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FEATURED Q&A

How Do PDVSA's Legal Troubles Affect Venezuela?

Venezuelan state oil company PDVSA is involved in a series of legal cases in relation to the country's debt. President Nicolás Maduro (pictured) cut five zeros off the bolívar currency Aug. 20 as Venezuela grapples with a hyperinflation crisis. // File Photo: Venezuelan Government.

Q **A U.S. federal judge on Aug. 9 issued a ruling that authorizes the seizure of Citgo Petroleum, Venezuelan state oil company PDVSA's Houston-based refiner. Now-defunct Canadian gold miner Crystallex International, which filed the legal action against Citgo to collect a $1.4 billion compensation award to satisfy a Venezuelan government debt, will be able to control shares of Citgo's U.S.-based parent company. PDVSA has appealed the ruling. Soon after, Venezuela made a payment to U.S.-headquartered mining company Gold Reserve using $88.5 million worth of government bonds in order to partially satisfy a $1 billion settlement agreement. What can be expected from the Citgo case? What consequences would the legal decision have on PDVSA's financial struggles and Venezuela's economy at large? Is Maduro implementing the right measures to avoid economic collapse, and what else can be done to ensure PDVSA's recovery?**

A **Francisco J. Monaldi, fellow in Latin America energy policy and lecturer in energy economics in the Baker Institute for Public Policy at Rice University:** "The Crystallex ruling and the more recent announcement of a PDVSA agreement to pay ConocoPhillips $2 billion in exchange for a lifting of the injunctions on PDVSA's facilities in the Dutch Caribbean show how PDVSA and the Venezuelan government are increasingly facing the consequences of unpaid expropriations and debt default. These attempts at seizing assets and export flows could escalate as claimants and creditors try to move ahead of others in getting a piece of whatever is left. It could be a shark fest of litigation. There are many others with potential claims over Citgo

Continued on page 3

TOP NEWS

OIL & GAS

Central America's First LNG Plant to Operate Next Year

AES Corporation announced on Aug. 17 its inauguration of AES Colón in Panama, a power plant and the first liquefied natural gas (LNG) terminal in Central America. The LNG facility will begin operations next year.

Page 2

RENEWABLES

Ambev's Truck Fleet in Brazil Will Be 35% Electric

Brazilian beer maker Ambev will add 1,600 electric trucks to its fleet by 2023.

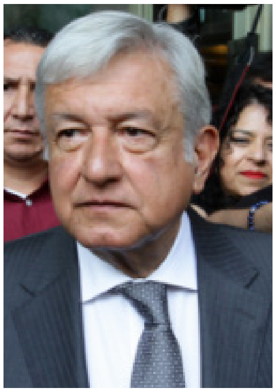
Page 4

OIL & GAS

López Obrador Will Reportedly Halt Oil Auctions for Two Years

Mexican President-elect Andrés Manuel López Obrador will pause the country's oil auctions and will seek to strengthen the role of state oil company Pemex, according to a newspaper report.

Page 2



López Obrador // File Photo: Notimex.

OIL AND GAS NEWS

López Obrador Will Halt Oil Auctions for Two Years: Report

Mexican President-elect Andrés Manuel López Obrador will halt oil auctions for at least two years and will move to amend existing laws to boost the role of state oil company Pemex, The Wall Street Journal reported Wednesday, citing two unnamed sources with knowledge of the matter. López Obrador does not plan to propose any constitutional reforms with regard to the 2013 opening of the country's energy sector, but will instead take advantage of his coalition's majority in Congress to modify the hydrocarbons law, the newspaper reported. The changes include allowing Pemex to select partners without the opinion of oil regulators, having the government grant Pemex new oil blocks directly and making Pemex the only seller of oil produced by private firms under production-sharing contracts. "If all of this is confirmed, it would send a signal that the continuity of the oil opening may be in doubt," Pablo Medina, an analyst at Welligence Energy Analytics, told The Wall Street Journal. The president-elect seeks to boost Pemex's role to reduce reliance on fuel imports from the United States while bolstering Mexico's oil production, which has significantly fallen off in recent years. Last week, López Obrador said his government will invest $2.6 billion in modernizing Pemex's existing refineries and an additional $8.4 billion in building a new plant in the next three years, Reuters reported. [Editor's note: See related **Q&A** in the Aug. 17 issue of the Energy Advisor.]

PDVSA to Pay $2 Bn to Settle Dispute With ConocoPhillips

U.S.-based energy company ConocoPhillips announced on Monday that Venezuelan state oil company PDVSA agreed to pay a $2 billion settlement agreement over nearly five years following a decade-long legal dispute, The New York Times reported. Conoco won an international arbitration ruling in April after Venezuela's nationalization of two Conoco projects without compensation in 2007, Reuters reported. But PDVSA did not pay in the weeks after the ruling, prompting Conoco to seize the state oil company's assets in the Dutch Caribbean in May, squeezing cash-strapped PDVSA's ability to export oil to the United States and Asia on top of U.S. economic sanctions. "What [Conoco] did was choke the exports and made it clear to PDVSA that the cost of not coming to an agreement would be higher than actually settling on a payment schedule," Francisco J. Monaldi, a Venezuelan energy expert at Rice University, told The New York Times. PDVSA's crude oil output has hit a six-decade low this year, pushing the country into an even deeper recession and a hyperinflation crisis, which in turn has caused Venezuela to fall behind on more than $6 billion in bond payments. Earlier this month, a U.S. federal judge issued a ruling that authorized now-defunct Canadian gold miner Crystallex to seize Citgo, PDVSA's Houston-based refining subsidiary, as compensation for a Venezuelan government debt, The Wall Street Journal reported. PDVSA appealed the ruling.

AES Launches the First LNG Terminal in Central America

U.S.-based power distribution company AES Corporation on Aug. 17 announced the inauguration of AES Colón in Panama, the first liquefied natural gas (LNG) terminal in Central America and a power plant with up to 381 MW in capacity, the company said in a statement. The plant and regasification terminal are scheduled to start commercial operations Sept. 1, while the LNG tank, which will be the largest in the Caribbean, will begin to operate in the second half of next year. "The inauguration of AES Colón is a significant step toward diversifying the energy mix in Central America and the Caribbean, introducing cleaner alternatives in

NEWS BRIEFS

Ecuador's Oil Ministry Delays Maintenance of Esmeraldas Refinery

Ecuador's oil ministry said Monday that it had postponed maintenance plans at its Esmeraldas refinery, originally scheduled to start in mid-August, because replacement pipes did not arrive on time, Reuters reported. The maintenance instead take place in March. State oil company Petroecuador "will provide technical support" for the plant, which refines some 110,000 barrels per day, to continue operating under the current conditions.

Brazilian Utility Light Considers Share Offering

Brazilian utility Light is considering a share offering to raise funds, according to a securities filing, Reuters reported Aug. 16. The electricity distributor also said it had a preliminary agreement with Brazilian private equity firm GP Investments to buy part of Light's shares, but did not provide details. Last month, Maurício Fernandes, chief executive of Companhia Energética de Minas Gerais, which holds a controlling stake in Light, told Reuters the company was looking at a strategic partnership to divest its shares in the utility.

Mexico's Competition Authority Fines Pemex Unit $22 Million

Mexico's Federal Commission for Economic Competition, the country's competition authority, said Tuesday it had fined a unit of state oil company Pemex for a one-year delay in presenting an annual report on antimonopoly measures, Reuters reported. Pemex's Industrial Transformation unit will have to pay $22.1 million for the late report, which Pemex had committed to in 2016 as part of Mexico's opening of the fuel market. [Editor's Note: See related **Q&A** in the Aug. 17 issue of the Energy Advisor.]

Panama and beyond," Andrés Gluski, president and chief executive of AES, said in the statement. The facility, which cost some $1.15 billion in investment, is initially expected to use 20 trillion British thermal units (TBTu) annually and produce approximately $140 million in U.S. gas exports, though it has the capacity to potentially quadruple that, the company said. Also on Aug. 17, Panama and the United States signed an agreement to promote the two countries' "cooperation on energy and infrastructure investment," marking the inauguration of the United States' "América Crece" initiative, the U.S. Embassy in Panama said in a statement. The nations agreed to work together on several energy-related issues, including increasing U.S. private sector capital for energy infrastructure in the Central American country, boosting its access to electricity grids and broadening Panama's role as an LNG hub in the region.

RENEWABLES NEWS

Colombia's Ecopetrol To Build its First Solar Energy Plant

Colombian state-owned oil firm Ecopetrol will begin building its first solar energy plant in the first quarter of next year, the company said Aug. 17 in a statement. The facility will be constructed in Castilla La Nueva in the central department of Meta, and will consist of a 18-hectare area with a capacity of between 10 MW and 15 MW, enough to supply roughly 6,000 homes. Ecopetrol's president, Felipe Bayón, said there is great potential for the project to generate some 140 MW of solar energy, El Tiempo reported. Once the plant is completed, it will generate enough power to offset some 14,000 metric tons of carbon dioxide emissions annually. "Large-scale solar projects marks a milestone in Ecopetrol's history, adding to other measures to have a more diversified and clean energy matrix, which contributes to the protection of the environment and guarantees the energy security of Colombia," Bayón said.

FEATURED Q&A / Continued from page 1

assets and income—including Citgo and PDVSA bondholders and creditors, Rosneft and ConocoPhillips, among others—and the value of Citgo is significantly higher than the Crystallex claim, so the judicial process would have to sort out that long line of claimants. It might take a while, but eventually PDVSA would lose control over Citgo. In the short run, that could affect the supply of diluents and products to PDVSA, hindering extra-heavy oil exports. In the long run, it is a significant strategic loss in the competition with Canadian crude for access to the U.S. Gulf Coast market. PDVSA is on a death spiral of declining production, cash-flow and investment; and these legal actions would only make it worse. There is no path to Venezuela's recovery without dealing with these issues. That would require a lifting of sanctions, a rescue package from the IMF and the international community, and a credible macro adjustment program. In other words, it requires a political transition."

A **Michael Lynch, president of Strategic Energy & Economic Research in Amherst, Mass.:** "The judicial authorization of the seizure of Citgo Petroleum as part of a settlement of a legal action against the government of Venezuela might mean little in the short term, as any action is delayed by appeals, but it adds another nail to the coffin of the administration of President Maduro. His inability to separate market forces from political struggle has reduced a mighty nation to the verge of collapse, and his authoritarian nature means that he has insulated himself from recognizing the true situation in the country. Printing money has created inflation, which cannot be ended by presidential fiat: manufacturers cannot produce goods if they are continually losing money, and stores cannot sell goods for less than they are paying. The high oil prices from 2003 to 2014 allowed the Chávez administration to paper over economic problems with first, oil revenue, and then oil-financed debt, but borrowing against future oil production is like eating your seed corn: you are starving the future to feed the present. As debt payments grow and productivity activity shrinks, a vicious cycle is entered that reduces the capital available for investment and thereby lowers future income, ensuring that debt will grow even more. Venezuela is close to the point where its lack of capital and high debt, including from judgments over the nationalization of foreign assets, will prevent it from engaging in foreign trade. Imports of parts and materials to sustain oil production should largely cease, and oil exports will be at risk of seizure, leaving the government without funds and unlikely to survive."

A **Luisa Palacios, co-head of emerging markets at Medley Global Advisors and non-resident fellow at the Center on Global Energy Policy at Columbia University:** "Crystallex's legal victory against Venezuela significantly raises the risk that PDVSA will lose control of Citgo. While this might not be imminent, we see several risks ahead. First, losing Citgo will mean further downside risks to oil production, if the 125,000 barrels per day (bpd) of oil products Venezuela imports from the United States are affected in any way. A portion of Venezuela's oil trade with the United States is the result of a swap arrangement with Citgo in exchange for crude. Second, there is a risk Venezuela will divert part of the 150,000 bpd of oil it currently ships to Citgo to alternative buyers or markets, given the risk of attachment of that crude. Third, it also means a higher risk of default for PDVSA 2020 bondholders, the only bond that Venezuela remains current on. Fourth, it opens the door for a messy legal battle between creditors of Venezuela, PDVSA, Citgo and expropriated companies, with uncertain consequences for Citgo's future and its integrity. Fifth, at the margin, this increases the chances of political change for two reasons: 1.) It opens another international front with creditors

Continued on page 6

Ambev's Truck Fleet in Brazil Will be 35% Electric by 2023

One-third of Brazilian beer producer Ambev's transportation fleet will be electric by 2023, Volkswagen announced Tuesday in a statement. Ambev will add 1,600 electric trucks made by the German auto manufacturer to replace older ones over the next five years, avoiding some 30,000 tons of carbon dioxide emissions in its logistic chain every year. It will be the first 100 percent electric light truck fleet in Latin America, the statement said. The use of electric vehicles will exempt Ambev from Brazil's new fixed minimum freight fares for diesel trucks, though Roberto Cortes, chief executive for Volkswagen's bus and trucks operation in Brazil, told Reuters the deal and the policy's similar timing was "pure coincidence." Following truckers' strikes in May, the Brazilian government earlier this month passed a law that sets a minimum fare for freight to be paid to truck drivers, but electric vehicles are not subject to the price minimum, which currently surpasses the market rate, Reuters reported. In related news, converting the existing fleet of buses and taxis operating in 22 Latin American cities into electric vehicles would save $64 billion fuel costs in 2030, according to a recently released U.N.-backed study. The conversion would reduce carbon dioxide equivalent emissions by approximately 300 million tons and save 36,500 people from premature death, the report said.

ADVISOR Q&A

Should Cities in the Region Prioritize Electric Transit?

Q Converting the current fleet of buses and taxis operating in 22 Latin American cities into electric vehicles today would save $64 billion in fuel costs by 2030, according to a recently released U.N.-backed study. The conversion would avoid the emission of 300 million tons of carbon dioxide equivalent and save 36,500 people from premature death, according to the report, which was conducted by U.N. Environment and the International Automobile Federation with support from Spain and the European Union. Should Latin American cities make a stronger push to convert to electric mobility in lieu of fuel-based transit? What are the advantages and disadvantages of such a move? What unforeseen consequences might surface? How important is transit in the overall priority list as planners consider numerous "smart city" investment proposals aimed at improving the quality of life of local citizens?

A Jaana Remes, economist and partner at McKinsey Global Institute: "Gridlock and time spent commuting are among the biggest drags on the quality of life in Latin America's major capitals. They also create real economic costs as excess fuel is burned, emissions and pollution grow worse, and time that could be spent on more productive uses is lost. As cities around the world and across Latin America push to become 'smarter' in their use of technology, their efforts generally begin with a focus on urban mobility. One of the most promising smart solutions involves embedding sensors in public transit infrastructure to signal when preventive maintenance is needed. Applications such as intelligent syncing of traffic signals, real-time navigation and smart parking can improve the flow of cars and buses alike. These types of smart solutions become even more effective when combined with complementary policies and investments in hard infrastructure. Shifting to electric vehicles (and someday to autonomous vehicles) is a natural evolutionary step toward cleaner, less polluting mobility options with better integration into citywide digital systems. Although they are easier to maintain than diesel buses, electric vehicles have a daunting cost differential at the time of purchase. They demand heavy capital investment—not only in the vehicles themselves but also in charging infrastructure. Given that most Latin American cities are cash-strapped and electricity is relatively expensive, these are real constraints to adoption. But the costs will decline over time as more cities worldwide make the leap to greener electric transit fleets, thereby increasing demand. Already, battery prices are falling. Moving in a new direction has its costs, but cities cannot afford to stay on their current trajectory, in which gridlock is grinding them to a halt."

EDITOR'S NOTE: More commentary on electric vehicles in the region appears in the Q&A of the Aug. 20 issue of the Latin America Advisor.

POLITICAL NEWS

Mexico Opens Record Number of Homicide Probes

Mexico opened 2,599 homicide investigations, an average of 84 a day, in July, the country's national public security agency said Tuesday, the Los Angeles Times reported. It was the highest number of murders for any month on record, surpassing the 2,535 homicides reported in May, La Jornada reported. Last year was the country's most violent since comparable data collection began in 1997, and there was a record-breaking surge in homicides in the first six months of this year, increasing 16 percent over the same period last year, the Associ-

NEWS BRIEFS

More Argentines Likely Living in Poverty Now Than Last Year: Macri

More Argentines are likely to be living below the poverty line now as compared to last year, President Mauricio Macri said Aug. 17, Reuters reported. The South American country's economy is heading toward a recession following a currency crisis and a drought that crimped agricultural production. "This devaluation brought a rebound in inflation, and inflation is the largest driver of poverty, and regrettably, we are going to lose some of the gains we have made in poverty reduction," Macri said.

Brazil's Real Drops to Lowest Level Since February 2016

The Brazilian real dropped 1.4 percent to four per U.S. dollar on Tuesday, the lowest since February 2016, as electoral polls show little support for the most market-friendly candidates in the largely undefined presidential race, Bloomberg News reported. New polls continue to show former President Luiz Inácio Lula da Silva, who is jailed and expected to be barred from running, in the lead. Lula's Workers' Party opposes labor and pension reforms that investors see as necessary to solve Brazil's budget problems.

Tax Overhaul Would 'Modernize' Chile's Revenue System: Piñera

Chilean President Sebastián Piñera said Tuesday that his government's tax reforms would "modernize" the country's revenue system and also boost investment by both domestic and foreign companies, Reuters reported. In a televised address, Piñera said the changes would calibrate the taxes that are paid by technology companies and more traditional companies. Digital commerce companies such as Netflix and Uber are likely to be affected.

ated Press reported in July. The last three presidential administrations in Mexico have declared war against the country's drug cartels, fragmenting criminal groups but leading to heightened violence among them for control of drug trafficking routes and illegal markets, the Los Angeles Times reported. This, in turn, has resulted in a steady rise in the number of killings in Mexico since 2015. "Years ago, you had large cartels that were fairly dominant in many areas, and it was fairly tranquil. Now there's so much friction, it leads to violence across the board," Scott Stewart, a Mexico analyst for Texas-based intelligence company Stratfor, told the newspaper. [Editor's Note: See related Q&A in the Aug. 1 issue of the Advisor.]

Costa Rica's Alvarado Calls for Calm After Violent Protests

Costa Rican President Carlos Alvarado called for "calm" and "peace" in a national television address Sunday night following violent anti-immigration demonstrations in San José on Saturday. Marchers took the streets around La Merced Park in the capital, where Nicaraguan migrants fleeing months of violence in their home country have been camping out, La Nación reported. Demonstrators also gathered at several other parks in the capital to protest the influx of Nicaraguans in recent months. Some demonstrations turned violent, with police arresting 44 individuals, many with criminal records. In his address, Alvarado said his administration has budgeted the "necessary resources for migratory control that is safe, organized and registered," with measures that include increased police presence at border towns and health monitoring of Nicaraguans arriving there. He also called for Costa Ricans not to give in to provocations of hate. Several false news articles circulated online before the protests took place, including untrue posts on social media that claimed Nicaraguans were burning Costa Rican flags and that a Nicaraguan military invasion was imminent, La Nación reported. Some 23,000 Nicaraguans have applied for asylum in Costa Rica since June, according to the Costa Rican government, although some of them had been living there already and thus are not considered refugees, the Voice of America reported. Professors at the University of Costa Rica are seeking to organize a counter-demonstration "for peace" this Saturday, Carlos Sandoval, a professor and researcher at the university, told the Advisor.

ECONOMIC NEWS

Failure to Build Mexico Airport Would Cost Billions: IATA

The International Air Transport Association, or IATA, said Tuesday that Mexico risks losing long-term passenger growth and billions of dollars if it does not finish constructing the new airport in Mexico City, Reuters reported. Peter Cerda, regional vice president in the Americas for IATA, said Mexico would lose some 20 million passengers from flying to its capital starting in 2035, year over year, without the new airport to ease congestion. Additionally, not building the new hub would bring a $20

López Obrador // File Photo: López Obrador Campaign.

billion long-term loss in the country's GDP and cost some 200,000 jobs, Cerda said. He added, "If you don't build an airport that's able to meet the needs of the next 50 years, you just cannot continue to grow." President-elect Andrés Manuel López Obrador said Aug. 17 he would allow voters to decide whether to continue with the infrastructure project, the biggest of current President Enrique Peña Nieto's administration and which López Obrador opposed during his campaign, possibly through a referendum, El Universal reported. [Editor's Note: See related Q&A in the May 4 issue of the daily Advisor.]

FEATURED Q&A / Continued from page 3

further cornering the Maduro regime and overwhelming its capacity to respond; and, 2.) It could increase social tensions at home, if it limits Venezuela's capacity to import fuels, further accentuating the ongoing electricity crisis and requiring even more gasoline rationing. Parallel to these mounting legal risks, the government has been announcing a series of economic measures aimed at trying to stabilize the economy and oil production. The Maduro regime is unlikely to achieve either. Some of the measures announced seem irrelevant, others look like a step in the right direction, but still highly insufficient, and huge questions remain on their implementation."

A **Gustavo Coronel, a founding board member of PDVSA:** "The judge's legal decision enables Crystallex or any other creditor of PDVSA to try to seize 50.1 percent of Citgo shares, which–if successful – would give it control over Citgo. The other 49.9 percent of Citgo shares were given as guarantees for a loan the Russian company Rosneft made to PDVSA. Clearly, this decision places PDVSA in imminent risk of losing the company, which is one of its few significant assets abroad. Although PDVSA has appealed the ruling by the U.S. federal Court, Citgo is now fair game for Crystallex or any other creditor, such as ConocoPhillips, trying to get PDVSA to pay them. This new development places the Venezuelan regime of Nicolás Maduro in a desperate situation. A $1.1 billion payment on two bond issues, which became due on Aug. 15, remains unpaid. All analysts coincide that the financial crisis has now become a political crisis, too. The new financial measures that Maduro announced on Aug. 17 consist of still another devaluation of the currency and promise further economic chaos in the country. We are witnessing the last moments of the chavista Titanic. In my view, PDVSA is not recoverable, and a new model of oil industry management will be required to replace the current, failed model of a single state-owned oil company having the exclusive control of oil industry operations. Such a change in model can only be done under a new, non-chavista government."

A **Asdrúbal Oliveros, director, and Guillermo Arcay, economist, both at Ecoanalítica in Caracas:** "Venezuela is financially strained. Even after defaulting on more than $5.7 billion in bonds, there aren't enough exports to finance the country's imports. According to our estimates for the second half of this year, the government needs to finance a $3.2 billion cash flow deficit if it wants to maintain imports at the same level as last year's second half. Hence, they are faced with three main options: receiving a new credit line from China, selling more than a third of Venezuela's international reserves, or slashing 68.8 percent of non-oil imports. This situation was worsened by the recent ruling from a court in Delaware and OFAC's issuing of 'General License 5,' which gave Crystallex the right to seize a portion of Citgo's parent company's shares and exposed a flank through which creditors can pressure Venezuela and PDVSA to pay. Following the verdict, Venezuela has settled a similar case with Gold Reserve and another one with ConocoPhillips, which amount to $3 billion combined. Venezuela made an initial payment of $88.5 million in bonds to Gold Reserve and promised to pay ConocoPhillips $500 million in amortization in the next 90 days. Faced with new payments and declining exports, Venezuela has allegedly begun an expensive attempt at stabilizing its hyperinflation, which could force it to spend an additional portion its international reserves. The nation's future looks grim, and its government seems to be avoiding the necessary reforms stop an all-out economic calamity."

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

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