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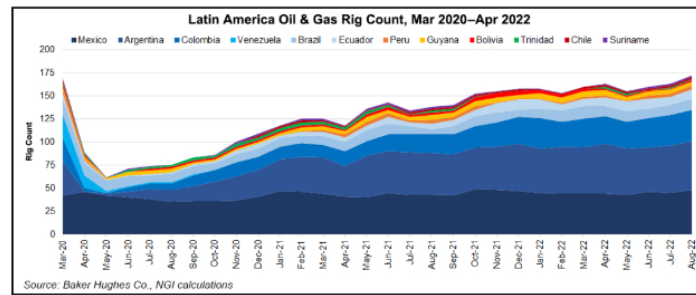
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Latin American National Oil Companies Booming, but Stymied by Politics

BY CHRISTOPHER LENTON
September 6, 2022

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National oil companies (NOCs) in Latin America enjoyed record profits in the second quarter on the back of high oil and gas prices, but they remain under pressure from governments facing economic crises.



The high oil and gas price environment “has come with a downside which is that in the domestic market, it is very hard to increase domestic pricing for fuels,” energy expert Francisco Monaldi of Rice University’s Baker Institute told *NGI’s Mexico GPI*. “Most governments press national oil companies and sometimes private companies to keep prices low. That’s an issue in Brazil, Colombia, Venezuela and Mexico.”

Politics impacts the performance of NOCs in other ways, too. In the case of Colombia, recently elected President Gustavo Petro has said **he wants to transform** NOC **Ecopetrol** SA into a wind and solar company.

Ecopetrol's net profit in the second quarter was a record 10.5 trillion pesos (\$2.4 billion), versus 3.7 trillion pesos in the year-earlier period. Production rose 6.6% to 704,600 boe/d, up from 660,900 boe/d in the second quarter of 2021.

But since Petro's win in June, **Ecopetrol** has faced a squabble over the composition of its board members. Petro has also imposed a higher tax rate on upstream firms, and has scrapped new oil and gas rounds. New Minister of Mines and Energy Irene Velez is seen as anti-oil and gas.

“The worry is that **Ecopetrol**, which was one of the best-run NOCs in Latin America, is going to suffer under the new administration,” Monaldi said. He said the biggest concern is that Petro doesn’t “respect the autonomy” of the firm.

Petrobras Braces For October

Brazilian oil giant Petróleo Brasileiro (Petrobras) **reported net income** in 2Q2022 of \$11 billion (\$1.39/share), compared to \$8.1 billion in the year-ago quarter (\$1.18). The company also announced a record dividend payout to shareholders totaling \$17 billion.

Production slipped in the quarter to 2.45 million boe/d, compared to 2.9

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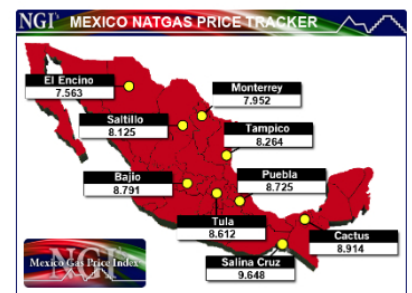
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Production slipped in the quarter to 2.05 million boe/d, compared to 2.0 million boe/d in the year-ago quarter. Offshore pre-salt production accounted for 1.94 million boe/d of this figure, or 73%.

But Brazil faces a presidential election in October. Ex-president and leftist Luiz Inácio Lula da Silva is currently leading the polls against outgoing Jair Bolsonaro.

“Overall, Brazil is a country where the policy changes in oil and gas aren’t dramatic,” Monaldi said. “And Lula is actually pro-oil development, he’s just a statist compared to Bolsonaro. But Lula would never get rid of oil rounds, for example.”

If Bolsonaro were to win, analysts have suggested he might push for the privatization of Petrobras.

In an earnings call, Petrobras Director of Institutional Relations and Sustainability, Rafael Chaves said “Brent can be volatile, local exchange rates can be volatile, but our business plan is consistent and stable.” He said the focus continues to be on “low carbon, high energy assumptions. We operate with efficiency in our projects and low greenhouse gas emissions.”

Argentina Bets On Shale

Argentine national oil company YPF SA **remains focused** on developing the Vaca Muerta Shale formation.

CFO Alejandro Lew said in a second quarter conference call that “both shale oil and shale gas continue showing remarkable growth compared to the previous year, while also marking fresh new quarterly production records.”

Annual hydrocarbon production is now expected to grow by 9% for the full year versus 2021, “which would mean the largest organic growth in the last 25 years,” the company said.

Second-quarter production averaged 504,000 boe/d, up 9% from 2Q2021. Oil and natural gas production rose by 7% and 10%, respectively, versus the year-ago period. YPF reported net income of \$798 million (\$2.01/share) during the second quarter, compared with a loss of \$492 million (minus \$1.22) in the same period a year ago.

In Argentina, “the high price environment is offering opportunities to develop Vaca Muerta,” Monaldi said. The country however still lacks “the proper infrastructure” and there are questions around the “permanent economic instability,” which makes it hard for operators.

Mexico Focuses On Downstream

Mexico’s Petróleos Mexicanos (Pemex) had a **good second quarter, too**. Natural gas production was up 5.3% year/year to 3.852 Bcf/d in 2Q2022. Overall oil production was 1.756 million b/d in 2Q2022, up year/year by 20,000 b/d.

Executives said the company didn’t need government help for debt payments in 2Q2022 but “this is something that is dynamic and could vary this year.”

Fueled by high oil prices, Pemex reported 2Q2022 net income of 131 billion pesos, or around \$6.5 billion, up year/year from a \$720 million profit. The company **also posted net income** of \$6 billion in 1Q2022.

Realized oil prices were up 60% year/year and averaged \$105.34/bbl in 2Q2022. Mexico subsidizes energy consumed by end users, and market participants including Pemex can recover the differential between the international price and the commercialized price, executives said.

Pemex, however, has bet heavily on the downstream during the administration of Andrés Manuel López Obrador. The company purchased a 50.005% **stake in the Deer Park**, TX, oil refinery for \$596 million. It also

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built a new 340,000 b/d refinery in Dos Bocas, Tabasco.

The refining business will mean huge losses for the state firm, **analysts have said.**

“Deer Park looks pretty nice as a hedge for Pemex,” Monaldi said. However, “the cost of Dos Bocas will be fifteen times as much as what they paid for Deer Park. They could buy all the refinery capacity in the Gulf Coast at the cost of Dos Bocas.”

Pemex crude oil processing in its refineries was 796,000 b/d in 2Q2022, compared to 666,000 b/d in 2Q2021 – an improvement of about 20%.

Change In Venezuela?

In Venezuela, state oil firm Venezuela has **seen a degree of opening** recently as some sanctions are lifted against NOC PDVSA.

“In PDVSA, there is the hope that there is more flexibility in the sanctions regime allowing partners like Chevron to invest more. That will eventually happen,” Monaldi said.

Monaldi suggested PDVSA could add 200,000-250,000 b/d in additional production in the next two years “at the most.”

But, “if things change politically, some investment might happen because of the attractiveness of the resource base, which is unparalleled in the region.”

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