5h ago

Peso Drop Casts Doubt on Petro Energy Plan: Colombia Market Talk

Andrea Jaramillo and Oscar Medina, Bloomberg News

BC-Peso-Drop-Casts-Doubt-on-Petro-Energy-Plan-Colombia-Market-Talk , Andrea Jaramillo and Oscar Medina

(Bloomberg) -- The plunge in Colombia's bonds and currency is calling into question the government's planned transition away from fossil fuels, according to energy experts who spoke with Bloomberg.

After nearly 100 days in office, the administration of President Gustavo Petro still hasn't provided many details of how exactly it intends to phase out the nation's biggest foreign currency earners: oil and coal.

"The government arrived with very strong ideas politically, but it's realizing that the things it says are already having consequences in other areas," said former Mines and Energy Minister Tomas Gonzalez. "You can ignore the laws of economics, but the laws of economics won't ignore you."

The government is still deciding what to do, he said. It wants to follow its political agenda, but may be forced to compromise, given the importance of fossil fuels for its fiscal position.

Petro campaigned on a promise to end new oil exploration and his Energy Minister, Irene Velez, has said there will be no new contracts. But Finance Minister Jose Antonio Ocampo contradicted her, saying that the administration is still analyzing whether new oil exploration contracts are needed.

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The peso's slide beyond 5,000 per dollar is reining in the government's more radical ideas, according to Gonzalez, who now heads Bogota-based energy think tank Regional Center for Energy Studies.

Gonzalez participated in "Colombia Market Talk" carried out Nov. 9 at Bloomberg's Bogota office. The other attendee was:

- Daniel Guardiola, head of Colombia strategy and Oil & Gas LatAm, BTG Pactual

The Petro administration has been clear that it will ban fracking, but beyond that its energy policy remains unclear, Guardiola said.

Oil accounts for about 40% of exports, 15% of fiscal revenue and 30% of foreign direct investment, he estimates.

Oil Dependence

Petro's move to raise levies on companies that produce fossil fuels ironically left Colombia even more dependent on oil and coal, Gonzalez said. About half of the 20 trillion pesos from the recently-approved tax reform is set to come from those industries, he added.

The reform no longer allows royalty payments to be deductible from the corporate tax and introduced a surcharge on oil and coal exports.

It's also unclear what Petro's approach will be toward natural gas. Some forecasts indicate that by 2030 Colombia will have to import around 40% of the gas it needs to satisfy internal demand, Gonzalez said. That wouldn't make sense from an environmental perspective, he said.

"If we import, that is gas that does not pay taxes, does not pay royalties," Gonzalez said. "And if we end up buying from the US, it may come from fracking."

Clear Signals

While many people have focused on the awarding or not of new oil and gas exploration contracts, the main message investors want to hear from Petro himself is that there will be no barriers for around 120 existing exploration contracts, says Guardiola.

Environmental licenses and consultation with communities are some of the greatest bottlenecks in the industry, he said.

With the price of crude having risen above $100 this year, Colombia could have enjoyed an oil bonanza, but instead this is being blown on fuel subsidies, said Guardiola.

Through October, the subsidy has cost the nation 30 trillion pesos ($6 billion) and is causing it to run up huge debts with state oil company Ecopetrol SA.

Those debts with Ecopetrol are leading investors to "shrug off" the company's strong operating results since they aren't being translated into free cash flow for shareholders, Guardiola says.

Yields on Ecopetrol's bonds have risen relative to those of Brazil state-run oil producer Petrobras. This is an indication of investor nerves, since Colombia has a better credit rating than Brazil's, and the Andean nation has less of a tradition of political interference in the state oil company, he said.

After the approval of the tax bill this month, investor's attention will now focus on whether the government continues to phase out expensive fuel subsidies, Gonzalez says. The Petro administration for now has announced a 200 peso monthly increase in gasoline prices in the fourth quarter.

The fact the new government decided to begin increasing gasoline prices for the first time this year sent a positive signal to the market, says Guardiola. He also pointed to the election of Ecopetrol's board and the backing of it's CEO Felipe Bayon as a welcome development.

--With assistance from Maria Elena Vizcaino.

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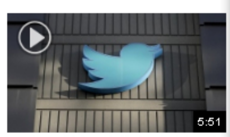

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