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FEATURED Q&A

How is Venezuela's Crisis Changing Caribbean Oil Ties?

Guyana may surpass Venezuela in oil production if trends continue, according to ExxonMobil estimates. An Exxon vessel on Guyanese waters is pictured above. // File Photo: Guyanese Government.

Q **Venezuelan oil output has dropped nearly 50 percent over the past three years, according to data compiled by Bloomberg, and an ongoing economic crisis and fresh U.S. sanctions threaten further declines. Meanwhile, Guyana's output is expected to reach 750,000 barrels a day by 2025, according to ExxonMobil estimates, and could surpass Venezuela's if trends continue. How might the collapse of Venezuela's oil industry affect Caribbean countries, which have benefited from Venezuela's oil largesse in the past and where several of Venezuelan state oil company PDVSA's assets are located? To what extent may it change economic ties and political alliances in the region, including Petrocaribe? How likely is it that other countries such as Guyana will step in to fill any void?**

A **Daniel Erikson, managing director at Blue Star Strategies:** "Over the past 20 years, Venezuela, under Hugo Chávez and then Nicolás Maduro, built a strong bastion of support in the Caribbean, using discounted oil and related investments through Petrocaribe to gain loyalty—or at least silence—from many energy-dependent Caribbean countries. With the collapse of the Venezuelan oil industry and the continued decline in exports, though, the countries of the region—both those in and out of Petrocaribe—have begun to seek out alternative energy arrangements. Meanwhile, Caribbean support for Maduro has begun to decline as countries such as Jamaica, the Dominican Republic and St. Lucia withdrew their support for Venezuela at the Organization of American States. Meanwhile, Mexican state oil company Pemex appears ready to increase its market share in the region. However,

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Panel on Fracking Offers Suggestions to Colombia

An expert commission that Colombian President Iván Duque convened last year said the government must strictly monitor the three pilot projects using hydraulic fracturing, or "fracking," technology.

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Hydro Power Growth to Peak in Latin America By 2030: BP Outlook

Average growth of hydro power production in South and Central America is expected to be 17.7 terawatt hours per year between 2017 and 2030, according to BP.

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OIL & GAS

AMLO Announces Assistance Plan for State Oil Company

Mexican President Andrés Manuel López Obrador said his administration would boost tax relief and investment in state oil company Pemex.

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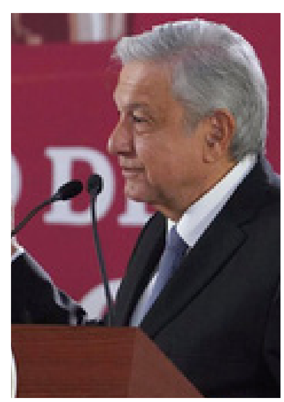

López Obrador // File Photo: Mexican Government.

OIL AND GAS NEWS

Fuel Shortages Hit Venezuelan States

Gasoline shortages are spreading outside of the Venezuelan capital city of Caracas after U.S. sanctions last month squeezed the South American country's fuel imports, Bloomberg News reported Tuesday. Lines are beginning to form in the western states of Portugesa and Barinas, where most service stations have been shuttered and where drivers are waiting for hours to refuel their tanks. Anticipating the shortages are there to stay, drivers are filling up plastic drums with fuel to store in their homes, according to the report. Before the administration of U.S. President Donald Trump slapped new sanctions targeting the country's oil sector in January, almost two-thirds of Venezuela's gasoline imports came from the United States. Now, the government of President Nicolás Maduro is getting its fuel from Spain and the Caribbean, but volumes are unlikely to meet local demand, Bloomberg News reported. The U.S. sanctions, which aim to pressure Maduro to step down by blocking his access to crude revenue, have left employees of state-run oil company PDVSA struggling to find sellers of refined products such as naphtha that are critical to the production process. The oil company's refinery utilization in Venezuela fell to 23 percent this week, according to a person with knowledge of the situation, while its refineries in the United States are working at more than 85 percent capacity. Meanwhile, PDVSA's U.S.-based refiner, Citgo, has removed at least three top executives close to Maduro, Reuters reported Monday, citing unnamed sources. Citgo Vice Presidents Frank Gygax, Nepmar Escalona and Simón Suárez, all of whom were promoted by Citgo CEO Asdrúbal Chávez, were reportedly escorted out of the company's Houston headquarters on Monday. It was not immediately clear if the executives were fired, forced to resign or if they retired. Opposition leader Juan Guaidó, which has been recognized by more than 50 countries as Venezuela's interim president, last week announced new boards for Citgo and for PDVSA. The removal of top executives appears to shift control of Citgo's day-to-day operations to officials that are expected to recognize Guaidó's appointments, Reuters reported. The new board reportedly fell short of what the Trump administration expected, The Wall Street Journal reported Wednesday, citing people familiar with the matter. U.S. officials were reportedly expecting a more independent board.

AMLO Boosts Tax Relief, Investment in State Oil Company

Mexican President Andrés Manuel López Obrador has announced a new assistance plan for state oil company Pemex that includes increasing tax cuts and boosting investment, El Universal reported Saturday. The administration will expand tax breaks for the state-run company to 90 billion pesos spread over six years, a 36 percent increase. Additionally, the government will inject $3.9 billion into the state company, including $1.8 billion in pension liability monetization, Reuters reported. Pemex will boost investment this year to 288.1 billion pesos, roughly $14.9 billion, 5.5 percent more than the original estimate, the company's chief financial officer, Alberto Velázquez García, said last Friday, Bloomberg News reported. The company will also refrain from issuing new bonds this year and begin prepaying existing liabilities. "They say Pemex's debt is a lot, that it's impossible to push [the company] forward. I accept the challenge," López Obrador said, El Universal reported. Pemex currently holds a debt of approximately $107 billion—making it the most indebted oil firm in the world—and has registered declining output for the past 14 years, according to Bloomberg News. The administration's plan "will allow Pemex to avoid adding net debt, only to refinance existing debt throughout the year," Finance Minister Carlos Urzúa told reporters in Mexico City last week. However, investors weren't too excited about the announcement. "Wall Street was looking for double that amount in fiscal relief, and sources of additional savings to pay for it are suspect," John Padilla, managing director of IPD Latin

NEWS BRIEFS

Petrobras Partners With CSEM to Develop Better Renewable Technology

Brazilian state-run oil company Petrobras has signed a partnership deal with Centro de Inovações CSEM Brasil to develop flexible solar perovskite films, which could exceed the efficiency and yield lower costs than existing silicon rigid solar panels, the company said, Renewables Now reported Tuesday. Petrobras will invest 23.77 million reais, nearly $6.2 million, over a 30-month period in the research and development of the technology. The partnership is part of the oil firm's plans to invest in and develop renewable energy.

New Legislation to Study Wind Turbines in Puerto Rico Introduced in Senate

U.S. Senators Bill Cassidy (R-La.) and Brian Schatz (D-Hawaii) have introduced companion legislation to Rep. Jenniffer González's (R-P.R.) recent bill to study the viability of setting up wind turbines in the waters bordering Puerto Rico and other U.S. territories, the congresswoman said in a statement Tuesday. González says the proposal will address high energy prices in U.S. territories and reduce their reliance on foreign oil imports.

Colombia Registers Highest Monthly Oil Output Since 2016

Colombia's oil production jumped to 898,965 barrels per day (bpd) in January, 4.5 percent more than the same month last year, the government said Monday, Reuters reported. The figure is the highest monthly record since May 2016 when new fields began operations. Output in January was 1.1 percent higher than last December's production at 889,352 bpd. Colombia, the fourth-largest crude producer in Latin America, reached average production of 865,127 bpd in 2018.

America, told Bloomberg News, adding that the measures were "very disappointing" for investors. The measures are also unlikely to reverse declining production, according to Alejandra León, an analyst at HIS Markit in Mexico City. "It seems to be that they are not thinking about the basic problems of Pemex: operational efficiency, profitability of the projects, investment efficiency," she said, Bloomberg News reported.

Panel on Fracking Offers Suggestions to Colombian Gov't

Colombia must strictly monitor the three pilot projects implementing hydraulic fracturing, or "fracking," technology for oil and gas extraction before deciding whether the controversial technique can be widely used in the country, according to a government-created commission, El Tiempo reported last Friday. Colombian President Iván Duque last year convened the commission, made up of 13 experts, to study the use of fracking in the Andean nation. Duque favors the controversial technique, which has sparked criticism from environmentalists for polluting water. Several local communities and many activists in Colombia oppose the use of fracking, and left-wing lawmakers in Congress are unlikely to support any future legislation allowing the technology. Communities in the towns of Puerto Wilches and Barrancabermeja, in Santander Province, and San Martín, in César Province, must be kept informed as the pilot projects begin, the 13-member commission said. The monitoring process should also include evaluating and caring for the health of residents living near the projects. The experts also agreed that any projects eventually approved for commercial use must have the communities' permission and enough environmental data to manage the risk of pollution before going forward. "Fewer wells at the beginning means less risk, and it also allows the government to improve its institutional capacity before it faces expanded development," said commission member David Neslin, an energy expert and former government regulator in the U.S. state of Colorado, during a presentation of the report, Reuters reported. Although the panel's recommendations are not binding, they will likely influence the administration's policies, the wire service reported. Among the companies interested in carrying out the fracking pilot projects in Colombia are state oil company Ecopetrol, ExxonMobil and Conoco Phillips, Caracol Radio reported last week. The projects are expected to bring approximately $40 billion in new investments.

Bolivia, Argentina Modify Gas Contract

Bolivia and Argentina have agreed to a modified gas supply contract that changes prices and volumes the Andean country exports to Argentina, the governments announced last week, Reuters reported. The new version makes changes to the schedule in deliveries so that Argentina receives less gas in times of lower consumption, which will amount to $460 million in savings for the country, Argentine officials said, Reuters reported. In the summer months, Bolivia will ship 11 million cubic meters of gas per day, while exporting between 16 million and 18 million cubic meters per day in the winter months.

RENEWABLES NEWS

Hydro Power Growth to Peak in Latin America Before 2030

Hydro power growth in Latin America will peak in the next decade before slowing down after 2030, as non-conventional renewable energy sources continue to expand, according

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Venezuela's return to political stability, if it happens, will not be a panacea for Venezuela's oil industry. The country's energy infrastructure has been decimated, and thousands of knowledgeable workers have fled to neighboring countries. It will take years for Venezuela to return to peak export levels, and in the meantime, countries including Guyana, Mexico and even Colombia will have the opportunity to step up and fill the void. Venezuela also needs to prioritize exports and payments to the countries helping keep them afloat—mainly Russia, China and India—which will further reduce their influence in the region. Meanwhile, unpaid creditors are circling PDVSA tankers in the Caribbean, increasing the economic pressure on Maduro at the most fragile moment of his tumultuous rule."

> **"Venezuela's return to political stability, if it happens, will not be a panacea for Venezuela's oil industry."**
> — Daniel Erikson

A **Jan Mangal, Guyanese oil consultant:** "The predictions for a Guyana production of 750,000 barrels per day are too optimistic. Oil companies are driving these numbers to boost their share prices. There is a fair bit of hype, which is always the case with huge finds in new areas. Guyana has yet to develop a depletion plan, and Guyana has a strong 'green' agenda. Guyanese politicians have yet to act, as they are still like deer in the headlights, but this will change with time. It is likely that production will be constrained at some level below that quoted number. The collapse of Venezuelan handouts to the Caribbean is a positive development. Petrocaribe was not market-driven and, therefore, was doomed to fail. Petrocaribe largesse retarded real development in the region and negatively affected politics and business in the countries involved. Just look at how the misuse of that largesse has doomed

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to the latest BP Energy Outlook released last week, HydroWorld reported Monday. Average annual average growth of hydro power output in South and Central America will reach 17.7 terawatt hours (TWh) between 2017 and 2030, compared to 7.7 TWh from 2005 to 2017, according to the report. The study forecasts that the growth rate will drop to 7.3 TWh from 2030 to 2040. Among the countries listed, China is expected to witness the fastest energy generation growth from hydroelectric sources in the coming decade, expanding 21.9 TWh annually. Global hydro power production is projected to grow by 1.3 percent per year until 2040. "This is much slower than the growth seen over the past 20 years, as the previous rapid expansion in Chinese hydro power subsidies," the report says, HydroWorld reported. In BP's core evolving transition scenario, which assumes government policies, technologies and societal preferences continue in a manner similar to the recent past, "China remains the largest source of growth, but the increases in hydro power become more broadly based, with Asia, Latin America and Africa all recording material increases," the report adds. BP also forecasts that non-conventional renewables, with wind and solar power leading the way, will displace coal as the world's top power source by 2040.

ECONOMIC NEWS

Brazil's President Submits Major Pension Bill

Brazilian President Jair Bolsonaro on Wednesday submitted to Congress his government's highly anticipated pension reform proposal, a measure that is seen as key to boosting growth in Latin America's largest economy, O Estado de S.Paulo reported. As submitted, Bolsonaro's plan would save the government 1.07 trillion reais ($289.5 billion) over the next decade. "If there's no change to the pension system, it would be catastrophic for Brazil," Carlos Heitor Campani, a professor at the COPPEAD Graduate School of Business in Rio de Janeiro, told The Wall Street Journal. "The pension system's deficit would grow every year. The only way to pay would be by printing money, and we'd end up like Venezuela." However, leftist opposition politicians blasted the plan as unfair to elderly and poor Brazilians. "It's cowardly, and we will fight it," said lawmaker Marcelo Freixo of the Socialism and Liberty Party. A key part of the reform would be a requirement that Brazilians work longer before being eligible for a pension, the Associated Press reported. Under the current system, men and women can start receiving pension benefits after 30 to 35 years of work, meaning many can begin retirement in their 50s. Under Bolsonaro's proposal, the retirement age would be raised to 65 for men and 62 for women. Last year, Brazil's pension system for workers in the private sector had a nearly $55 billion deficit.

ADVISOR Q&A

Is Congress Likely to Approve the USMCA This Year?

Q: In his annual State of the Union address, U.S. President Donald Trump called on Congress to pass the U.S.-Mexico-Canada Agreement, or USMCA, which negotiators finalized last year to replace the North American Free Trade Agreement. What is the outlook and most-likely timeline for advancing USMCA in the 116th Congress? Will the draft agreement undergo any major changes there? Is the deal facing roadblocks or unanticipated hurdles in Canada and Mexico? How are business sectors in the three countries and elsewhere around the world preparing for the debate and consequences of the USMCA?

A: Carla Hills, chair and CEO of Hills & Company and former United States trade representative: "In my view, the future of the USMCA is clouded with great uncertainty starting with the timeline. The 35-day shutdown not only backed up the congressional calendar, it also prevented the U.S. International Trade Commission from completing its report required under the terms of Trade Promotion Authority on how the agreement will affect our economy. Congress will want to see that report before any vote is taken. There is also political uncertainty. Several members of Congress want changes in the agreement, such as enforcement of labor and environment commitments, or more protection for biologics. The administration, Canada and Mexico have all said, 'no changes!' It is uncertain how House Speaker Pelosi views the agreement and whether, with some in her party insisting on changes or opposing it outright, she will permit the implementing legislation to move forward, and if so, when. Sen. Grassley, Chair of the Senate Finance Committee, and responsible for shepherding the legislation through the Senate, has been clear that the administration's national security tariffs on our neighbors' steel and aluminum exports must be lifted before Congress considers implementing legislation. There is question as to whether the administration will take his advice. Until it does, Mexico and Canada have stated they will not approve the agreement. These challenges are likely to delay any vote until the second half of 2019 or beyond. The uncertainty has adversely affected producers, farmers and workers. Representatives of sectors reliant upon access to Mexico and Canada, our two largest export markets, need to speak out at the local, state and federal level."

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

NEWS BRIEFS

Mexican Anti-Pipeline Activist Killed Ahead of Vote on Energy Project

A community activist fighting against a plan to build a gas pipeline through his central Mexico town was killed Wednesday, the Associated Press reported. The murder of Samir Flores Soberanes came three days before a scheduled public referendum on the energy generation project. President Andrés Manuel López Obrador condemned the killing but said the public referendum on the Morelos Comprehensive Project will go on as scheduled. The project would include two thermoelectric plants, a gas pipeline to supply the plant with natural gas from Tlaxcala state and an aqueduct.

Newcrest Invests in Ecuador Mines

Australia-based Newcrest Mining has signed a deal with Cornerstone Capital Resources in order to expand its reach in Ecuador, Mining.com reported Wednesday. Canada-headquartered Cornerstone has several assets in Ecuador, including a 15 percent stake in SolGold's Cascabel, a copper and gold project. Under the agreement, Newcrest will be able to earn an interest of up to 75 percent in the Caña Brava and Tioloma copper and silver projects in southern Ecuador.

Judge Sentences Activist to 216 Years in Prison

An activist who led protests last year against Nicaraguan President Daniel Ortega was sentenced on Monday to 216 years in prison, Reuters reported. A judge sentenced Medardo Mairena after he was convicted last December of terrorism, murder and organized crime, charges he denied. More than 300 people died last year in the protests against Ortega. Over the weekend, the government and influential business groups met in an attempt to restart talks to end the impasse.

Ecuador Secures $10.2 Billion in Multilateral Loans

Ecuadorean President Lenín Moreno announced Wednesday that his government had reached an agreement with multilateral lenders to provide up to $10.2 billion in financing, El Comercio reported. The interest rates would not exceed 5 percent over the 30-year term of the loans. Of the amount committed, $6 billion will come from six multilateral organizations, while the International Monetary Fund would provide $4.2 billion. In a televised national address, Moreno said most of the money would be dedicated to "social investment," citing a rising number of police officers and promising retirees they would not lose out on an annual bonus, Reuters reported.

U.S. Authorities Seize $12 Million in Drugs at Mexico Border

U.S. authorities seized $12.7 million worth of methamphetamine last weekend in a shipment of frozen strawberries coming into the country from Mexico over the Pharr International Bridge, U.S. Customs and Border Protection said Tuesday in a statement. Last Saturday, agents working at the bridge, which connects Pharr, Tex., to the Mexican city of Reynosa, discovered 350 packages of the drug, weighing 906 pounds, according to the statement. The driver, a 42-year-old Mexican man, was arrested and taken into custody by Homeland Security Investigations agents. The methamphetamine was discovered through the use of nonintrusive imaging and canine teams, Customs and Border Protection said. In related news, Mexico's navy said Wednesday that it had seized more than 1,300 pounds of cocaine that was loaded onto a speedboat along the country's Pacific coast, the Associated Press reported. The cocaine was seized following a high-speed pursuit in which the navy used a Black Hawk helicopter. Sailors aboard the helicopter descended onto the speedboat via ropes and detained 15 crew members, the wire service reported. Eight of the people detained were Ecuadorean, four were Colombian and three were Mexican. The seizure happened Monday off the coast of Sinaloa State.

POLITICAL NEWS

Guaidó Departs With Caravan for Colombian Border

Venezuelan National Assembly leader Juan Guaidó, whom the United States and scores of other countries have recognized as Venezuela's interim president, on Wednesday announced plans to depart with a caravan of volunteers for the border with Colombia. He plans to personally bring in stockpiles of food and medicine on Saturday in defiance of the military-backed government of President Nicolás Maduro, Agence France-Presse reported. The move raises fears of possible violent confrontations. "Even though they point guns at us—and all of us have received threats, rubber bullets and even live ones—we are not afraid," Guaidó told a crowd of supporters while standing on the back of a truck. Guaidó has given the Andean nation's military weeks of advance notice of the plan to bring in the aid, asking troops to step aside. Food, medical supplies and hygiene products, mainly from the United States, are being stockpiled near the Colombian town of Cúcuta. Aid has also accumulated on Brazil's side of its shared border with Venezuela, as well as on Caribbean islands. While Guaidó has called for protests in support of allowing the aid into Venezuela, Maduro's supporters have also rallied behind his government.

Humanitarian aid has been stockpiled in three countries bordering Venezuela.

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Venezuela itself. Easy and free money, be it from oil or cocaine, is always dangerous. Guyana should not step in to fill the void left by Petrocaribe. Guyana cannot yet regulate its own industry—if it tries to play the geopolitical oil game, it will be a mess. But there are forces pushing for this use of Guyana's oil. Just like Petrocaribe feeds corruption around the region, there are forces pushing Guyana to waste its oil wealth in a similar manner. Instead, Guyana can assist the Caribbean in the areas of education, health, technology (including energy), agriculture and trade. Guyana can be, and always could have been, the beacon for the Caribbean. But narrow-minded and visionless leadership in Guyana has kept the country closed since independence in the 1960s. My vision for Guyana is a little Switzerland or Singapore. Guyana is small but uniquely situated and can be a doorway between the Anglophone countries and South America. Brazil is an immense opportunity for Guyana, and the trade facilitated by opening up Guyana would have a large sustainable impact on its Caribbean neighbors."

A **Anthony Paul, managing director of the Association of Caribbean Specialists in Trinidad and Tobago:** "From the outset, the double-edged nature of Petrocaribe was evident—reduced cost of fuel in the short term, offset by longer-term debt. This bait was too attractive for most politicians to resist. For Cuba, the scale and formula were even more attractive: crude to keep an old refinery and jobs going, payment in kind to get over sanctions and foreign exchange hurdles. Petrocaribe is not one-size-fits-all. For starters, Trinidad and Tobago and Barbados declined to participate. T&T because it already had its own sources of revenue and fuel (though it could have benefited from refining Venezuelan crude), and Barbados because of its admirable fiscal discipline. The deal was favorable for providing crude for refining and/or fuel, each at 'competitive' prices and with attractive financing terms. Given Venezuela's challenges, the level of dependency on Petrocaribe has been declining in most islands. Debt still remains, though. Can Caribbean neighbors fill this breach? Guyana will not be in a position to provide products, as there are no plans to refine crude there. Given the poor fiscal terms in the renegotiated contract with ExxonMobil, Guyana will see very little revenue share for several years after production starts, so it won't be in a strong position to finance its neighbors for some time yet. T&T has the key to a transition from Petrocaribe to natural gas fuels. T&T has been poor at capturing this lucrative market at its doorstep, but it provides the fastest route to Venezuela becoming a natural gas exporter. With Petrotrin no more, a new refining entity in Trinidad might overcome the previous corruption, mismanagement and poor asset integrity that saw crude imported from the Urals, instead of from just a few miles across the Gulf of Paria. Given T&T's historical reluctance to go downstream, these markets will likely be handed to a multinational, leveraging T&T's assets, location and relationships. Partnering with the surviving PDVSA may be T&T's best bet to get into this game, given their superior technical and commercial expertise."

> **"From the outset, the double-edged nature of Petrocaribe was evident."**
> **— Anthony Paul**

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

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