies and progress have grown significantly over the past few years, particularly given the diverse approaches of governments in the region. In some instances, representations on ESG simply seek to mitigate negative effects on investments while effective implementation is quite limited. In other cases, advances are more robust in documenting needed changes and proposing sustainable programs, but again, implementation is lacking. In more exceptional scenarios, efforts have extended to assessing operations in oil and gas exploration and production. For example, companies such as Ecopetrol in Colombia undertook

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TOP NEWS

OIL & GAS

Colombian Oil Firm Ecopetrol Sees Record Profit

Colombian state oil company Ecopetrol on Tuesday reported a record net profit of 16.7 trillion pesos, or $4.27 billion, in 2021, a significant increase from its 1.7 trillion pesos of net profit the previous year.

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OIL & GAS

Mexico's Pemex Posts Q4 Loss of $6.05 Billion

Mexican state oil company Pemex suffered a $6.05 billion net loss in the fourth quarter of 2021, driven by high taxes and currency exchanges losses, the firm told analysts on Monday.

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RENEWABLES

Costa Rica Inks Deal to Develop Green Hydrogen

Costa Rica will work with an Australian project development company to produce green hydrogen in a deal that could be worth $2 billion, President Carlos Alvarado said.

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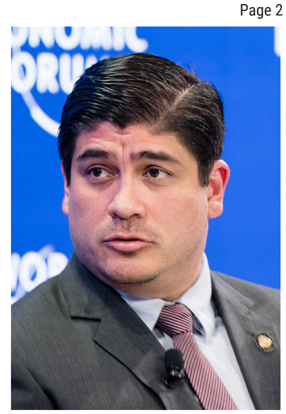

Alvarado // File Photo: World Economic Forum.

OIL & GAS NEWS

Mexican State Oil Firm Pemex Posts Q4 $6.05 Bn Net Loss

Mexican state oil company Pemex reported Monday that it suffered a $6.05 billion net loss in the fourth quarter of 2021, Reuters reported. Though the company increased output in the quarter, the net loss was driven by higher taxes and currency exchange losses, the company said. Pemex is expecting to receive a cash injection from the Mexican government, the second so far this year, but there is no timeline on when the additional payment will be made, Bloomberg News reported Monday. The state oil producer, which has long struggled to stay in the black, managed to turn a profit of nearly $5 billion in 2021, Reuters reported. Revenue rose almost 80 percent in the last three months of 2021, buoyed by an increase in domestic sales and crude exports. "[Pemex] had a very good year in terms of crude oil production, which is not only stable, but also continues to grow," Pemex CEO Octavio Romero said during a call with analysts, EFE reported Monday. President Andrés Manuel López Obrador wants to make Mexico self-sufficient in gasoline and diesel by increasing crude output and making all of the country's fuel domestically, instead of relying on U.S. imports, according to Bloomberg News. To ensure the country has enough crude to make fuel, Mexico also plans to halt exports over time. [Editor's Note: See related **Q&A** in the Feb. 11 edition of the Energy Advisor.]

Ecopetrol Reports Record Profit of $4.27 Billion for 2021

Colombian state oil company Ecopetrol on Tuesday reported a record net profit of 16.7 trillion pesos ($4.27 billion) for last year, a significant increase from its 1.7 trillion pesos of net profit in 2020, Reuters reported. Last year's net profit was also higher than the 15.9 trillion pesos that analysts had forecast, the wire service reported, citing Refinitiv. Ecopetrol CEO Felipe Bayón said in a statement that the "annual results allow us to start 2022 with a solid financial position in a favorable price environment," Reuters reported. In the company's 2021 Earnings Distribution Proposal, Ecopetrol's board of directors proposed an "ordinary dividend distribution of 59.8 percent" of last year's net income, which is equal to 243 pesos per share. The board also proposed the allocation of 8.89 trillion pesos to "an occasional reserve" to aid in Ecopetrol's "financial sustainability and flexibility in the execution of its strategy," the proposal said. The Colombian company's average production last year was 679,000 barrels of oil equivalent per day (boepd), which was a 2.6 percent decrease from the previous year's 696,800 boepd, Reuters reported. Earlier this year, Ecopetrol forecast its 2022 daily oil production to be between 700,000 and 705,000 boepd.

RENEWABLES NEWS

Costa Rica Signs Deal to Develop Green Hydrogen Projects

Costa Rica will work with an Australian project development company to produce so-called "green" hydrogen in a deal that could be worth at least $2 billion, the Tico Times reported last Friday. President Carlos Alvarado, along with government energy officials, signed a memorandum of understanding with Sydney-based Kadelco, the report added. Officials in the Central American country will work with the firm to identify the conditions needed for production of carbon-neutral hydrogen. If those conditions are met, the deal would be worth roughly $2 billion, according to the Tico Times. The MOU sets out the process for exchanging technical information on quality, power, availability, carbon content and seasonality of Costa Rica's electricity supply, as well as the terms to facilitate the installation of infrastructure in the

NEWS BRIEFS

Citing Ukraine Invasion, Petrobras Holds Off On Fuel Price Rise Decision

The head of Brazilian state-run oil company Petrobras said Wednesday that the company had yet to decide about adjustments to prices it charges for fuel domestically, and the firm was "studying" the consequences of Russia's invasion of Ukraine, which has caused global oil prices to spike above $100 per barrel in recent days, Reuters reported. Chief Executive Joaquim Silva e Luna told the news service that the conflict in Europe has made markets nervous. "The world has plunged into a scenario of uncertainty," he told Reuters.

Chile Lithium Mining Firm SQM Sees Profit Surge to $585 Mn in 2021

Chilean lithium mining firm SQM reported a profit of more than $585 million in 2021, the company said in an earnings statement Wednesday. The company performed best at the end of the year, reporting $321.6 million in profit in the fourth quarter alone, which was driven by the boom in the price of lithium. "We are very proud that production goals set for 2021 were achieved, and in some cases even surpassed," SQM CEO Ricardo Ramos said.

PDVSA Assigns Cargoes to Maurel & Prom, ONGC to Settle Debts

Venezuelan state-run oil company PDVSA has agreed to settle some of its debts by allocating cargoes to French and Indian producers Maurel & Prom and ONGC, respectively, Reuters reported Tuesday, citing two unnamed sources. In recent months, PDVSA has designated one million barrels of heavy crude to Maurel & Prom and two million barrels to ONGC. The deals are awaiting U.S. authorizations, as the United States has had restrictions on Venezuela's oil sales since 2019, Reuters reported.

country, BNAmericas reported Feb. 24. "From the first day of this administration, this government has assumed a commitment to the development of clean energy and the production of green hydrogen in the country," said Alvarado, BNAmericas reported. Kadelco CEO Faye Duncan said of the green hydrogen initiative, "[Costa Rica's] national decarbonization plan has been a key element in our decision," and pointed to other factors such as the country's access to two oceans, its democratic stability and the presence of 400 foreign companies, according to the Tico Times.

Solar Power in Brazil Surpasses 14GW for the First Time

Brazil has surpassed 14 gigawatts of power generated from photovoltaic solar sources for the first time, Exame reported Tuesday, citing data from the Brazilian Association of Photovoltaic Solar Energy, or ABSOLAR. The figure means that solar sources of power in South America's largest economy now surpass the power provided by the massive Itaipu hydroelectric dam, according to the report. Solar had already surpassed the installed power of thermoelectric plants powered by oil and other fossil fuels in Brazil's electricity matrix, according to ABSOLAR. Since 2012, solar projects have brought nearly 75 billion reais ($14.56 billion) in investment into Brazil, the association added. In its National Energy Plan released last year, the Brazilian government pledged to generate 45 percent of its energy from renewable sources by 2030. Critics of the plan, however, questioned why it was not more aggressive in setting that goal. "Forty-five percent by 2030 is easy; the big question is why not be more ambitious and do more," Luiz Augusto Barroso, CEO of PSR Energy Consulting and Analytics and the former head of Brazilian state energy research agency EPE, told the Energy Advisor in a **Q&A** published Jan. 15. Brazil's solar power generation is the country's fifth largest source of electricity generation for the domestic market, the Renewables Now website reported Thursday.

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a 'materiality analysis' to assess which of its oil and gas practices are critical and how each affects its performance in terms of value generation and reputational risk. The reviews differentiated between legal obligations and voluntary commitments and resulted in a comprehensive and effective ESG plan. Generally speaking, efforts that address climate change, the management of water resources and territorial development stand out. Unfortunately, politics are more likely to influence the ESG practices of state-controlled energy firms, resulting in more of a focus on 'labeling' rather than effective ESG implementation. At a time when oil prices are again at a high, state-owned energy producers in the region need to move beyond documenting ESG and apply sustainability principles both to financing requirements and operations with measures to ensure accountability. Effective implementation requires immediate investments that, if not undertaken, will continue to trigger a lower market value and increase negative pressures, despite the region's growing energy needs."

A **Karla Schiaffino, Americas senior analyst of risk insight at Verisk Maplecroft:** "As Pemex and Ecopetrol have illustrated, the ESG performance of state-run oil firms differs across the region due to conflicting incentives. Over the last five years, greenhouse gas emissions of two of the largest operators, Pemex and Petrobras, have decreased, in line with the general trend among private counterparts to decarbonize operations. But state oil companies face added pressure from governments, which do not always help them achieve these targets. Pemex stands out for struggling to convince bondholders of its commitment to ESG. Since the beginning of the Andrés Manuel López Obrador administration, the president has made clear his intentions of expanding Pemex's role across the oil and gas sector. AMLO's plans for the oil firm include ramping up refining, which will weigh on Pemex's ESG metrics by increasing its carbon footprint. Pemex exemplifies how the misalignment of ESG targets between the company—especially those without private participation—and a government can undermine ESG performance. Moving forward, state oil firms will need to play an active role in the region's energy transition. For Pemex, for instance, this may begin with setting a clear strategy to meet ESG metrics and comply with the same environmental, social and corporate governance standards as its private partners. Failure to do so can not only jeopardize Pemex's standing in the markets, but also expose Mexico's finances—which have been historically linked to Pemex's performance. For companies such as Ecopetrol, which has private participation, weak ESG performance will reduce its attractiveness for investors."

A **Nicolás Mariscal, chairman of the board of directors at Marhnos Group, and vice president of the Mexican Chamber of Construction Industry:** "Pemex could do much more to meet ESG standards. Three points are of concern in this regard. On the environmental side, there is a substantial increase in bunker oil production to generate electricity; the Mexican type is the worst, as it contains 3.5 percent or more sulfur, way above what international standards deem to be safe. On the social side, bunker oil production is tremendously dangerous to human health. Every year, 25,000 Mexicans die prematurely due to its use. And on the governance side, the company's five independent counselors—a figure established as recently as 2005 to improve corporate governance—were all elected during the current administration and tend to have no experience on energy issues (three resigned in 2019). As environmental, social and governance issues are of the utmost importance, it is good news that ESG metrics contribute to accelerating growth and impact. And even though such standards don't have the force

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POLITICAL NEWS

Colombia's Petro Will Declare State of Emergency

Colombian presidential front-runner Gustavo Petro said this week he will declare an "economic emergency" that would allow him to bypass the normal workings of congress if he wins this May's presidential election, Bloomberg News reported Tuesday. Petro, a leftist, told Blu Radio that the "social catastrophe" of widespread hunger in Colombia justifies such a move. A state of emergency allows the government to approve laws and regulations through decrees without approval from congress for as many as three 30-day periods, according to the report. However, a constitutional court would need to rule on the legality of the decrees issued under the emergency, and the country's congress would also be able to revise the decrees and could potentially overturn them. Petro, 61, is a former guerrilla fighter who became mayor of Bogotá and a senator. He would need to win 50 percent of the vote on May 29. If not, there will be a runoff on June 19. In an interview last month with Agence France-Presse, Petro said he would pursue a different leftist model than those of socialist leaders such as Nicaragua's Daniel Ortega and Venezuela's Nicolás Maduro, indicating he would instead align himself to a "progressivism" he associates with Chile's president-elect Gabriel Boric and former Brazilian president Luiz Inácio Lula da Silva. Last month, the Paris-based Organization for Economic Cooperation and Development said Colombia should expand programs providing universal basic pensions and a guaranteed minimum income. [Editor's note: See related **Q&A** in the March 1 issue of the Advisor.]

A state of emergency allows the government to approve laws and regulations through decrees.

SUBSCRIBER NOTICE

María José Cortés Joins the Energy Advisor Board

We are pleased to announce that María José Cortés has joined the Board of Advisors of the Dialogue's weekly Energy Advisor.

María is the head of ESG for Atlas Renewable Energy, where she leads the environmental, social and governance aspects of Atlas' business globally and the company's sustainability approach, both at the corporate level and across its projects.

María was responsible for creating the company's ESG Department, positioning it as a benchmark in the renewable energy industry. Since then, she and her team have launched initiatives that have been recognized with multiple awards.

Cortés // File Photo: Atlas.

She is a faithful believer in two premises: that progress is not progress if it is not for everyone, equitably, and that the renewable energy industry can be a force for good.

Under her management, Atlas' ESG team has been recognized for its environmental activity to preserve and protect the howler monkey. This work has included the conservation of 300 hectares of secondary vegetation in an evergreen forest, the creation of biological corridors to connect forest patches that surround one of the company's plants, and the conservation of the black howler monkey's habitat in Mexico.

Her team's vision also led to the creation of Atlas' award-winning social program, "We are all part of the same energy." The program aims to increase the participation of underrepresented groups by training and employing them in the region.

Most recently, the program trained 1,000 women across Latin America and elevated female participation in the renewable energy industry from an average of 2 percent to 15 percent. This program was also implemented to increase the representation of Afro-descendants in Brazil, reaching over 76 percent of the total labor hired during the construction of one of the company's plants in the country.

Before joining Atlas, María worked for Engie Mexico, leading and supervising compliance with IFC Performance Standards and Equator Principles for the company's renewable generation portfolio and oil & gas assets.

In her previous role, she oversaw the design and implementation of both the stakeholder engagement and social impact investment strategies for an 854-kilometer natural gas pipeline owned by PEMEX Holding, part of Mexico's state-run petroleum company..

María holds a sociology degree from the National Autonomous University of Mexico and a specialty in Latin American and Latino Studies from the University of California.

NEWS BRIEFS

United States Must Secure Border, Fix System for Immigration: Biden

The United States must secure its border and fix its immigration system, U.S. President Joe Biden said Tuesday night in his State of the Union address. The United States has installed technology "to better detect drug smuggling" and has set up patrols with Mexico and Guatemala to pursue human traffickers, said Biden, adding that the United States is also putting more immigration judges in place.

Argentina's Monthly Rate of Inflation Surpasses 4 Percent

Despite price controls and tariff freezes implemented by the administration of President Alberto Fernández, the monthly rate of inflation in Argentina again surpassed 4 percent in February, according to a new survey of private economists, La Nación reported Monday. The sharp rise in consumer prices last month was similar to that of December and January, with the cost of fruits and vegetables among the fastest growing, as well as continued high prices for dairy products, oils and meats.

Dominican Authorities Turn Over Suspect in Moïse Assassination

Authorities in the Dominican Republic on Wednesday extradited a former Haitian police officer linked to the assassination of President Jovenel Moïse last July, the Associated Press reported. The man, who is identified as Tanis Philome, was detained in the Dominican Republic several days ago. So far more than 40 people have been arrested in the slaying of Moïse, including several Haitian police officers and a former senator, as well as 18 former Colombian soldiers allegedly hired for the assassination, according the report. [Editor's note: See related **Q&A** in the Feb. 18 issue of the Advisor.]

ECONOMIC NEWS

Brazil to Propose New Plans to Ensure Supply of Fertilizer

Brazilian Agriculture Minister Tereza Cristina Dias said on Wednesday the country will launch a national fertilizer plan by March 17 aimed at stimulating investments in potash and phosphorus, Reuters reported. South America's largest economy, a major global food producer, imports 85 percent of its fertilizer, which has become a sensitive issue due to geopolitical tensions and supply chain disruptions caused by the Covid-19 pandemic. In an interview with CNN, Dias said Brazil needs to have bigger fertilizer production as a matter of "national security." Dias said the plan aims to minimize bottlenecks in terms of legislation, taxes and especially delays over environmental licenses, according to the report. Currently Brazil has fertilizer stocks that should last until October, when the harvest of the country's biggest grain crop intensifies, Dias said. Last month Russia, a key supplier of fertilizer to Brazil, banned exports of the product for two months in order to safeguard domestic supplies. President Jair Bolsonaro on Wednesday proposed lifting a ban on mining in Indigenous territories in the Amazon to offset potential fertilizer shortages, Agence France-Presse reported.

Mexico's Trade Deficit Rises to $6.29 Billion

Mexico's trade deficit rose sharply to $6.29 billion in January, state statistics agency INEGI said last Friday. The deficit is significantly higher than the $1.24 billion recorded in the same month of 2021. The figure is "worse than the consensus expectations for a $3.83 billion deficit," Goldman Sachs economist Alberto Ramos told clients in a research note circulated Friday. Supply chain issues affecting the manufacturing sector and declining oil export volumes were behind the higher-than-expected deficit, Ramos added. Meanwhile, the value of merchandise imports in January reached $40.19 billion, an annual increase of 18.5 percent overall, with a 55 percent increase in oil imports for the month. [Editor's note: See related **Q&A** in the Feb. 7 issue of the Advisor.]

Honduras to Cancel Mining Permits, Ban Open-Pit Projects

Honduras' government announced Monday that it would cancel environmental plans for mining of metals and nonmetals and also ban open-pit mining, Reuters reported. "The approval of permits for extractive exploitation is canceled due to being harmful to the state of Honduras, threatening natural resources, public health and because they limit access to water as a human right," the country's Ministry of Energy, Natural Resources, Environment and Mines said in a statement. The ministry added that areas with "high ecological value" would be preserved, though it offered few other details. It was unclear whether the government's cancellation of mining permits would apply only to new projects or also to existing ones, and the ministry did not immediately respond to a request from Reuters for clarification on the matter. There are at least 217 approved concessions for mining projects in Honduras, covering an area of more than 131,000 hectares, EFE reported, citing the Social Forum of External Debt and Development of Honduras, or Fosdeh. The announcement came just over a month after Xiomara Castro took office as Honduras' president. Castro has pledged to pull Honduras "out of the abyss" of failed economic policies and widespread corruption, Reuters reported. Last September, prior to her election as president, Castro vowed to limit mining activities in the Central American country. Canada-based Aura Minerals operates the open-pit San Andres mine in western Honduras, and it has encountered opposition there from members of the Maya-Chorti Indigenous group over alleged disturbances to a cemetery. Last year, the firm halted operations amid blockades, Reuters reported. [Editor's note: See **Q&A** on Honduras in the Jan. 27 issue of the Advisor.]

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of law, they do create public pressure and allow investors to have more information and make better decisions. And this is one more reason why a percentage of state-controlled energy firms should be publicly traded: so that they not only submit to transparency and accountability standards, but also to ESG scrutiny from investors and the public."

A **David Shields, oil-industry analyst at Energía a Debate:** "Mexico's state-run energy firms have shown no interest in working toward achievement of the nation's emission-reduction goals, established under the Paris climate accords, which aim to produce 35 percent of energy from clean sources by 2024. On the contrary, greenhouse-gas emissions Pemex and the Federal Electricity Commission (CFE) have been increasing. Indeed, the two companies' projects complement each other to increase such emissions. Pemex refineries produce ever more heavy residual oil, which the CFE burns to generate electricity. If the CFE did not take this fuel from Pemex, there would be almost no alternative market for it. The López Obrador government has strengthened its political control over the economy by means of strengthening the state-run firms instead of pursuing environmental goals. There is even ongoing discussion of a power-sector reform bill that would, in practice, promote greater use of fossil fuels. In this context, it is hard for private-sector firms to comply with their own ESG commitments, including renewable energy generation, which is actively discouraged by current public policy. Both private and public-sector firms in Mexico could well face tariffs and litigation under free-trade agreements in coming months. The country's policy failures in energy and environmental practices are likely to reverberate throughout the Mexican economy, making ESG compliance an almost impossible task for global investors. As a result, many companies may well see no alternative to disinvesting and leaving the country."

A **Carlos de Maria y Campos S., partner at Galicia Abogados in Mexico City:** "Mexico was previously preparing to integrate ESG considerations into its energy projects and related financing. But President Andrés Manuel López Obrador's administration wants to take the country in the opposite direction and has been either slow or inexplicably reluctant to take the necessary steps to move toward these requirements. Now, Pemex is not well positioned to meet any ESG commitments or even formulate a clear path toward integrating ESG standards. Tasked with being Mexico's cash cow and burdened by massive debt, there is little room for Pemex to invest in sustainable development policies or to make the necessary investments to bring the company up to 21st century standards. Considering the administration's position on the environment, renewables, transparency, accountability, sound governance, public participation or any other elements that make up the ESG framework, we shouldn't expect an ESG approach to be applied to any aspect of Pemex. When compared with Colombian state oil producer Ecopetrol's plans to offset oil sales with carbon credits, Pemex appears to be behind the curve. The Mexican government seems entrenched in an outdated business model that was pervasive during the 1980s oil boom: betting on fossil fuel with little to no regard for environmental impact, or community or Indigenous consultations. It is evident that this model is not sustainable in the long run and will hinder Pemex from international funding or access to credit—or only getting credit at high premiums. It may also expose Pemex products to emissions taxes in many jurisdictions, making it difficult for the state oil firm to compete globally."

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

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