FEATURED Q&A

Will Internal Politics Hamper Investment in Guyana’s Oil?

Former legislator Charandass Persaud brought the case regarding the invalidation of the Guyanese National Assembly’s no-confidence vote to the Caribbean Court of Justice. // File Photo: Guyanese Government.

Legal disputes continue in Guyana over the invalidation of the National Assembly’s no-confidence vote against the ruling coalition government in December, with former lawmaker Charandass Persaud bringing the case to the Caribbean Court of Justice. Will the dispute be resolved soon, and what potential implications could the outcome have on the country’s stability amid efforts to craft new laws governing its oil and gas sectors? To what extent is the situation and the health of President David Granger, who is battling cancer, affecting political risk in Guyana? Have these developments dampened Guyana’s energy investment climate?

Riyad Insanally, Guyana’s ambassador to the United States: “The political uncertainty in Guyana over the past few months should soon be resolved, as the Caribbean Court of Justice (CCJ), the country’s final appellate court, will begin hearings on May 9 on appeals by opposition leader Bharrat Jagdeo and Christopher Ram, a lawyer and accountant, regarding the ruling of the Guyana Court of Appeal, which invalidated the Dec. 21 no-confidence vote in the National Assembly. There is every indication that the CCJ intends to deal with the case expeditiously. Meanwhile, notwithstanding concerns, locally and internationally, about the complexities of Guyana’s constitutional judicial process, the government passed the Natural Resource Fund Bill 2018 in the National Assembly on Jan. 3, as part of its efforts to ensure proper management of future petroleum revenues and establish fiscal rule and a sovereign wealth fund. On April 11, Guyana signed a $20 million loan agreement with the World Bank to build capacity and strengthen institutional frameworks.”

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TOP NEWS

OIL & GAS
AMLO Orders Budget Cuts to Help Save Pemex
Mexican President Andrés Manuel López Obrador has introduced budget cuts of nearly 6.3 billion pesos in a bid to help state oil company Pemex with its financial troubles.

Puerto Rico’s Power Utility Agrees to Bond Restructuring
The U.S. commonwealth’s electric utility agreed to a restructuring of $8 billion in bonds.

Exxon Sues Cuban Companies Over Seized Property
ExxonMobil has taken legal action against two Cuban companies that it claims use and profit from property, including refineries, that an Exxon predecessor owned before the government of late President Fidel Castro expropriated it in the 1960s.
Venezuela Looks to Thermal Power After March Blackouts

Venezuela is looking to shift its focus toward long-neglected thermal power plants after a series of massive blackouts left the country in the dark on several occasions in March following a failure at the country's Guri hydroelectric dam, Argus Media reported Monday. State-owned utility Corpoelec’s installed generation capacity totals 34 gigawatts, of which 19 gigawatts are thermoelectric units and 15 gigawatts are hydroelectric units, according to the electricity minister, but due to a lack of maintenance and spare parts, most of Venezuela remains without a steady supply of power. "Corpoelec traditionally has sourced its thermoelectric turbines from GE and Siemens, but these companies won't sell to us because of the U.S. sanctions and the unpaid debts," a Corpoelec official told Argus. Venezuela's new electricity minister, Igor Gavidia, who was named by President Nicolás Maduro after the outages in March, has instructed that operations at the large Termozulia thermal plant start using domestic gas as feedstock instead of mostly imported low-sulfur distillates that state oil company PDVSA had been providing, according to Argus. But PDVSA cannot supply the gas because of unfinished gas pipelines and a sharp decline in its gas output, according to an oil ministry official. Moreover, PDVSA is struggling amidst tight U.S. sanctions and as refineries remain shut down due to the blackouts. Two of Venezuela’s four crude refineries remained paralyzed for one month following the first massive power outage on March 7, Reuters reported Saturday, citing a company document. However, PDVSA managed to boost refined crude production to 313,000 barrels per day (bpd) on May 2 and 326,000 bpd on May 3, as compared to 298,000 at the beginning of April, according to the document. Despite the increase, the refineries’ production was nowhere near their combined capacity of approximately 700,000 bpd. In related news, PDVSA announced on May 3 that it plans to install 20 generators with a total capacity of 50 megawatts in a bid to make a crude project partly owned by Chevron “independent” of the national power grid, Reuters reported. The generators are expected to be installed by the end of May.

AMLO Orders Budget Cuts to Help Support Mexico State Oil Firm

Mexican President Andrés Manuel López Obrador on May 3 announced a series of new yet modest austerity measures designed to make room in the budget for state oil company Pemex to have a smaller tax burden, Reuters reported. The official executive memo did not provide an estimate for how much the measures would save, but El Economista calculated they would amount to nearly 6.3 billion pesos, or approximately $330 million. Among the announced measures are leaving currently vacant positions unfilled, less spending on printing and travel for government workers, as well as stricter limits on which officials can use government-paid drivers, Reuters reported. Finance Minister Carlos Urzúa said in a statement that the savings would be used to “strengthen” Pemex but did not provide details of the plan. “We have decided to channel all the savings of these measures to increasing additional fiscal benefits for Pemex with the goal of strengthening this great strategic enterprise,” he said. The federal government depends on taxes the state company pays to fund approximately 15 percent of its budget, and in recent years, the government has taxed more than 80 percent of the company’s earnings before interest, dividends.

El Economista estimates the savings could amount to nearly 6.3 billion pesos.

Puerto Rico’s Power Authority Agrees to Bond Restructuring

Puerto Rico’s power authority has agreed to a restructuring of $8 billion worth of bonds with a group of creditors, Reuters reported May 3. The deal among the bondholders of the Puerto Rico Electric Power Authority, the Assured Guaranty Corp., the U.S. commonwealth’s government and the federal financial oversight board would lower the utility’s debt by as much as 32.5 percent. The agreement is subject to approval by bondholders and a federal judge.

Marine Dies in Armed Attack of Pemex Pipeline

A member of Mexico’s navy force was shot and killed, and three others were injured early on Saturday after they were attacked by an armed group while patrolling the Tuxpan-Azcapotzalco oil pipeline owned by state oil company Pemex as part of the government’s plan to fight fuel theft, Excelsior reported. Authorities did not say who carried out the attack. Pemex said last week that fuel theft had dropped by 79 percent in the first quarter as compared to December.
tax, depreciation and amortization, or EBITDA, according to Reuters. Pemex is the world’s most indebted oil firm, with approximately $106 billion in debt. The company is facing the possibility of having its credit rating downgraded to so-called junk status, which could lead to a series of adverse consequences, including much higher financing costs. Major ratings agencies have said the company’s high tax burden is a major factor weighing on Pemex’s credit rating. [Editor’s note: See related Q&A in the April 12 issue of the Energy Advisor.]

Petrobras Profit, Oil Output Fall in First Quarter of 2019

Brazilian state oil company Petrobras reported a net profit of 4 billion reais ($1 billion) in the first quarter of this year, a 42-percent drop as compared to the same period last year, the Rio Times reported Wednesday. However, the results are up by 92 percent in comparison to the 2 billion reais registered in the fourth quarter last year. When adjusted for one-off items, Petrobras said its profit would have been 5.1 billion reais. The company said its first-quarter results were affected by the adoption of a new accounting law regarding the leasing of equipment, the Rio Times reported. The company’s oil production fell 3.5 percent in the first quarter, compared to the January-March period last year, according to Brazilian oil regulator ANP, Reuters reported. The drop in production was a result of a number of maintenance projects and other interruptions at platforms and floating, production, storage and offloading (FPSO) units owned by Petrobras, ANP said.

Colombia’s Ecopetrol Reports Rise in Profit for First Quarter

Colombian state oil company Ecopetrol reported a first quarter net profit of 2.75 trillion pesos, approximately $847.1 million, 5 percent higher than in the same period last year, amid an increase in output, sales and greater operating efficiencies, the company said Monday, Reuters reported. Earnings before interest, taxes, depreciation and amortization grew 2.9 percent in the January-March period, as compared to a year earlier, to 7.4 trillion pesos.

RENEWABLES NEWS

Polaris’ Nicaragua Plant Boosts Firm’s First Quarter Profits

Canadian renewables developer Polaris posted a net profit of $3.38 million in the first quarter of this year, up from nearly $500,000 in the same period last year, in part driven by increased revenues in its San Jacinto geothermal plant in Nicaragua, Renewables Now reported Tuesday. Net power generation output at the plant rose by 20 percent to 139 gigawatt-hours in the period ending March 32, which helped boost revenues to $18.6 million, a 27-percent increase year-on-year from $14.7 million in the first quarter of last year, the company said in a statement. Earnings before interest, tax, depreciation and amortization (EBITDA) reached $15.9 million, 30 percent higher than a year ago. Polaris added that it had completed maintenance work on a turbine at the San Jacinto project in the first weeks of April, which it said leaves the company “well-positioned” for “consistent turbine performance” through the 2019 fiscal year. In addition, construction at its featured Q&A / Continued from page 1

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**Despite Guyana’s uncertain political circumstances, foreign companies appear eager to pursue contracts and investment in the untapped energy supplies. The oil reserves offer massive new sources of revenue for Guyana—and they also increase the stakes among the squabbling political factions, as the next government will inherit not just a longstanding set of problems but also a potentially massive oil windfall with which to address them. The next step toward resolving the dispute over the no-confidence vote is taking place this week, with the Caribbean Court of Justice hearing the arguments over whether the vote should stand or be set aside. No matter the final outcome, there is a real threat that trust in democratic institutions...**

— Daniel Erikson

Daniel Erikson, managing director at Blue Star Strategies:

“Guyana is not the first country to have a head of state fall ill, but the positive prognosis for President Granger has thankfully alleviated concerns that his health may become a growing concern. Meanwhile, enthusiasm over potential foreign investment in Guyana’s energy sector spiked again recently as ExxonMobil made yet another discovery of offshore oil. Despite Guyana’s uncertain political circumstances, foreign companies appear eager to pursue contracts and investment in the untapped energy supplies. The oil reserves offer massive new sources of revenue for Guyana—and they also increase the stakes among the squabbling political factions, as the next government will inherit not just a longstanding set of problems but also a potentially massive oil windfall with which to address them. The next step toward resolving the dispute over the no-confidence vote is taking place this week, with the Caribbean Court of Justice hearing the arguments over whether the vote should stand or be set aside. No matter the final outcome, there is a real threat that trust in democratic institutions...”

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Venezuelan Agents Detain Vice President of National Assembly

Officers of Venezuela's Sebin intelligence agency on Wednesday night detained Édgar Zambrano, the vice president of the country's opposition-controlled National Assembly, The New York Times reported. Zambrano's arrest was the government's latest move against the inner circle of opposition leader Juan Guaidó, who last week issued a call for the military to overthrow President Nicolás Maduro. The episode failed to dislodge Maduro from power, and Maduro later vowed to pursue members of the opposition. Late Wednesday, intelligence agents surrounded Zambrano's car after he left his party's headquarters in Caracas. When he refused to step out of the car, he was towed away while still in the vehicle, The New York Times reported, citing Zambrano and witnesses. Earlier on Wednesday, Venezuela's pro-Maduro Supreme Court stripped Zambrano of his legislative immunity from prosecution. Zambrano was the fourth ally of Guaidó to be detained since January.

Security Aid Should be Redirected for Development: AMLO

Security aid that Mexico receives from the United States should instead be directed toward a development plan for Central America and southern Mexico to help stop migration north, said Mexican President Andrés Manuel López Obrador, The Wall Street Journal reported Wednesday. López Obrador said the money the United States sends under a plan known as the Mérida Initiative, which has provided $3 billion in security assistance to Mexico since 2008, should be channeled to fostering growth and employment in southern Mexico, Guatemala, Honduras and El Salvador, instead of focusing on drug lords. "We don't want the so-called Mérida Initiative … We don't want helicopter gunships. We don't want resources for any kind of military support," the president said, Excelsior reported. "What we want is production and employment," he added. The initiative provided $421 million for military equipment such as aircraft and helicopters when it was first enacted, but Mexico has not received military aid under the Mérida Initiative since 2012, The Wall Street Journal reported. Since then, funds have mostly gone toward projects that promote human rights, protect journalists and strengthen Mexico's investigative capacity, for example. "It's a mistake to change the thrust of crime-fighting programs, which the government would like to pursue," López Obrador said Wednesday.

What Will Having Cortizo in Power Mean for Panama?

In a tight race, Laurentino Cortizo of the Democratic Revolutionary Party won Panama's presidential election on Sunday, defeating businessman Rómulo Roux of the Democratic Change party. What do the unexpectedly close results say about Panama's electorate? What factors led to Cortizo's victory? Which issues will dominate Cortizo's agenda as president, and how will he be able to work with lawmakers?

Joaquín Jácome Diez, senior partner at Jácome & Jácome in Panama City and former trade minister of Panama:

"Laurentino Cortizo's election as president of Panama was widely expected. Among seven presidential candidates, three of whom were independents running for the first time due to electoral changes, Cortizo's Democratic Revolutionary Party (the country's biggest and most organized political machine) was poised to thrive among division. Cortizo had only to consolidate his party base in order to win. As a matter of fact, he barely achieved it, obtaining only 33 percent of the vote. The great surprise of the election was Rómulo Roux of the Democratic Change party (the party of jailed former President Martinelli), who obtained 31 percent of the vote. One of the main reasons for this was the electoral tribunal ruling against Martinelli one week before the election, banning him from running for mayor of Panama City or the National Assembly in a shady legal ruling, after having certified several times that he met all requirements to run legally. This ruling, reminiscent of Martinelli's bonanza years and the perception that he had been treated unfairly during his trial, contributed to Roux's excellent showing. Even if many legislators with questionable reputations were not re-elected, undoubtedly well-oiled political machines were the winners of the election, leaving frustrated a wide sector of the population that is tired of the political establishment's corruption. President-elect Cortizo's victory speech Sunday night was conciliatory. Even though he will have good representation in the National Assembly in order to tackle inequality, social security, pension reform and constitutional reform, he will also need wide consensus among the population. He seems to be aware of that, as he vowed to work with all Panamanians."

EDITOR'S NOTE: More commentary on this topic appears in Tuesday's issue of the Latin America Advisor.
Guatemalan Prosecutors Probe Judge Who Ordered Candidate’s Arrest

Guatemalan prosecutors have launched an investigation of Supreme Court Judge Víctor Manuel Cruz, who earlier this year issued an arrest warrant for former Attorney General and presidential candidate Thelma Aldana, officials said Wednesday, the Associated Press reported. Local newspaper El Periódico recently reported that Cruz received millions in return for issuing Aldana’s detention order on March 18. The judge has not commented on the report.

Brazil’s Bolsonaro Cancels Trip to U.S.

Brazilian President Jair Bolsonaro has canceled a trip to the United States, his office said May 3, following protests against his being honored as the person of the year by the Brazilian-American Chamber of Commerce, Reuters reported. Multiple venues in New York, including the American Museum of Natural History, refused to host the gala dinner in his honor due to the far-right president’s history of racist, homophobic and misogynist remarks. Sponsors including Delta Air Lines and the Financial Times also pulled their support for the event.

Panama’s Cortizo Eyes Review of FTAs With U.S., Central America

Panamanian President-elect Laurentino Cortizo said he wants a review of the country’s free trade agreements with the United States and with other Central American nations, Agence France-Presse and the Tico Times reported Tuesday. “Obviously with the United States we have to be very cautious when we request to revise treaties ... because they are our main trade partner,” Cortizo said Sunday, the day he was elected.

Legislators Blast Rio de Janeiro Governor Over Record Violence

The head of the human rights commission of Rio de Janeiro’s state assembly on Wednesday blamed Governor Wilson Witzel for a surge in police killings, accusing him of “legitimizing” police violence, the Associated Press reported. Deputy Renata Souza said Witzel “thinks he is a vigilante and says that the only security protocol applicable in his government is to aim and shoot in the head.” Witzel defended his security strategy, calling for “maximum toughness” on organized crime. A record 434 people in the state died at the hands of police in the first three months of this year.

BHP Faces $5 Billion Lawsuit Over Brazil Dam Collapse

Australia-based BHP, the world’s largest mining company, is facing a claim for $5 billion in damages in Britain over a dam collapse in Brazil four years ago that resulted in the South American country’s worst environmental disaster on record, the Financial Times reported. The lawsuit, filed by law firm SPG on Tuesday on behalf of 235,000 individuals and organizations, accuses the miner of disregarding warnings before the dam at the Samarco iron ore mine broke in 2015. It is the largest claim in U.K. legal history. “The repeated warnings and recommendations of dam safety experts were acted upon too slowly, or sidestepped entirely,” said Tom Goodhead, partner at SPG, BBC News reported. “Driven by concern for declining revenues amidst the falling market price of iron ore, the company took risks, increased production and turned a blind eye to dangers that ultimately claimed lives and destroyed communities,” he added. The dam collapse killed 19 people and displaced about 700 people. The deluge of thick, toxic mud covered the village of Bento Rodrigues in Minas Gerais State and polluted rivers, harmed wildlife and contaminated drinking water for hundreds of thousands of people. BHP has rejected all of the charges, and the company said it intends to defend itself against the claim, BBC News reported. The Samarco mine is co-owned by BHP and Brazilian firm Vale, which is currently facing prosecution in Brazil for another dam disaster earlier this year.

Economic News

Mexican Tomato Growers Brace for New U.S. Tariffs

U.S. tariffs on tomatoes may cost Mexico some $350 million per year, Mexican Under-secretary of Foreign Trade Luz María de la Mora said as growers brace themselves for new duties after the two countries failed to reach a trade deal before a Tuesday deadline, the Financial Times reported. Under pressure from the powerful Florida tomato industry, the U.S. government said in February that it would resume an antidumping investigation on May 7, a probe that had been on hold for nearly two decades under a series of so-called suspension agreements. On Tuesday, the U.S. Commerce Department terminated the deal that had suspended duties since 1996. Mexican tomato-grower associations said that U.S. Customs had not yet applied the tariffs and that it was uncertain whether the new duties would be imposed automatically or gradually, The Wall Street Journal reported. The two countries tried to negotiate a new deal before the deadline, but "Florida growers wanted a suspension agreement with more benefits to them," said Mora, the Financial Times reported. The 17.5 percent import duty is “very disappointing,” she added. Economists estimate that the new tariffs could raise prices of tomatoes in the United States by as much as 85 percent as soon as this winter, according to a study at Arizona State University.
could falter among the population at large, a particularly unwelcome possibility as parliaments attempt to draft new legislation governing the energy and oil sectors. The core task for President Granger, his cabinet and lawmakers will be to take the steps needed to ensure that oil revenues will be dedicated to Guyana’s core national interests and not be overly subject to the political whims of whichever party holds power in the future.”

Raúl Gallegos, associate director at Control Risks: “President Granger’s illness is and will remain a salient issue until his term expires because, clearly, he is unlikely to have the energy and time to be fully engaged with a number of issues, primarily the focus on building the right infrastructure for the oil industry. The vote of no-confidence also shows that the Granger administration can no longer count on having enough muscle in the National Assembly to pass needed legislation between now and the end of Granger’s term. This will mean delays in key laws getting passed this year. In many ways the Granger administration is already in a lame-duck period. The People’s Progressive Party and its allies are in turn very driven to continue to fight for the no-confidence vote to be accepted and implemented, and they will likely continue to press on that issue in the coming months. However, this matter is unlikely to be resolved soon, and further legal delays from the courts and the electoral agency suggest that the no-confidence vote won’t end Granger’s term as president. What we are seeing here is a political class, still in many ways divided along ethnic lines, desperately trying to be the first to benefit from the massive flow of oil revenue that stands to arrive starting in 2020. In a country with weak institutions, this flow can and will likely be used by those in power to try to buy political loyalty and prolong their political control. But the troublesome politics is unlikely to scare off potential investors, given the attractiveness of the reserves and the fact that oil companies are accustomed to operating in far more difficult environments. Guyana will remain especially attractive for oil companies that have been unwilling or unable to have a presence next door in Venezuela.”

The troublesome politics is unlikely to scare off potential investors…

— Raúl Gallegos

Advisor Video

Is Haiti Back on the Brink?

An Inter-American Dialogue Discussion with Jacqueline Charles, Caribbean correspondent at the Miami Herald, and Robert Fatton, Jr., Julia A Cooper professor of Government and Foreign Affairs at the University of Virginia

View a webcast of the May 6 discussion.