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FEATURED Q&A

Will Venezuela's Opposition Lose Control of Citgo?

U.S.-based refiner Citgo is one of Venezuela's most valuable foreign assets. // File Photo: Venezuelan Government.

Q **A U.S. district judge in New York this month ruled that holders of Venezuelan state oil company PDVSA's 2020 bonds have valid claims over the firm's U.S. based refiner, Citgo, a decision that puts the Venezuelan opposition's control over the country's most valuable foreign asset at risk, analysts say. The ruling came weeks after the U.S. Treasury Department extended a measure blocking bondholders from seizing shares in Citgo's parent company through Jan. 19, one day before the U.S. presidential inauguration. To what extent does the latest ruling threaten the opposition's control over Citgo? How might political factors, including Venezuela's December legislative elections and the U.S. presidential vote, play a role in who manages Citgo in the near future? Are the issues likely to be resolved soon, or will Citgo's future continue to be in a legal limbo?**

A **Francisco Monaldi, fellow in Latin America energy policy at Rice University's Baker Institute and lecturer in energy economics at the Center of Energy Studies:** "Despite the court decisions, the U.S. government signaled a strong commitment to protect Citgo in both the Crystallex and PDVSA 2020 legal cases, which indicates that the U.S. government is likely to continue to renew the measure blocking the asset seizure. It makes political and strategic sense. If Citgo is lost, Maduro would obtain a political victory, despite being squarely responsible for the difficult situation that the company is in. It would be a political setback for the U.S. administration, reversing one of the few tangible results of the sanctions to Venezuela and the policy of recognizing Guaidó. Moreover, selling Citgo today would be fi-

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TOP NEWS

OIL & GAS

Argentina Unveils Plan to Boost Gas Production

The Argentine government unveiled a plan seeking to boost natural gas production to replace imports, saving approximately $5.6 billion while creating jobs and reversing gas output declines.

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OIL & GAS

Petrobras' Oil & Gas Output Up 9% Since January

The Brazilian state oil company said oil and gas production has grown 9 percent in the first nine months of the year, with production in the pre-salt area up by 32 percent.

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RENEWABLES

Chile Launches Long-Term Green Hydrogen Strategy

Chile launched a long-term green hydrogen strategy, with the country aiming to produce 25 million tons per year of green hydrogen and earn $30 billion per year from liquefied exports by 2030, said Energy Minister Juan Carlos Jobet.

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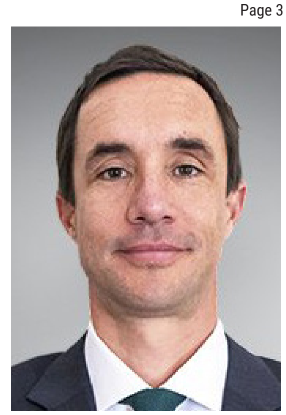

Jobet // File Photo: Chilean Government.

OIL AND GAS NEWS

Argentina Launches New Plan to Boost Natural Gas Output

Argentina last week unveiled a new plan seeking to boost natural gas production to replace imports, saving approximately $5.6 billion, according to the government, while creating new jobs and reversing months-long declines in natural gas output, Reuters reported. The South American nation's plan is aimed at attracting some $5 billion in investment from energy firms to increase hydrocarbon production and generate jobs in the massive Vaca Muerta shale oil and gas formation, as well as to bring much-needed foreign currency into the country. Additionally, the government said it expects to increase tax collection by some $2.5 billion under the plan. The stimulus plan means "working to guarantee the gas that Argentina needs to live and to produce, and stop the thinking that we have to import gas," Argentine President Alberto Fernández said last week during an event at Vaca Muerta, in Neuquén province. Energy experts including former Energy Minister Juan José Aranguren recently warned that Argentina may struggle with natural gas shortages during the Southern Hemisphere winter next year if natural gas production continues to decline this year, Argus Media reported. If that's the case, Argentina might have to resort to boosting natural gas imports, Aranguren said, a move that the country had scaled back in recent years. However, over the past year, international companies have slowed investments in Vaca Muerta, citing uncertainties in the energy sector and a dwindling economy, which is expected to contract 12 percent this year, Reuters reported. However, Argus Media reported earlier last week that oil major Shell is considering launching a second development in the area. Sean Rooney, who runs the company's operations in Argentina, said during an online conference hosted by local newspaper Diario Río Negro that Shell is "about to make a decision" regarding the construction of a new plant for the Bajada de Añelo unconventional block next year. Shell is already producing approximately 13,000 barrels of oil equivalent per day (boepd) from its first development on three adjacent blocks in Vaca Muerta. Meanwhile, Argentine state-backed oil company YPF, the country's largest oil and gas producer, is planning to boost crude exports to 100,000 barrels per day over the next few years before gradually developing natural gas resources for export growth in the future, Argus Media reported. "We want to begin to build a production base—approximately 50,000 boepd—that will allow us in the next three to four years to consistently export some 100,000 or 150,000 barrels of oil per day," Pablo Luliano, YPF's unconventional upstream vice president, said at the same conference. However, experts noted that oil from Vaca Muerta remains a better option than natural gas to export at the moment. "Oil is easier to develop and the international market is easier to access," Shell's Rooney said. "To develop the gas potential of Vaca Muerta, you need big markets and big plants," he added.

The stimulus plan seeks to attract some $5 billion in investment to increase hydrocarbon production.

Petrobras' Oil & Gas Output in Brazil Up 9 Percent This Year

Brazilian state oil company Petrobras' oil and gas production in Brazil grew 9 percent in the first nine months of the year, with production in the pre-salt area up by 32 percent, the company said Tuesday. However, other areas, including post-salt, shallow waters and onshore fields, saw a contraction in output. In the statement, Petrobras said it expects average production this year to reach 2.84 million barrels of oil equivalent per day, of which 2.28 million barrels per day would be of oil.

NEWS BRIEFS

Petrobras Expects to Sign Just One Refinery Sale Deal by December: Source

Brazilian state oil company Petrobras expects to sign only one refinery sale agreement by the end of the year, well below its initial goal of five, Argus Media reported last Friday, citing a senior company executive. The delay is due to scheduling problems brought by the Covid-19 pandemic as well as oil market volatility and a court challenge that was recently decided in the company's favor. The expected sale, of the 333,000 barrel-per-day Landulpho Alves refinery, is likely to be finalized by December, the source said.

Peru's Renewable Energy Generation Up 11 Percent in September: Report

Peru's renewable sources, excluding hydropower, generated 295 gigawatt-hours of electricity last month, up 11 percent year-on-year, Peru's energy ministry said in its latest power sector report, Renewables Now reported last week. In September, renewable power plants' share in total national production increased slightly to 6.6 percent from the 6.4 percent registered in August. Energy from wind saw the largest jump in September, growing 17 percent year-on-year..

Brazil's BNDES Approves $4 Million Loan for Biogas Project in Paraná State

Brazilian development bank BNDES has approved a loan of 21.9 million reais, or $3.9 million, to help finance the expansion of a biogas plant, which local company Geo Elétrica Tamboara is to carry out, BNDES announced Monday, Renewables Now reported. The funding will go toward the installation of four new biodigesters, which is expected to increase the plant's generation capacity by 123 percent, with annual output expected to increase 59.85 gigawatt-hours in 2022.

RENEWABLES NEWS

Chile Unveils New Long-Term Green Hydrogen Strategy

Chile last week launched a long-term green hydrogen strategy in a bid to exploit the Andean nation's surplus renewable energy capacity, diversify its economy and meet emission reduction commitments, Argus Media reported. Energy Minister Juan Carlos Jobet said Chile could produce 25 million tons per year of green hydrogen and earn $30 billion per year from liquefied exports by 2050, according to a McKinsey consultancy study. Moreover, the move could help the Andean nation capture 50 percent of Japanese and South Korean markets and 20 percent of the Chinese market, according to the study. Last year, Chile generated 44 percent of its electricity from renewable sources, and it is aiming to reach 70 percent by 2030. "We have 70 times more renewable energy generating capacity than we currently consume, so we have to find ways to take advantage of that potential, not only to improve our quality of life, but also to export this to the world, to generate income and contribute to the goal of carbon neutrality," Jobet said, Argus Media reported. In an interview published in Expansión earlier this month, Jobet said Chile had "tremendous competitive advantages" to become a global leader of green hydrogen production and exports. In turn, this would help Chile generate new jobs and decarbonize sectors of the economy in which electricity is not currently competitive, such as heavy transportation, storage and urban gas networks, among others, Jobet added. Jobet said there are already 20 pilot projects on the drawing board in the Andean nation, including a green methanol and gasoline initiative based on a 30-megawatt wind farm in the Magallanes region, Argus Media reported. Other companies such as France's Engie and Chilean explosives manufacturer Enaex are working on joint green ammonia pilot projects. Last week, Enel Green Power announced its first green hydrogen project in the Andean nation, in collaboration with

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nancially disastrous as, due to Covid-19, U.S. refineries are valued at a low level. If Trump remains in the White House, the policy is unlikely to change during his second term. If Biden wins, there is also a significant chance that the policy will remain in place. Perhaps the U.S. Treasury would take a more active role in pushing the PDVSA 2020 parties to negotiate, but allowing the seizure would be an unforced error that a Biden administration would not be likely to make. Even though the end of the National Assembly term in early 2021 further complicates the picture, the U.S. government and its allies would not recognize a new illegitimate National Assembly, so it is expected that the Guaidó team would continue to control Citgo in the foreseeable future. Unfortunately, in the long run, preserving Citgo will be tough, because Venezuela owes more than $100 billion and generates less than $5 billion a year. However, any sale should occur as part of an overall process of debt restructuring, at the appropriate moment. If possible, it would be strategic to preserve some refining capacity in the U.S. Gulf to guarantee a market for Venezuela's extra heavy crude."

A **Frank L. Holder, co-chair, global, and regional head of Latin America at Berkeley Research Group:** "At this point, Citgo's existence is heavily compromised by the arbitration awards of ConocoPhillips and Crystallex, as well as by the nature of how the PDVSA bonds were structured in case of default. Citgo's current leadership and asset structure have been maintained only through the executive actions that the Trump administration has taken as part of its U.S. foreign policy response to the Venezuelan crisis, and also as an attempt to mitigate the potential threat to national security of Russian actors (Rosneft) gaining a controlling stake in the company without the currently enacted legal protections. The recent New York district court decisions related to the PDVSA 2020 bonds imperils the situation even more, and it doesn't look like any solution is near at hand. The loss of Citgo would represent a permanent severance of Venezuela's hydrocarbon distribution structure with its historical largest market and a loss of the most strategic asset held by the opposition in its power struggle against Maduro This new extension prolongs the duration of Citgo's legal limbo beyond the U.S. elections. Depending on who wins, there are two possible scenarios. In one, Trump chooses to strengthen his unilateral measures against Maduro, and in the other, Biden shows more flexibility with sanctions and less support for the special protections granted to the opposition. Venezuela's legislative elections will also likely usher in changes to its leadership, although in any case their interest in protecting Citgo should remain the same. Next year holds Citgo's fate, and the U.S. election is the key."

> "Next year holds Citgo's fate, and the U.S. election is the key."
> — Frank L. Holder

A **Francisco Rodríguez, director and founder of the Oil for Venezuela Foundation:** "The Guaidó administration unsuccessfully tried to argue that the National Assembly had not authorized the PDVSA bonds. This was a contentious claim given that the country's legislature has never in its history been asked to authorize a PDVSA debt issuance. The obligation is still unenforceable while the United States maintains a ban on asset seizures. Whether it does so will depend on how authorities balance the protection of property rights against the policy interest of supporting Guaidó. Even if the asset seizure ban is lifted, this does not mean Citgo is lost. Only $3 billion in Venezuelan debts

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Chile's AME, Siemens Energy and Porsche, GN Diario reported. [Editor's note: See related **Q&A** in the March 13 issue of the Energy Advisor.]

Mexico's Economy Secretary Downplays Lithium Deposits

Mexican Economy Secretary Graciela Márquez last week downplayed the lithium reserves in the country, saying that the deposits in Sonora state are not as significant as has been touted, Frontera reported. Instead, she said much of the deposit is actually clay and that the process of extracting the metal would be inefficient and costly. The government was previously considering the nationalization of these lithium deposits. Lithium is a key element in the production of batteries that are needed for the deployment of electric vehicles. [Editor's note: See related **Q&A** in the July 17 issue of the Energy Advisor.]

POLITICAL NEWS

Mesa Concedes Defeat in Bolivia Presidential Election

Former Bolivian President Carlos Mesa on Monday conceded defeat in the country's presidential election, acknowledging that Luis Arce, the handpicked candidate of former President Evo Morales, had won Sunday's vote, The Wall Street Journal reported. Quick counts that polling firms conducted showed that Arce, of Morales' Movement Toward Socialism, or MAS, party, had won the race. "The results from the quick count are overwhelming and very clear," said Mesa, who exit polls showed came in a distant second. "The difference between the first candidate and us, Citizens Community, is ample." Although the official results may not be available for days, Mesa said they will not change the outcome. "It's a result that we accept and it's a result that we believe,

ADVISOR Q&A

How Can the Blue Economy Help the Caribbean Recover?

Q The Caribbean is better positioned than any other region in the world to take advantage of the "blue economy," Valerie Hickey, a practice manager at the World Bank, said this month. The blue economy, which the multilateral lender describes as the sustainable use of ocean resources for economic growth, improved livelihoods and jobs, has only now begun to take hold among countries in the region, she added. What opportunities would a focus on the blue economy bring to the Caribbean, and what are some possible obstacles standing in the way? What else can Caribbean nations do to snap back from recession, both individually and as a region, and what tools are at their disposal to finance their recoveries? How can the region's countries diversify their economies, and which sectors should they invest in to become more resilient to external factors?

A Ronald Sanders, ambassador of Antigua and Barbuda to the United States and the Organization of American States: "For Caribbean countries to take advantage of the 'blue economy,' the sea making up their exclusive economic zone (EEZ) has to be mapped to determine the resources it has, including minerals. Caribbean countries must also complete maritime boundaries to avoid future conflicts and, at least, preliminary resource-sharing agreements should be reached where resources could overlap. Without knowing what their EEZs have, Caribbean countries cannot seek private-sector partners, whose capital and know-how will be needed. Investors would also be reluctant to invest without clear boundaries. Mapping requires money beyond the region's capacity. External resources will be necessary. The Caribbean now derives limited benefit from the 'blue economy,' particularly in cruise tourism and fisheries. Unequal contracts with major cruise lines, together with rivalry among Caribbean countries, result in the greatest benefits going to the cruise companies. Regarding fisheries, foreign vessels swallow fish from Caribbean waters with impunity. Regional countries lack the power to stop them. The disadvantages in these two areas must be reversed for real benefits to flow to regional states. Caribbean countries should act collectively. Current declines in Caribbean economies, especially the decimation of tourism earnings, is a consequence of the imported effects of the Covid-19 pandemic. Most Caribbean countries have managed the virus effectively with low death rates and moderate numbers of infected persons. Covid-19 is yet another exogenous shock to the region over which it has no control, and there has been a poor response from the international financial institutions and official lenders, such as the Paris Club. Economic diversification and resilience will be prolonged over decades, unless the international community accepts the harmful effects of many of their policies on the region, including barring many regional nations from concessional finance."

> **"Mapping requires money beyond the region's capacity."**
> **— Ronald Sanders**

EDITOR'S NOTE: More commentary on this topic appears in Monday's issue of the daily Latin America Advisor.

NEWS BRIEFS

Stranded Venezuelan Oil Tanker Tilting, Raising Fears of Major Spill

New photos show a Venezuelan oil tanker that has been stranded for almost two years in the Gulf of Paria, between Venezuela and Trinidad and Tobago, tilting heavily to one side, prompting concerns of a potential environmental disaster, CBS News reported Thursday. The vessel, part of a joint venture between Venezuelan state oil firm PDVSA and Italy's Eni, is carrying about 80 million gallons of oil. Eni said it is looking to offload crude oil from the vessel but still needs the "green light" from the U.S. government, "in order to prevent any sanctions risk."

Brazil's Bolsonaro Rejects Purchase of Potential Chinese Covid Vaccine

Brazilian President Jair Bolsonaro on Wednesday rejected the purchase of 46 million doses of a potential Covid-19 vaccine that is being developed by a Chinese company and tested in São Paulo state, saying Brazilians will not be "anyone's guinea pig," the Associated Press reported. Health Minister Eduardo Pazuello on Tuesday had announced the purchase of the potential vaccine alongside São Paulo Gov. João Doria, one of Bolsonaro's political rivals. Bolsonaro's comments sparked questions as to whether he is making public health decisions based on politics.

IDB Chief Reportedly Taps Citi's Honduras CEO for Executive Vice President

The Inter-American Development Bank's new president, Mauricio Claver-Carone, has nominated Reina Irene Mejía, the chief executive of Citi Honduras, as the institution's executive vice president, Reuters reported. If confirmed, Mejía would be the highest-ranking Latin American woman ever at the IDB.

because of the difference between the first and second [finishers], will not be modified when we know the final results." Mesa's concession followed a statement early Monday morning by conservative interim President Jeanine Áñez, who tweeted congratulations to Arce. Áñez withdrew last month from the race, saying she wanted to help unite opposition against the MAS candidate. Arce, a former economy minister under Morales, won more than 50 percent of the vote, according to exit polls, while Mesa garnered around 30 percent, Reuters reported. [Editor's note: See related **Q&A** in Tuesday's issue of the daily Latin America Advisor.]

Thousands Protest Duque's Government in Plaza Bolívar

Thousands of protesters, including Indigenous leaders, as well as students and union members, filled Bogotá's central square on Wednesday to air grievances about President Iván Duque's handling of issues such as the coronavirus pandemic and his government's implementation of the peace accord with the FARC rebels, the Associated Press reported. Demonstrators gathered in Plaza Bolívar, carrying banners and waving flags, a year after massive protests in the Andean nation. "We're asking for no more massacres against our Indigenous leaders," Harold Arias, 32, told Reuters. "We're not scared of coronavirus. We're scared of going back to our territories without getting a dialogue with the president." Protest organizers have demanded to meet with Duque to discuss the murders of activists, whose deaths the government has blamed on leftist rebels and criminal gangs, Reuters reported. "We march jointly today for the negotiation of an emergency petition, which will include health, life, farmer production, the rights of women [and] of vulnerable populations," union leader Diógenes Orjuela told Reuters on Tuesday. Approximately 10,000 Indigenous people, mainly from southwestern Colombia, have gathered this week in Bogotá. The crowds in the Colombian capital could be "tomorrow's outbreaks" of Covid-19, Duque said Tuesday in his nightly television broadcast. Business leaders have also called for a halt in the protests over concerns they could hamper Colombia's fledgling economic recovery. The government estimates that the economy could contract by 5.5 percent this year. Protesters who have traveled this week to Bogotá also want to meet with Duque to discuss setbacks in the government's implementation of the peace accord with the FARC, the Associated Press reported. Duque and his allies have been critical of the accord, which they say is too lenient with former rebels. The deal was negotiated by the government of Duque's predecessor as president, Juan Manuel Santos. Critics say Duque's government has hindered the accord's implementation, leading to more violence in areas still beset by drug trafficking.

ECONOMIC NEWS

Brazil, U.S. Reach Agreement on Limited Trade Deal

Brazil and the United States have reached an agreement on a limited pact that is expected to ease trade barriers, strengthen regulatory practices and fight corruption, officials from the two countries said Monday, The New York Times reported. After seven months of negotiations, however, it is unclear to what extent the new deal will actually increase trade between the hemisphere's two largest economies, given its limited scope. During an event hosted by the U.S. Chamber of Commerce, Brazilian President Jair Bolsonaro on Monday said the agreement would begin a "new chapter" in U.S.-Brazil relations, adding that negotiators had completed talks "in record time." He also said the deal would "slash red tape and bring about even more growth to our bilateral trade." Brazil was the United States' eleventh-largest trading partner in goods in 2018. That same year, the United States exported $67.8 billion of goods and services to the South American nation, and it imported $37.2 billion of goods including fuel, steel and aircraft, The New York Times reported. [Editor's note: See related **Q&A** in the June 15 issue of the daily Advisor.]

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currently give rise to direct claims on Citgo. This amount is within most estimates of the value of Venezuela's offshore assets that the Guaidó administration has legal control over (provided OFAC authorization). Part of these obligations can likely be refinanced once the Guaidó administration accepts their validity. Secured obligations must be distinguished from the broader set of unsecured claims ($163 billion), most of which need not give rise to claims on Citgo, provided that PDVSA is kept sufficiently independent from political interference. The Guaidó administration unnecessarily antagonized creditors by claiming that they had illegally connived with Maduro to enter into fraudulent transactions. The adversarial approach to debt was born out of a misguided idea that capital markets were to blame for keeping Maduro in power. However, almost all of Venezuela's outstanding debt was issued by governments whose democratic legitimacy was not in question at the time of issuance. Venezuela's opposition must embark on a deep rethink of its view with respect to capital markets. It should view financial markets as an ally, not an adversary, in the reconstruction of Venezuela."

"The Guaidó administration unnecessarily antagonized creditors by claiming that they had illegally connived with Maduro..."

— Francisco Rodríguez

A **Fabiana Perera, adjunct instructor at Georgetown University:** "Given the deteriorated state of Venezuela's domestic oil production infrastructure, Citgo is the country's most valuable asset. Venezuela's oil exports for 2020 are estimated at just around $2.3 billion (down from a high of around $90 billion in the late 1990s.) Citgo, of which Venezuela is the majority stakeholder, is worth about five times that. Presently, Juan Guaidó and the Venezuelan opposition, whom the United States recognizes as Venezuela's legitimate government, control Citgo. Maduro, whose claim to the Venezuelan presidency is based on a fraudulent 2018 election, has called for presidential and legislative elections to take place Dec. 6. There is already wide suspicion of fraud. Whether or not the election is held, Guaidó's term in the national legislature expires soon. Without a seat in the legislature (or with a legislature controlled by Maduro allies), Guaidó, the Venezuelan opposition and his supporters (including the United States) would have to find a way to maintain continuity of power in the absence of free and fair elections. The possible election in Venezuela matters to Citgo and to PDVSA's creditors, but ultimately who the United States recognizes as the legitimate leader of Venezuela matters more. The United States is under no obligation to accept the winner of a contested election. To keep Citgo out of the hands of Maduro, the United States need only to figure out who the democratic successor to Guaidó would be in the absence of a democratic electoral process. The election in the United States will have a smaller impact. Both candidates are interested in a Venezuela's democratic transition and both see economic pressure (including keeping Citgo's assets and revenue away from the regime) as at least part of the path to get there. Some analysts have predicted, however, that results of the U.S. presidential election might not be ready for weeks. If this is the case, it is possible that the Venezuelan elections would take place during a climate of uncertainty in the United States."

Editor's note: Fabiana Perera's commentary was submitted before the U.S. court ruling that PDVSA creditors' claims to seize Citgo shares are valid.

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

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