What’s at Stake for Guyana’s Oil Sector in the Elections?

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Valérie Marcel, associate fellow in the energy, environment and resources program at Chatham House: “The stakes of the upcoming elections are high for the little South American-Caribbean nation, as it has just begun to produce from its string of oil discoveries last December. The winning party on March 2 will reign over the spending (and saving) of the country’s oil revenues. There is a unique political opportunity for state-building should the new government distribute opportunities across indigenous, Afro- and Indo-Guyanese bases. But there is also a risk that it develops clientelistic networks based on ethnic and party affiliation. The APNU coalition led by President Granger is campaigning on a continuation of the ‘Green State Development Strategy’ that aimed to give Guyanese a ‘good life’ while preserving Guyana’s pristine environment. Surprisingly, there is no significant departure from these policies in the PPP manifesto, which bodes well forContinued on page 3
Maduro Declares ‘Energy Emergency,’ Creates Commission

Venezuelan President Nicolás Maduro on Wednesday declared an “energy emergency,” announcing the creation of a commission to rehabilitate state oil company PDVSA in a bid to bolster the country’s crumbling oil industry, Bloomberg News reported. Economy Vice President Tareck El Aissami will chair the commission, which has the goal of increasing crude production, Maduro said. Other members of the commission include former Energy Minister Asdrúbal Chávez as commission vice president, Defense Minister Vladimir Padrino and armed forces Strategic Operational Commander Remigio Ceballos. “I won’t accept more excuses,” Maduro said at an even with PDVSA workers that was broadcast on state television. “Either we produce, or we produce. Venezuela has to be an oil power,” he added. He said the goal is for Venezuela to raise crude output to two million barrels per day this year, more than double the current levels, Reuters reported. The announcement came one day after the United States slapped sanctions on Rosneft Trading, a subsidiary of Russian state oil company Rosneft that has become a major intermediary for Venezuelan crude since the administration of U.S. President Donald Trump blacklisted PDVSA last year. “The sanctons, the blockade—1 will not accept any more excuses,” Maduro said. Reuters reported. “I am signing a decree to declare an energy emergency in the hydrocarbons industry in order to adapt necessary and urgent measures to guarantee national energy security and protect the industry from imperialist aggression,” in announcing the new sanctions, the U.S. government warned that anyone doing business with the Swiss-registered Rosneft Trading is also at risk of U.S. sanctions. Senior administration officials said more sanctions are under consideration, especially ones targeting other foreign firms helping Maduro, whom the United States sees as illegitimate, The Wall Street Journal reported. The officials also said the administration has not taken the use of military force off the table as a possible option to pressure Maduro to step down. Russia responded to the sanctions with the foreign ministry saying the move would further damage already poor U.S.-Russia relations and hurt global free trade, Reuters reported. The ministry also said that the sanctions would not deter Russia from continuing to work with Caracas. In light of last year’s U.S. sanctions against PDVSA, Rosneft has become Venezuela’s main shipper of crude, with India and China as its two main destinations, Bloomberg News reported. Rosneft has also loaned some $6.5 billion to PDVSA in exchange for crude. Also as a result of the sanctions, Russia has become the United States’ second-largest source of oil imports. The European country’s crude and oil product exports to the United States rose to 20.9 million barrels last October, the highest level since November 2011, according to U.S. government data.

Guyana Ruling Party Vows to Distribute Oil Wealth: Manifesto

Guyana’s ruling party said last Friday that it would distribute a portion of the country’s oil wealth directly to citizens via cash transfers if it wins re-election in the upcoming March 2 vote, Reuters reported. Guyana’s new oil production, which began in December when an ExxonMobil-led consortium started pumping crude in the offshore Stabroek block, is seen as a test case for whether oil wealth can drive sustainable development in countries with weak institutions, according to the report. President David Granger’s APNU+AFC coalition has vowed not to use funds from oil sales after the election, in which plans for how to use the new flow of money is a major issue. One possibility is direct payment to citizens, a measure that would be similar to one used in the U.S. state of Alaska, where residents receive an annual dividend from oil and gas revenues. In a manifesto for its potential second five-year term, the coalition said it would approve cash transfers to citizens “for the purchase of essential items” to citizens “for the purchase of essential items”...
as well as conditional cash transfers* for single parents, public transit and elder care, among others. The opposition People’s Progressive Party has said it supports “targeted cash transfers” for the elderly, children and the poor. The International Monetary Fund has forecast that Guyana will see economic growth soar to 86 percent this year, up from 4.4 percent last year, driven by oil revenues. [Editor's note: See related Q&A in the Nov. 15 issue of the daily Latin America Advisor.]

**Brazil Oil Workers to Appeal Labor Court Decision Over Strike**

A Brazilian oil workers labor federation will appeal a decision issued by the country’s labor court that declared a strike at state oil company Petrobras illegal and abusive, according to a video released by the federation on social media on Tuesday. Brazil’s Superior Labor Court a day earlier had authorized Petrobras to take disciplinary action against employees and their unions, allowing a fine of as much as 500,000 reais ($115,058) per day if the strike continues, Reuters reported. “We understand that this decision is unconstitutional, and our lawyers across Brazil are, yes, looking for a way to question this monocratic ruling by minister Ives Gandra,” Deyvid Bacelar, the director of the FUP, the umbrella union for workers in the oil sector, said in the video. In a separate statement, Petrobras said it had notified unions about the court decision and was waiting for “all of its employees to return to work immediately.” Some 20,000 workers in 13 states are participating in the strike, which was called over what workers see as government attempts to privatize Petrobras, according to the FUP. The company has said production of crude and refined products has been maintained after it hired emergency employees. However, Décio Oddone, the head of Brazilian oil regulator ANP, said earlier this month that emergency hires were not a long-term solution and that fuel supplies could be at risk due to the strike. The FUP has said the thousands of employees are on strike “indefinitely.”

| FEATURED Q&A / Continued from page 1 |

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— Michael Matera

*policy continuity. The PPP also supports the Extractive Industries Transparency Initiative and the new sovereign wealth fund. Both rival parties have spoken about the need to bring associated gas to shore for power generation while developing renewables. The economy—and specifically the issue of how to support the non-oil economy—is an area of greater divergence between the candidates, with the PPP supporting rescuing the dying sugar and bauxite industries, for instance. If campaign pronouncements are to be believed, a PPP government would more forcefully manage the oil sector. It spoke notably of strengthening the Environmental Protection Agency to ensure effective environmental regulation. It also indicated that contracts signed during the Granger administration would be reviewed, as would those that the previous PPP administration signed with inexperienced companies. But ExxonMobil remains shielded, as neither of the rival parties campaigned on the promise to extract more from it, despite multiple reports that the deal is generous by industry standards.*

**Michael Matera, senior fellow and director of the Americas at the Center for Strategic and International Studies (CSIS):**

“As Guyana moves into a new period of increasing national affluence based on oil revenues coming on stream this year, the country will face the challenge of deciding how best to put these new resources to work for the good of the entire population. Taking full advantage of this opportunity will require a level of political consensus and social stability that often has been lacking in Guyana in recent decades. Guyana’s general elections on March 2 come almost 15 months after President Granger’s APNU/AFC coalition lost its one-seat majority in Parliament in December 2018, setting off a period of political and policy stalemate. In the wake of this recent period, there is hope that the election will allow the country to move beyond this stalemate and get on with the big decisions pending. However, there is still the possibility that any election outcome will be challenged by the party coming in second, be it the PPP/C or APNU/AFC. It is rumored that both major parties have already drafted legal challenges to the election results, which they are ready to file depending on the outcome of the election. Such challenges would likely be based on ongoing controversy surrounding the voters’ list and the overall voter registration process in Guyana. Irrespective of the election outcome (and everyone hopes for a clear and undisputed outcome), the Guyanese people and their political representatives would be well advised to renew past efforts to address the ethnic and racial divisions that have plagued the country and to work toward a social consensus over how best to manage its newly found resource wealth for the good of all Guyanese. The international community, including the international oil companies assisting Guyana in its development process, should be ready to collaborate closely in this critical effort in the coming months and years if requested by the Guyanese government.”

**Jan Mangal, oil and gas consultant and former petroleum advisor to the president of Guyana: “The people of Guyana are between a rock and a hard place. Both of the political duopolies, the governing APNU/AFC coalition and the opposition PPP, squandered the period since the last election in 2015. They do not have much new to offer...**

Continued on page 6
Political News

Mexican Authorities Investigating Peña Nieto in Graft Case

Mexican authorities are investigating former President Enrique Peña Nieto in connection with the corruption case against Emilio Lozoya, the former head of state-run oil company Pemex, The Wall Street Journal reported Wednesday, citing a senior Mexican judicial official. Lozoya was arrested last week in Spain, and Mexico has requested his extradition. He is accused of pocketing millions of dollars’ worth of bribes from Brazilian construction conglomerate Odebrecht and Mexican steel manufacturer Altos Hornos de México. Mexican government investigators allege that Odebrecht paid Lozoya $9 million in order to secure contracts when he was a top official of Peña Nieto’s campaign for president in 2012 and after he was named head of Pemex. Authorities also allege that Lozoya received $3.5 million from Altos Hornos to ensure the sale of a fertilizer plant, Agronitrogenados, to Pemex for far more than it was worth. “The attorney general’s office has evidence that the corruption of Lozoya in Agronitrogenados and Odebrecht reaches to the highest level,” the unnamed Mexican judicial official told The Wall Street Journal, referring to Peña Nieto. “The extradition and [any possible] confession of Lozoya are elements that together with ongoing investigations will decide if the former president is charged in the future.” Peña Nieto could not be immediately reached for comment, but he has denied wrongdoing in the past. The chairman of Altos Hornos, Alonso Ancira, whom Spanish authorities arrested last May, also has denied wrongdoing. Ancira is currently fighting extradition to Mexico. Before fleeing Mexico last May, Lozoya denied wrongdoing. After Lozoya was arrested in Spain last week, his lawyer, Javier Coello Trejo, told a Mexican television station that Lozoya “didn’t act on his own.” As Pemex’s chief executive, Lozoya reported directly to Peña Nieto. Coello Trejo said he was unsure whether Lozoya would fight extradition back to Mexico. Lozoya was head of Pemex between 2012 and 2016.

Q A group of 137 countries and jurisdictions last month agreed to continue with negotiations to reach a consensus-based solution to the tax challenges of the digital economy, according to the Organization for Economic Cooperation and Development, or OECD. The negotiations come as several countries, including Mexico, have been seeking to impose unilateral digital taxes on companies such as Facebook, Amazon and Google. Will politicians from around the world soon be able to agree on how to tax digital companies, and what should that solution look like? How much revenue could such taxes generate for governments? How effectively are digital platforms currently being taxed in Latin America and the Caribbean, and what will current taxation trends mean for businesses and consumers of online services in the region?

A María Fernanda Valdés Valencia, author and coordinator of tax issues for the Friedrich Ebert Stiftung in Colombia and Latin America: “I find it feasible that under OECD leadership there will be a consensus-based solution. However, this ‘solution’ will surely be close to the proposals for the two pillars that the OECD already disclosed for consultation, and it will not solve the challenges that the digitalization of the economy poses—namely, the opportunities for evasion and avoidance that digitalization entails, not only for the usual suspects (Facebook, Amazon and Google) but also for other companies. Here it is important to emphasize that what countries are discussing is not a digital tax, but rather a whole reform of the international tax system. I consider a consensus achievable precisely because the OECD proposal does not offer a real solution. A real solution must be much more ambitious than the one presented. A good approximation to such a solution is the one proposed by IRISCT, the alternative commission chaired by José Antonio Ocampo and composed of many well-known scholars, such as Piketty, Stiglitz and Sepúlveda. It is not easy to know how much revenue a real solution will generate for Latin American countries. Nevertheless, if countries with well-structured tax systems and robust tax institutions, such as European countries, are struggling with taxing the digital economy and are losing important revenue due to evasion and avoidance carried out by large multinationals, what can we realistically expect from Latin American countries, such as Colombia, Paraguay or El Salvador? Latin American countries depend much more than any other region on taxing companies. The question should not be how a solution would affect booming businesses or Amazon’s customers, but rather how poor countries could finance their schools, their care systems and their development if companies do not pay their share. That is the most relevant—and pressing—question.”

Editor’s Note: More commentary on this topic appears in Tuesday’s issue of the Latin America Advisor.
**NEWS BRIEFS**

**Colombia Launches $63.9 Million Fund to Help Coffee Farmers**

Colombia, the world’s number-one producer of washed arabica coffee, launched a fund worth 218 billion pesos ($63.9 million) on Wednesday in a bid to stabilize coffee prices and protect farmers from volatile markets. Colombia’s coffee output last year was its highest in 27 years, totaling 14.8 million 60-kilogram bags. The fund will allow coffee growers to cover production costs and avoid losses in case of unexpectedly lower prices. [Editor’s note: See related Q&A in the April 26 issue of the daily Latin America Advisor.]

**Costa Rican Authorities Seize More Than Five Metric Tons of Cocaine**

Costa Rican authorities last Saturday seized more than five metric tons of cocaine hidden in a container that was destined for the Netherlands, Agence France-Presse reported. It was the largest drug seizure in the country’s history. The cocaine was concealed in a load of ornamental flowers at the APM Terminal in the Moín port, in the Caribbean province of Limón, said Public Security Minister Michael Soto. Police also arrested a 46-year-old Costa Rican suspect.

**Dominican Republic Halts Local Vote Due to System Failure**

Electoral officials in the Dominican Republic on Sunday halted their municipal election because of a massive failure of the country’s electronic voting system, Dominican Today reported. The president of the Central Electoral Board, Julio César Castaños Guzmán, said the vote would be rescheduled for an “opportune date.” He added that voting was halted after approximately three hours due to problems at about half of the polling places that use electronic ballot machines, the Associated Press reported. The machines were in use in Santo Domingo and 17 other municipalities, mainly the most populous ones. Opposition parties in the Caribbean nation said some of their candidates were not appearing on electronic ballots. Election authorities said they would open an investigation into the failure of the voting system in an effort to determine what caused the problems and whether they were intentional. The officials in charge of running the elections also said they would meet with leaders of political parties in coming days in order to determine a new date for the balloting. An Organization of American States electoral observation mission said it was informed Saturday night about the problems but added that it was impossible to correct them before voting began. The OAS also said it would continue to support the country’s electoral process. Luis Abinader, the leader of the Dominican Republic’s opposition Modern Revolutionary Party, said the vote’s suspension was “outrageous and unjustified,” Reuters reported. Opposition parties, including former President Leonel Fernández’s People’s Force party, have objected to the use of the electronic voting system, saying its software could be manipulated. More than 7.4 million voters were set to elect officials to 3,849 positions in 158 municipalities across the country.

**Chilean Mining Minister Expects Rise in Copper Prices**

Copper prices will rebound in coming months following a fall in demand due to the coronavirus outbreak in China, Chilean Mining Minister Baldo Prokurica said on Tuesday, Reuters reported. China, where the flu-like virus originated, is the world’s number-one copper consumer. The Asian country on Tuesday reported its fewest new infections since January and its lowest daily death toll for a week, but the World Health Organization said the epidemic should still be viewed with caution. Copper prices plummeted on Tuesday as deliveries into exchange warehouses sparked concerns over whether lower demand in China would cause a supply glut. “Though it is true the world economy is passing through a complex period … We don’t believe it will last very long,” Prokurica told reporters. The minister said he expects the slowdown to last another month or two as China tries to contain the virus’ spread and its effects on businesses. “We think this will mean a significant improvement in the copper price,” he said.

**Argentina’s Debt Level Unsustainable: Int’l Monetary Fund**

Argentina’s debt is unsustainable, and private creditors need to make a “meaningful contribution” to help end the South American country’s financial crisis, the International Monetary Fund said Wednesday in a statement, The Wall Street Journal reported. The statement followed a meeting in Buenos Aires between Julie Kozack, the IMF’s deputy director of Western Hemisphere affairs, and Argentina’s finance minister and central bank chief.
Hence the government came across as defensive and portrayed itself as a victim, when instead it should be seen as sensible and in control. And as for the opposition PPP, it needed to shed its cabal of tainted leadership, but instead it strengthened the hand of those accused of corruption prior to 2015. It also made no progress in transforming itself into a multi-racial party. Due to intractable problems with the coalition government and PPP opposition, and the absence of constitutional reform to make politicians accountable, independent voters may deny either of these duopolies an outright majority in the next parliament. Independent voters may hope new third parties can act as ‘honest brokers’ in the next Parliament.

If the PPP wins with a majority, Guyana may continue to blunder along and give away its oil wealth.*

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*Lynn Lunde Seefeldt, assistant professor of government and international affairs at Augustana University:

"Proposed development plans for Guyana’s oil industry are paramount in the upcoming elections. Guyana is nearing the cusp of a make-or-break situation where upcoming and in-process contracts with oil producers could potentially make Guyana a model for how emerging oil producers can manage the industry and subsequent windfall. Many Guyanese feel the initial deal with ExxonMobil favored the major and opened the door for foreign companies to exploit the tiny nation. Guyana also has a high level of perceived corruption, especially following the controversy of an undisclosed $18 million signing bonus from Exxon in 2017. Thus, many citizens feel the elites and politicians are not working in the best interests of the Guyanese. As a result, any candidate who promises to deliver fairer and more transparent contracts is likely to pull in electoral support. But candidates have minimal, if any, experience running a campaign under a dramatically shifting economy—one in which oil is expected to account for 40 percent of GDP by 2024. This means that incumbents from APNU face an uphill battle on this front, with the PPP criticizing President Granger (and his party) of being too generous with Exxon and not managing windfalls appropriately. Successful candidates are likely to be those who challenge the status quo and offer an adjusted model for Guyana’s future. It will then be up to them to deliver.”

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