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Inter-American Dialogue's Latin American Energy Advisor

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Q and A: Will Petroperú Take on a Bigger Role in the Oil Sector?

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In recent months, Peruvian state-run oil company Petroperú has made moves to resume oil production and form new partnerships and announced plans to sell as much as 20 percent of its shares on the Lima stock exchange in April to raise capital. The company has said that it aims to emulate Colombia's Ecopetrol and Brazil's Petrobras as it expands to "increase energy security" in Peru. Will Petroperú be successful in its bid to take on a more prominent role in Peru? Are its recently announced alliances with PDVSA and Petrobras a good idea? What will Petroperú's increased role in the oil sector mean for private companies and social groups that have tended to oppose natural resource projects?

A: Eleodoro Mayorga Alba, partner at L&Q Consultores y Abogados and former general manager of Petroperú:

"Peru's energy infrastructure is under substantial stress. Capacity for supplying oil products, gas and electricity is not sufficient to cope with the growing demand. Now more than ever, current operators are expected to invest in projects that are already developed and financed. Efforts to strengthen Petroperú will pay off in the medium term. Starting with the modernization of its Talara Refinery, Petroperú is asked to become a key player in other projects pivotally essential for sustaining Peru's economy: (i) the Southern Gas Pipeline, including an Ethylene Petrochemical Complex, and (ii) heavy crude exploitation, part of the plan to return to the upstream. Moreover, Petroperú should preserve its position downstream where facilities need to be upgraded to international standards. Humberto Campodónico, Petroperú's executive chairman, has optimistically embraced these projects, which the staff has desired for many years. He has also announced projects of a populist nature (reducing the price of LPG bottles and 'virtual gas' systems to delivering Camisea gas to the southern region). The government has so far shown a favorable political backing. Petroperú needs a well-thought out strategic plan integrating an agreement with the ministry of economy, defining investments required and measurable benefits. As was the case of Ecopetrol and Petrobras, the plan comprises selling shares to ensure a minority but important private participation. To prioritize such a plan, the company should get the right political and technical guidance. A major restriction is its outdated organization and a lack of qualified staff. The agreement signed with PDVSA could only be considered a token gesture; as have proven agreements PDVSA signed with other NOCs. A decade ago, PDVSA lost its technical capacity and has little to offer to Petroperú at this point in time. During the last six months, the press has released notes pointing into several directions but concrete progress has

not yet been achieved. Further delays could open the door to social conflicts that could jeopardize the plan's design and implementation."

A: César Gutiérrez, director of utilitiesperu.com and former president of Petroperú:

"While the press has been widely reporting the announcements, the alliances are not a new issue. Petroperú has been practicing this since August 2006, when then President Alan García signed an agreement with Brazil's Petrobras at the Government Palace. These accords resulted in specific ventures, such as the decision to take 6 million hectares of the Amazon for exploratory purposes, which Ecopetrol joined several months later. Until 2008, Petroperú took other exploration lots in the area of Lake Titicaca, in joint management with China's state-owned CNPC, Argentina's Pluspetrol and India's Reliance. But these weren't the only agreements signed between 2006 and 2008. Petroperú also worked together with France's Suez Energy on the development of a pipeline to the south. Unfortunately, under the last three years of García's government, these initiatives were progressively phased out, falling into oblivion. Now, they have revived the intentions, but with a difference; the exploration areas are unattractive, there is no guaranteed demand for a pipeline to the south and it is not the best moment for petrochemicals. The only thing new is the MOU with Venezuela's PDVSA, which, in my opinion, will merely be an empty announcement."

A: Carlos Paredes, director of Inteligencia Financiera in Peru:

"I do not think Petroperú will be successful in taking on a more prominent role. This could only be achieved with significant financing, which is currently non-existent. Indeed, Petroperú's profits barely surpass \$100 million per year, but it announced investments that amount to \$3.5-4 billion over the next five years. Simply put, it is not possible to finance such an ambitious investment program. Most probably, most of its investment effort will be confined to overhauling the Talara Refinery complex. From a purely technical point of view, it is hard to understand why Petroperú would want to have anything to do with PDVSA. PDVSA used to be a leading oil company in the region, with highly trained and experienced personnel. After Chávez, it has become a decadent and corrupt public company. For the time being, it is not in Peru's best interest to have any type of association with such a company (of course, if they are willing to sell us oil at a subsidized price, we would welcome such an initiative). Clearly, an alliance with Petrobras could prove more productive. In practice, I do not foresee a much larger or active role for Petroperú in the following years. They have made announcements that will prove to be only that: announcements. Petroperú does not have the required funding nor expertise to seriously enter into the oil production business nor into petrochemicals. If the government decides to back such announcements with significant fiscal resources, it would have to do so at the expense of its social programs. Therefore, I do not think that it will do that, even less in such a difficult and uncertain international financial environment."

A: Carla Silva Cohen, senior research analyst at IHS CERA:

"Petroperú's success in E&P activity will depend on the measures it takes to secure financing and on the way it gets access to the required technical and operational capability. The sale of 20 percent of Petroperú's stock is a crucial step to raise the needed resources. Potential challenges to

this sale may include opposition from President Humala's left-wing supporters who could claim against a higher share of private capital in the state-run company—and foreign investors' reduced appetite for this transaction caused by a continued bleak economic outlook in the international arena. Petroperú's association with Petrobras is a good step to increase operational and technical expertise in developing fields in environmentally and geographically complex areas like the Amazon region. Another alternative would be to promote partnerships with private companies, particularly with those already operating in Peru such as Pluspetrol and Repsol. For Petroperú, establishing partnerships with private operators would be a good way to share investment costs and risks and increase its capabilities in the upstream. It would also be another positive sign to investors that the country is committed to a business-friendly environment. For private companies, this would mean the continuity of operations in a country with promising resources. The example of Ecopetrol shows that it is a possible approach. However, Petroperú will be on a fine line because the burden of taking too many responsibilities may be unbearable, particular if the international economy enters into recession.”

The Energy Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.