How is Venezuela’s Political Stalemate Affecting Citgo?

U.S.-based refiner Citgo Petroleum’s ad-hoc board on Aug. 14 announced it had selected Carlos Jordá as its new chief executive. Citgo officials loyal to Venezuelan President Nicolás Maduro were ousted earlier this year, and the opposition-controlled National Assembly named the ad-hoc board for the company in February. Since then, the Maduro government and the opposition have struggled for control of Citgo. How important is Citgo for Venezuela? Who is currently in control of the U.S.-based subsidiary, and is that likely to change in the period ahead? How has the struggle for power in Venezuela affected how Citgo operates and conducts business? What does Jordá bring to the job, and does his appointment as CEO quell creditors’ worries?

Frank L. Holder, managing director, global head of investigations and regional head of Latin America at Berkeley Research Group: “Citgo has always been central to PDVSA for strategic purposes, as it completed the value chain of Venezuela’s oil industry by adding to the downstream factor in its most important market. Over time, Citgo’s infrastructure was also optimized to deal with Venezuelan heavy crude. While over the last decade and a half PDVSA has sought new markets for its crude, reducing some of the key role the company has played, it still holds considerable importance in terms of the survival and recovery of Venezuela’s economy. At this moment, Citgo’s operations in the United States are being controlled by the board of directors that was appointed by the Venezuelan opposition in February of this year. The two key figures who have wielded control of

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Mexico’s CFE Reaches Deal Over Gas Pipeline Dispute

Mexico has reached a deal to end a dispute with several companies over contract prices regarding the operation of natural gas pipelines in the country, avoiding international arbitration, Mexican President Andrés Manuel López Obrador said Tuesday, The Wall Street Journal reported. The agreement proves that “through dialogue we can arrive at deals that are good for our nation,” López Obrador said during a morning press conference alongside pipeline company leaders including Carlos Slim, Mexico’s wealthiest individual, and the heads of two private sector associations. The terms of the deal were not immediately made public, but Manuel Bartlett, who presides over Mexican state-run power utility CFE, said service fees paid by the CFE will be lowered and set to a fixed rate, rather than escalating each year, as previously outlined. “The relevant part is that instead of having growing fees, we have equalized fees,” said Slim, who is the president of pipeline operator Carso Energy, The Wall Street Journal reported. “This ensures that the CFE will pay less at the end of the day and be able to take advantage of today’s low interest rates,” he added. The government expects to eventually save some $4.5 billion from the deal, according to López Obrador, Reuters reported. [Editor’s note: See related Q&A in the June 14 issue of the Energy Advisor.]

Brazil’s Petrobras in Talks With Itaúsa Over LPG Unit Sale

Brazilian state oil company Petrobras has entered talks with investment firm Itaúsa Investimentos on a contract to acquire Liquigás, which distributes liquefied petroleum gas, or LPG, Itaúsa said in a securities filing on Monday, Reuters reported. The São Paulo-based investment company delivered the highest bid for the distribution unit, though Petrobras may still require new bids after the sale contract is drafted, the filing said. Itaúsa partnered with Copagaz Distribuidora de Gás and Nacional Gás Butano for the offer, which totaled about $850 million, Bloomberg News reported. Bottled LPG is the only source of cooking gas for millions of consumers in the South American country, where Liquigás holds 22 percent of market share, behind rival company Cia, according to the report. The sale of Liquigás is part of a wider strategy under Petrobras Chief Executive Officer Roberto Castello Branco, who has put several company units up for sale in an effort to cut debt and focus on deep-water exploration. Brazilian President Jair Bolsonaro’s economic team reportedly favors privatizing Petrobras as a whole before the end of his term in 2022, Valor Econômico reported last week, citing anonymous sources. Although Petrobras is selling off assets including its fuel distribution unit and natural gas pipeline networks, the government would need congressional approval before moving forward with the sale of the company, Reuters reported. [Editor’s note: See related Q&A in June 14 issue of the Energy Advisor.]

Mexico’s López Obrador Eyes Joint Ventures for Pemex

Mexican President Andrés Manuel López Obrador plans to allow state oil company Pemex to resume joint ventures with the private sector next year, according to a senior government official with direct knowledge of the policy plans, the Financial Times reported Thursday. The move would be a reversal of his previous strong opposition to the country’s energy reform, which opened up Mexico’s oil sector to private investment after eight decades of state control. López Obrador is also set to revive Pemex’s exploration in the deep waters of the Gulf of Mexico, with the aim of jump-starting the country’s new oil production program, Bloomberg News reported Aug. 22, citing research from consultancy Caracas Capital Markets. The group says more than 200,000 barrels a day of output at four projects Chevron is keeping afloat could halt if the waiver isn’t renewed. Supporters of keeping the waiver fear U.S. companies would lose a foothold in Venezuela and cede ground to other competitors.

U.S. Waiver Decision Could Shut Down Half of Venezuela Oil Rigs: Report

Nearly half the oil rigs operating in Venezuela will shut down by Oct. 25 if the administration of U.S. President Donald Trump does not extend a 90-day waiver of its sanctions, Bloomberg News reported Aug. 22, the figure marks the second consecutive month in which the firm’s hydrocarbons production did not register a decline. However, crude production was down 8.34 percent year-on-year. Pemex’s exports grew by 8.44 percent in July, as compared to June, selling 1.08 million barrels of crude.

Pemex Oil Output Holds Steady in July

Mexican state oil company Pemex’s production in July held steady as compared to the previous month with a daily output of 1.67 million barrels of crude, El Financiero reported, citing company data released Aug. 23. The figure is lower compared to June, selling 1.1 million barrels of crude.

Reducing Debt is Citgo’s Top Priority: New CEO

“Many challenges” remain for Citgo, the new CEO of Venezuelan state oil company PDVSA’s U.S.-based refiner, told Bloomberg News in an interview published Aug. 23. Carlos Jordá added that reducing debt will be the firm’s top priority under his leadership. “When PDVSA returns to be a normal company, Citgo will definitely have to provide dividends as much as we can,” Jordá said. His plans don’t include selling the company, he added, as Citgo is a U.S. asset that is “strategic” for Venezuela.
Chinese Imports of Oil From Venezuela Fall Sharply in July

China imported significantly less oil from Venezuela in July, as compared to the previous month, Reuters reported Saturday. Data from China’s General Administration of Customs showed China’s crude oil imports from the South American nation fell 62 percent in July from June, to 165,720 barrels per day (bpd). Overall, Venezuela’s oil exports are estimated to have fallen 17.5 percent in July, slipping to their second-lowest point since the administration of U.S. President Donald Trump slapped sanctions on Venezuelan state oil company PDVSA in January, Reuters reported. The July data revealed a sharp decline in oil shipments even before the United States in early August threatened new sanctions on any company that does business with the government of Venezuelan President Nicolás Maduro. Meanwhile, Russian state oil firm Rosneft has become the main trader of Venezuelan crude, according to trading sources and Refinitiv Eikon data, which shows Rosneft as Venezuela's biggest crude buyer in July and the first half of August. The Russian company purchased almost 40 percent of PDVSA’s exports in July and about

The current crisis has affected Citgo’s supply chain, which was dependent on PDVSA’s oil shipments...”

— Frank L. Holder

Citgo’s ownership is transferred to Crystallex and other companies as arbitration awards or if the Maduro administration wins the lawsuit filed in Delaware to regain control of Citgo. However, neither of those options seem likely right now. The current crisis has affected Citgo’s supply chain, which was dependent on PDVSA’s oil shipments, and the new leadership should be making operative adjustments to stabilize profitability. It is my understanding that Carlos Jordá is an oil industry veteran with strong planning skills and experience in upstream, midstream and downstream projects, making him a good candidate to help stabilize Citgo’s current situation and diminish some creditors’ worries. However, I think that the Venezuelan debt situation is presently more reliant on political factors.”

Arturo H. Banegas Masiá, partner at the Latin America and the Caribbean practice of Akerman:

“As the struggle for control of Venezuela continues between interim President Juan Guaidó and embattled President Nicolás Maduro, the control over Venezuela’s assets in the United States and in particular the control of PDVSA’s U.S. refinery and marketing subsidiary, Citgo Petroleum Corporation, and its revenue of more than $30 billion continues to unravel. The Delaware Court of Chancery in a recent and very detailed opinion set the grounds for a final resolution on who constitutes the board of the Citgo entities. The court declared that the U.S. recognition of Guaidó as president of Venezuela binds the court; and that Guaidó’s reconstitution of the board of Citgo’s parent company, PDVSA, was valid. The PDVSA board, which Guaidó reconstituted, appointed a new board for the Citgo entities at the beginning of the year. Led by the very well respected Luisa Palacios, as chairman, one of the new board’s most important tasks was to appoint a new CEO to lead the company through strenuous times, operationally separated from a shareholder sanctioned by the U.S. administration and through the very difficult geopolitical landscape in which the company operates. Citgo recently designated as CEO Carlos Jordá, a Venezuela-born executive, former president of PDV America and chairman of the Citgo board of directors. Jordá separated from Citgo early in Hugo Chávez’s presidency of Venezuela. He was the head of a Tennessee-based refining and marketing company. His appointment denotes Citgo’s board desire to strengthen the leadership of the company on operations and continuing its business in the global oil industry. Citgo also faces other challenges, as it is under siege by Maduro, who does not recognize the company’s leadership and claims that the United States has unlawfully snatched it from the government and its creditors, who seek to liquidate PDVSA’s assets in payment for their debts.”

Carlos A. Rossi, president and owner of EnergyNomics in Caracas and professor of petroleum economics: “The importance of Citgo for Venezuela has been paramount since it was purchased in 1986. Citgo is the fifth-largest independent oil refiner, with a 749,000 barrel-per-day (bpd) capacity, offering more than 600 types of lubricants and 13 billion gallons of refined products annually through a market outreach of 5,300 independent retail outlets. Citgo also has presented
66 percent so far this month. The numbers are nearly double the Russian firm's purchases before the United States' January sanctions. Rosneft, which produces about 5 percent of the world's oil, is also reportedly handling shipping and marketing operations for the majority of Venezuelan oil exports, sending oil to refineries in China and India, according to six industry sources, Reuters reported. This has helped offset the Venezuelan company's loss of traditional dealers who are avoiding doing business with PDVSA for fear of breaching the sanctions, according to report. [Editor's note: See related Q&A in the July 26 issue of the Energy Advisor.]

Brazil Oil Regulator Approves Companies For Next Bid Round

BP, Chevron and China's CNOOC are among the 12 companies that Brazilian oil regulator ANP has approved for bidding in an exploration rights auction in the South American country, ANP said Monday, Reuters reported. Other firms that were also cleared include Brazilian state oil company Petrobras, ExxonMobil, Colombian state-owned oil firm Ecopetrol, Norway's Equinor and Royal Dutch Shell, as well as Spain's Repsol and France's Total. The auction, which offers production-sharing contracts for eight blocks in the Santos and Camos pre-salt basins, is to be held in October, Energía16 reported.

Petroperú Reportedly Eyeing Exporting Light Crude in 2020

Peruvian state refiner Petroperú is reportedly considering exporting light, sweet crude oil starting next year to take advantage of new International Maritime Organization, or IMO, standards set to come into effect on Jan. 1, 2020, S&P Global Platts reported Tuesday, citing unnamed sources close to the refiner. The incoming IMO regulation bans ships from using fuels with a sulfur content above 0.5 percent, compared with 3.5 percent currently. This is expected to drive refiners to buy crude oil with lower levels of sulphur, such as the lighter oil

ADVISOR Q&A

What’s Behind the Conflicts Over Mining in Peru?

Q Peru's government on Aug. 9 suspended a construction permit it had recently granted Southern Copper for the $1.4 billion Tía María mining project, which local opposition has delayed for nearly a decade. Earlier this month, Peruvian Finance Minister Carlos Oliva said the government is preparing legislation to update the country's decades-old mining laws, but added that it is unlikely to make any big changes on taxes on mining companies. What are the reasons for local opposition to mining projects in Peru? How likely is the Peruvian government to re-grant the construction license to Southern Copper, and does the cancellation have wider implications for mining companies looking to operate in the country? What's wrong with Peru's current mining laws, and what sorts of provisions should the legislation to update them include?

A Eileen Gavin, principal consultant at Verisk Maplecroft: "Reasons for community opposition vary by project, but almost exclusively stem from socio-environmental concerns—the potential impact on water quality and availability, as well as water and air pollution. Another leading factor is poorly defined, or absent, legal frameworks regulating Free, Prior and Informed Consent (FPIC), which create legal uncertainty, both for investors and indigenous communities. Procedures have been patchy and piecemeal at best and corrupt and duplicitous at worst; therefore, Peru remains high risk on Verisk Maplecroft's Indigenous Peoples' Rights Index. And we expect conflict to escalate further under governors elected on anti-mining and pro-decentralization platforms. In July, the ombudsman reported 185 social conflicts; of 93 active socio-environmental conflicts, 62 were mining related, and 18 were hydrocarbons related, underlining the dominance of the extractives in social conflicts. We do not foresee any progress with the Tía María mine for now, not least because Peru may see a snap election. Against this backdrop of political instability, extractives companies face rising levels of operational and legal ambiguity, which may delay or deter investments and stall overall economic growth in 2019-2020. Social licenses to operate are a ‘must-have’ to secure investment, deploy capital effectively and deliver the returns that institutional stockholders expect. But the 1992 mining law provides insufficient socio-environmental protections. There is a general agreement, including within the industry, that the current framework is excessively bureaucratic, which hinders transparency and accountability. President Vizcarra is not the first and will not be the last to stumble on the governance problems afflicting mining. His proposed solution—enhanced decentralization and more financial clout for regional governments—makes sense on paper. We would caution, however, that it appears to skate over the problem of equally weak regional governance, and thus may prove insufficient to resolve the current situation."

EDITOR’S NOTE: More commentary on this topic appears in Wednesday's issue of the Latin America Advisor.
Hurricane Dorian Lashes Virgin Islands. Puerto Rico Avoids Direct Hit

Hurricane Dorian pounded the U.S. and British Virgin Islands Wednesday and sidestepped Puerto Rico, taking down power lines and causing flooding in the region, The Washington Post reported. Puerto Rico avoided a direct hit from the category 1 storm. “This is not Maria,” said Puerto Rico Governor Wanda Vázquez, referring to the deadly 2017 hurricane. Dorian is expected to strengthen before striking Florida, possibly on Monday.

Amazon Nations to Discuss Protection, Development: Bolsonaro

Brazilian President Jair Bolsonaro said Wednesday that Latin America’s Amazon nations will meet in September to discuss protection and development of the rain forest region, where fires have been burning for weeks, the Associated Press reported. The president emphasized his contention that international offers of aid to help fight fires were an infringement on Brazil’s sovereignty over the region. European leaders including French President Emmanuel Macron argue that a global response is required because of the Amazon’s critical role in absorbing carbon dioxide from the atmosphere, the AP reported.

Bank Loans Fall, Defaults Rise in Brazil

The number of outstanding bank loans in Brazil dropped 0.2 percent in July, as compared to the previous month, to 3.29 trillion reais ($793 billion), or some 46.9 percent of gross domestic product, the country’s central bank said on Wednesday, Reuters reported. Loan defaults rose to 4.0 percent from 3.8 percent in June, while lending spreads expanded to 31 percentage points, from 31.5 percentage points a month earlier, the central bank said.

Peru Would Export, According to the Report.

Petroperú expects to make a final decision by the end of the year, the sources said. [Editor’s note: See related Q&A in the Aug. 2 issue of the Energy Advisor.]

YPF Concerned Over Argentina’s Economy, Fuel Price Freezes

Argentine state-controlled oil company YPF said Tuesday that the run on the peso and the government’s announced fuel price freezes, as well as restrictions on the gas market, may cause a gap between the company’s income and its spending, Reuters reported. “YPF will seek to limit the impact generated by this situation by adapting its supply chain to this reality, prioritizing the continuity of projects essential for the company’s growth with a focus on the preservation of activity, safety and employment,” YPF said in a statement.

Former Commander of Colombia’s FARC Issues Call to Arms

Iván Márquez, a former commander of Colombia’s FARC rebel group, in a video released Wednesday, issued a call to arms and vowed to return to war. "This is a continuation of the guerrilla struggle in response to the state’s betrayal of the Havana peace accords,” said Márquez, whose real name is Luciano Marín. He added that the FARC would seek to coordinate forces with the National Liberation Army, or ELN, rebels and called for “a new phase of the struggle” under “the universal right that all people have to raise arms against oppression,” The New York Times reported. In the video, Márquez appears alongside several other FARC members, including rebel leader Jesús Santrich. Márquez said the FARC will not engage in kidnappings for ransom and will “seek dialogue” with landowners and businesses to convince them to “contribute” to their “struggle,” BBC News reported. In the video, Márquez said “more than 500 social leaders have been killed and 150 guerrilla fighters are dead amid the indifference and the indolence of the state.”

Argentina Seeking to Restructure Debt With IMF

Argentina will look to restructure its debt with the International Monetary Fund and bondholders in an attempt to stem a confidence crisis that has hit the country’s financial markets, the government said Wednesday, The Wall Street Journal reported. New Finance Minister Hernán Lacunza said the government aims to extend the maturity of its debt denominated in local and foreign currencies to stabilize the peso as growing concerns about Argentina’s political continuity and its ability to repay its debt prompted a currency crisis earlier this month. Argentina’s peso saw a sharp devaluation following the country’s primary elections earlier this month, in which Peronist opposition candidate Alberto Fernández trounced President Mauricio Macri by a margin of 15 percentage points, a much larger gap than polls had previously forecast. “Every political group wants to win the election, but that’s not an excuse to put at risk the well-being of Argentines,” Lacunza said, The Wall Street Journal reported. “We have to agree on maintaining stability as a nonnegotiable priority,” he added. Earlier this week, Fernández met in Buenos Aires with IMF representatives, later lashing out against the international lender and Macri’s government and blaming them for the country’s economic stagnation, high inflation and capital outflows. “Those who have generated this crisis, the government and the IMF, have the responsibility of ending and reversing the catastrophe that today a growing portion of Argentine society is going through,” he said in a statement, La Nación reported. [Editor’s note: See related Q&A in the Aug. 14 issue of the daily Latin America Advisor.]
a good geographical location and deep refining convertibility for Venezuela’s heavy crude oil to the world’s biggest economy. As Asian countries increased demand in the new millennium while long-term oil availability became a concern, the sentiment switched to one of a ‘seller’s market,’ and Citgo has remained important because heavy crude increased its participation in Venezuela’s oil mix. U.S. sanctions limit refining outlets for Venezuela, forcing dependence on Russia. Considering that oil exports account for 97 percent of Venezuela’s foreign exchange earnings, plus its government’s destruction of the economy, Venezuela’s loss of freedom without Citgo is obvious. Sanctions put Citgo under the control of Venezuela’s National Assembly president, Juan Guaidó. It is hard to tell how long this arrangement will last; it all depends on the Venezuelan military and on Russia, which now have the upper hand in Venezuela’s conflict. A coalition, power-sharing proposal, as the one I am drawing up, could be acceptable to all concerned. Without Venezuelan oil, Citgo’s value is negatively affected, as it’s forced to compete for feedstock with other refiners. The appointment of Carlos Jordá as CEO assures stakeholders. He has a 48 years of career experience in the hydrocarbon business.”

Fabiana Perera, assistant professor at the William J. Perry Center for Hemispheric Defense Studies: “Though its valuation is lower than it was a few years ago, Citgo Petroleum is still probably Venezuela’s most valuable asset abroad. Analysts estimate its value somewhere between $4 billion and $8 billion, net of debt. Citgo’s refining capacity makes it an important source of foreign currency for Venezuela, if not its main destination for oil exports. Whoever controls Citgo controls a very important source of revenue, and everyone involved—Nicolás Maduro, Juan Guaidó and the U.S. government—is aware of that. Maduro sought to have Citgo remain tied to PDVSA so that it could retain control of the U.S. company. Guaidó’s camp argued for and won the separation of Citgo from PDVSA, so that the U.S. company is not affected by the sanctions targeted at what used to be its parent company. The United States is continuing to find ways to restrict Maduro’s income and to channel it instead to Guaidó. Just as there are two people who claim to be president of Venezuela—Maduro and Guaidó—there are two groups of people that claim to be the board of Citgo: one loyal to Maduro and one loyal to Guaidó. Jordá was selected by the latter for the CEO job. Given the many restrictions put on people associated with Maduro, Jordá will be able to have effective control of the company. This is in many ways an extension of the broader Maduro-Guaidó power split: Maduro controls the institutions in Venezuelan territory, and Guaidó is recognized from the borders out.”

“Citgo is still probably Venezuela’s most valuable asset abroad.” — Fabiana Perera

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