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FEATURED Q&A

Is Venezuela's Oil Output Growing In Spite of Sanctions?

This year, Venezuelan state oil company PDVSA recovered production sharply and is on track to meet its goal of one million barrels of oil per day, commentators Jeremy Martin and David Voght say below. // File Photo: Wilfredor via CC license.

Q Venezuela's government is estimating that income from exports of crude oil will finance 61 percent of its budget next year, Reuters reported Dec. 6, citing a government document. President Nicolás Maduro's allies have helped increased output this year for Venezuela, which sells half a million barrels per day, the wire service reported. How much have U.S. sanctions crimped Venezuela's oil output, and will the U.S. sanctions change in the year ahead? Which countries have helped Venezuela the most in selling its oil? How pivotal is Venezuela's oil industry in helping Maduro to remain in power?

A **Stephen Johnson, former U.S. deputy assistant secretary of defense for Western Hemisphere affairs (2007-2009):** "Since early 2020, Venezuela's oil industry has gone from what one National Assembly deputy called 'an unburied corpse' to 'a fixer upper' operating on cannibalized parts and foreign refining inputs. Thanks to Iranian mercy flights that began in April 2020 followed by gasoline shipments a month later, the regime has been able to recover some refining capacity, despite periodic fires, explosions and leaks. Mixed with foreign-supplied diluents, Venezuela's tar-like crude can be refined and transported. From a low of 400,000 barrels per day, the industry has reportedly boosted production to more than a half million—still a far cry from the industry's three million per day capacity in the early 2000s. Besides the state's incompetent management, recent U.S. sanctions have imposed constraints. They block access to U.S. dollars for the purposes

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TOP NEWS

OIL & GAS

Foreign Firms Bid Strongly in Brazil Oil Auction

In a closely watched oil auction last Friday, France's TotalEnergies, the U.K.'s Royal Dutch Shell, Malaysia's Petronas and Qatar Energy won large fields offshore Brazil together with state-owned company Petrobras.

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POWER SECTOR NEWS

U.S. Approves Pemex Purchase of Texas Refinery

Mexican President Andrés Manuel López Obrador said the decision was "very good news" and thanked U.S. President Joe Biden for his support of the deal.

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Rio Tinto to Buy Lithium Project in Argentina

Led by Chief Executive Jakob Stausholm, mining company Rio Tinto said Tuesday it had reached a deal to acquire the Rincon lithium project in Argentina from a private equity firm for $825 million.

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Stausholm // File Photo: Rio Tinto.

OIL & GAS NEWS

Foreign Companies Bid Strongly in Brazil Offshore Oil Auction

In a closely watched oil auction last Friday, France's TotalEnergies, the U.K.'s Royal Dutch Shell, Malaysia's Petronas and Qatar Energy won large offshore fields in Brazil together with state-owned Petrobras, Reuters reported. The companies paid nearly $2 billion to Brazil's government for the minority shares in the fields. The auction, which the government declared a success, was seen as a test of Brazil's investment climate and of large oil producers' willingness to keep spending big on traditional oil assets, according to the report. Two years ago, international oil companies shunned an attempted sale of the blocks. A second failure would have been an embarrassment for the administration of President Jair Bolsonaro, Bloomberg News reported. "I'd like to celebrate this process and the increase in the number of participants," Economy Minister Paulo Guedes told reporters at the auction. "More players means more investment and production." [Editor's note: See **Q&A** on Petrobras' five-year strategy in last week's Energy Advisor.]

Antitrust Watchdog Should Block Sale of Gaspetro: ANP

Brazilian hydrocarbons regulator ANP recommended that Cade, the country's competition watchdog, block Compass from buying Petrobras-owned gas company Gaspetro, Reuters reported Monday, citing Valor Econômico. ANP recommended that Petrobras allow bidders to give individual bids for each of Gaspetro's state-level concessions to make its bidding process more competitive. Compass, a unit of energy company Cosan, had said in July that it had agreed to buy a 51 percent stake in Gaspetro for 2.03 billion reais ($354 million).

U.S. Approves Pemex Purchase of Deer Park Refinery

The U.S. government on Wednesday said it will allow Mexican state oil company Pemex to purchase Royal Dutch Shell's controlling interest in the Deer Park oil refinery in Texas, Reuters reported. Mexican President Andrés Manuel López Obrador told reporters that the decision from the Committee on Foreign Investment in the United States, or CFIUS, was "very good news" and thanked U.S. President Joe Biden for his support during the authorization process. López Obrador has said he wants Mexico to become self-sufficient in producing gasoline, and Deer Park, located near Houston, can process more than 300,000 barrels of crude per day. Earlier this month, Bloomberg News reported that Pemex could end up spending about $1.6 billion to take over the refinery, more than twice the price announced in May. Despite higher prices for crude, Pemex's large debt burden has led ratings agencies to downgrade its debt this year, and outside experts have been critical of the company's plans. Energy analyst David Shields told the Energy Advisor in August that "Pemex has the unconditional support of President López Obrador, who seems ready to give it a blank check

López Obrador // Photo: Government of Mexico.

NEWS BRIEFS

Guyana Submits Local Content Bill to Congress

Guyana's government last week submitted a long-awaited Local Content Bill to the National Assembly, setting out the minimum percentage of employment and goods and services procurement reserved for locals from the country's nascent energy sector, Stabroek News reported. The bill "seeks to negotiate a tradeoff" between oil sector investors and Guyanese nationals and companies involved in the petroleum sector, the measure states.

Crude Oil Production in Colombia Hits 11-year Low

Crude oil production in Colombia this year is on track to hit its lowest level since 2009, according to data from Rystad Energy released Tuesday. The Andean country is producing an average of just over 730,000 barrels per day (bpd), down from 754,000 bpd in 2020. Due to a lack of new oil discoveries, the country's proven crude reserves as of the end of 2020 stood at 1.82 billion barrels, a three-year low. By comparison, the country recorded 2.45 billion barrels of reserves in 2013. Colombia's proven gas reserves, meanwhile, ended last year at 2.95 trillion cubic feet (tcf), nearly half the 5.73 tcf recorded in 2012.

Jamaican Utility Regulator Looks Into Rate Increases

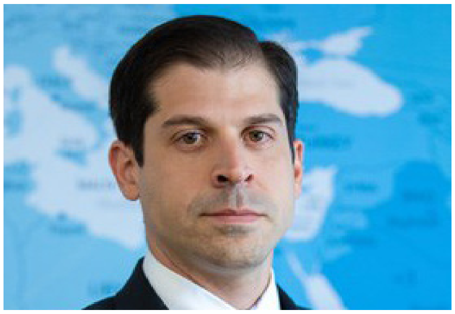
Jamaica's Office of Utilities Regulation said last Friday that it has stepped in to verify the details behind the country's state power and light company warnings to customers last week about pending higher bills due to rising fuel charges, the Jamaica Gleaner reported. The Jamaica Public Service company this month urged customers to conserve energy in order to limit their bills, saying higher commodity prices and the devaluation of the Jamaican dollar would lead to bigger bills in the weeks ahead.

to invest recklessly in another refinery (Deer Park, Tex.) and in an LPG distribution company (Gas Bienestar), both of which are potentially troubled, unprofitable businesses." [Editor's note: See related **Q&A** in the Aug. 20 issue of the Energy Advisor.]

POWER SECTOR NEWS

Panel Sets License Fees for Eletrobras

Brazil's National Energy Policy Council, or CNPE, on Tuesday decided that state-controlled power company Eletrobras will have to pay the government 67 billion reais ($11.66 billion) to continue operating its hydroelectric dams after its privatization, Reuters reported. The figure is slightly higher than earlier estimated and could be revised again, according to the report. Brazil's lower house of Congress in June approved



Mac Cord // File Photo: Brazilian Government.

plans to privatize the company, which is formally known has Centrais Elétricas Brasileiras, Bloomberg News reported. Lawmakers voted 258-136 in favor of the bill one day before the legislation's expiration. The government of far-right President Jair Bolsonaro said the sale could raise an estimated 60 billion reais ($11.9 billion) through the offering of shares and diluting the state's 61 percent stake in the company, according to the report. The Economy Ministry's special secretary for privatizations, Diogo Mac Cord, said last week that, despite some administrative delays, the government plans to continue with the next stages of privatization, with the sale expected in the first half of 2022, Agência Brasil reported.

RENEWABLES NEWS

Rio Tinto Acquiring Argentina Lithium Project for $825 Mn

Anglo-Australian miner Rio Tinto said Tuesday it had reached a deal to acquire the Rincon lithium project in Argentina for $825 million. Rincon is an undeveloped lithium brine project located in the Salta Province of Argentina. Sentient Equity Partners, a private equity group that specializes in metal, mineral and energy assets, is the seller. The project has the potential to have one of the lowest carbon footprints in the industry, according to Rio Tinto. Chief Executive Jakob Stausholm said in a statement that the deal is "strongly aligned with our strategy to prioritize growth capital in commodities that support decarbonization." The transaction is expected to be completed in the first half of 2022, pending approval from Argentina's Foreign Investment Review Board. Elsewhere in Latin America, Rio Tinto currently mines bauxite in Brazil and copper in Chile. In October, the leaders of the provinces of Jujuy, Salta and Catamarca agreed to create a Lithium Mining Region aimed at fostering investment opportunities and clear regulations for the lithium industry, América Economía reported. [Editor's note: See **Q&A** in the Dec. 3 edition of the Energy Advisor.]

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of buying and selling Venezuelan crude. The Trump administration even seized shipments of Iranian condensate. So far, President Biden has declined to go that far. Meanwhile, Venezuela has partnered with Iran, Russia and China using barter arrangements to side-step U.S. financial hurdles. By most accounts, Iran is pass-through for Venezuelan oil, while China seems to be a destination. These measures will undoubtedly help the Maduro regime boost revenue to finance its annual budget. But how much is uncertain. The Reuters article states the central bank has not released economic data since 2019—a polite way of saying that Maduro's ledger is a black hole. What we do know is that oil is his major source of revenue."

A **Jeremy Martin, member of the Energy Advisor board and vice president for energy and sustainability at the Institute of the Americas, and David Voght, managing director at IPD Latin America:** "U.S. sanctions against Venezuela, originally issued in 2015 by the Obama administration, were galvanized by the Trump administration in 2017 when restrictions were placed on PDVSA's ability to finance operations. Additional executive orders issued in 2019 curtailed Venezuelan oil exports to the United States and caused legitimate investors such as Chevron, CNPC, Repsol, ENI and Reliance to stop lifting crude. Russia's Rosneft Trading quickly picked up the slack, exporting more than 60 percent of Venezuela's crude until it was sanctioned in February 2020. Measuring the impact on oil output proved tricky as

> **"The increased production would not be possible without help from Iran..."**
> **— Jeremy Martin and David Voght**

production was already in freefall. Despite broadened controls, PDVSA gradually recovered export capacity, working with phantom traders who have limited concern for sanctions. Indeed, this year PDVSA recovered production from 570,000 barrels per day (b/d) in January to 870,000 b/d in November. PDVSA is on track to meet its goal of one million barrels of oil per day. The increased production would not be possible without help from Iran, which provides condensate to

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POLITICAL NEWS

Boric Defeats Kast in Chilean Presidential Vote

Gabriel Boric, 35, became the youngest person ever elected president of Chile in Sunday's runoff vote, La Tercera reported. He defeated José Antonio Kast, a far-right candidate, by a larger margin than most polls had predicted, with 56 percent of the vote as compared to 44 percent for Kast. A leftist congressman, Boric also became the most voted-for president in the history of the country, receiving 4.6 million votes, surpassing the 4 million that Eduardo Frei received in 1993. A key to his success was the ability to draw out new voters, according to the report. More than a million additional voters turned out for Sunday's election than had voted in the first round. Both candidates courted moderate voters in the weeks leading up to the election. Kast conceded defeat as results came in Sunday, tweeting a photo of himself on the phone congratulating his opponent on his "grand triumph," the Associated Press reported. He later traveled personally to Boric's campaign headquarters to meet with the president-elect. Outgoing President Sebastián Piñera, a conservative, held a video conference with Boric to offer his government's full support during the three-month transition. In his victory speech, Boric said he will be president of "all Chileans." Earlier in his campaign, Boric took aggressively progressive positions, such as a promise to fight climate change by blocking a proposed mining project, sparking fears that the country's critical mining sector could face a more difficult business climate. He also promised to end Chile's private pension system. The millennial president will have to contend with a Congress that is about equally split between left- and right-wing parties, Agence France-Presse reported. "Governing is going to be very, very difficult," Michael Shifter, president of the Inter-American Dialogue, told the wire service. The new president is "going to

Boric // File Photo: via Twitter @gabrielboric.

ADVISOR Q&A

What Does Boric's Election Mean for the Future of Chile?

Q **Leftist millennial Gabriel Boric, 35, was elected Chile's president on Sunday, defeating conservative José Antonio Kast, who conceded the race. A former student leader, Boric became well-known during anti-government protests in the South American country, and he is set to become Chile's youngest president when he takes office in March. What factors were most responsible for Boric's victory? What are the biggest initiatives expected of his government, and how well will Boric be able to work with the country's Congress? What will Boric's presidency mean for Chile's business climate and the country's economic recovery?**

A **Jorge Heine, research professor at the Pardee School of Global Studies at Boston University and former Chilean cabinet member:** "Boric's victory, which marks a turning point in Chilean history, can be traced back to the social uprising that took place on Oct. 18, 2019, and the strong reaction against the Piñera government's perceived lack of touch with the needs of the common people. The Frente Amplio, a coalition that arose from the student protests of 2011, read the tea leaves correctly. Since then, Boric played a leading role in channeling the demands from that uprising through the ongoing process of constitutional reform. He also expressed well the extant appetite for new approaches and public policies. This stood in contrast with the platform of José Antonio Kast, bent on turning the clock back to the 1980s, with policies perceived to be anti-women (his initial program proposed eliminating the women's affairs ministry, as well as banning all abortions, even in cases of rape and incest) as well as anti-LGBTQ. Yet, Boric will not have an easy job. Pension, health and tax reforms are at the top of his agenda, and for all of them he will need to work with Congress, where his coalition is in the minority. Much will also depend on whom he appoints in key portfolios such as finance and home affairs. His inner circle lacks any kind of government experience, and markets would welcome the appointment of safe pairs of hands in key ministries. This would mean reaching out to the old technocrats of the Concertación, which Boric has spent much of the past decade denouncing. Boric's success will largely depend on getting right that delicate balancing act, between advancing his ambitious reform agenda, on the one hand, while broadening his coalition beyond the current forces in Apruebo Dignidad, on the other."

> **"Pension, health and tax reforms are at the top of his agenda, and for all of them he will need to work with Congress."**
> **— Jorge Heine**

EDITOR'S NOTE: More commentary on this topic appears in the Q&A of the Dec. 21 issue of the Latin America Advisor.

NEWS BRIEFS

Ecuador to Lower Tax on Int'l Financial Transfers

Ecuador's government will lower the tax levied on international financial transfers, President Guillermo Lasso announced Tuesday, Reuters reported. Exporters say the 5 percent capital exit tax Ecuador places on money being transferred out of the country raises their costs. The exit tax raised a total of $1 billion in 2020. Last month, Lasso ordered the implementation of a tax reform plan that will raise $1.9 billion over the next two years, partly by raising taxes on large companies, Reuters reported.

IMF Approves $688 Mn Program for Suriname

The International Monetary Fund on Wednesday approved a program to rebuild Suriname's foreign reserves, which will disburse $688 million over a three-year period, $55 million of which will be distributed immediately, Reuters reported. The program seeks to bring down public debt, upgrade Suriname's monetary and exchange rate policy framework, stabilize the country's financial system and strengthen institutional capacity to address instances of money laundering and corruption, among other objectives, the IMF said in a statement.

Paraguay Hikes Key Rate for Third Month in a Row

Paraguay's central bank on Tuesday hiked its benchmark interest rate by 125 basis points for a third straight month, from 4 percent to 5.25 percent, with inflation still running at its fastest pace in a decade, Bloomberg News reported Tuesday. The rate hike came in response to rising food and fuel prices, inflationary pressures that could have a knock-on effect on the broader economy, the central bank said in a statement. The benchmark rate is now at its highest level since January 2019. After peaking at 7.6 percent in October, Paraguay's inflation slowed to 7.4 percent last month.

have to negotiate and make deals and alliances," he added.

U.K. High Court: Venezuela's Guaidó Must Be Recognized

The United Kingdom's highest court ruled Monday that Venezuelan opposition leader Juan Guaidó must be recognized as the South American country's legitimate head of state in a case that will determine who controls $1.9 billion worth of Venezuelan gold that is currently stored in vaults at the Bank of England. The Venezuelan Supreme Tribunal of Justice, which Venezuelan President Nicolás Maduro controls, had earlier declared that Guaidó's attempts to gain control of the assets were unlawful, but the U.K. courts are not likely to recognize that ruling, The Guardian reported. Both Maduro and Guaidó have appointed rival boards to Venezuela's central bank, and both have asserted that they have authority over the gold, the Associated Press reported. Maduro has said he wants to sell the gold to finance the country's health system in order to fight the spread of Covid-19 in the country. However, Guaidó wants to keep the gold reserves at the Bank of England and says Maduro's central bank board only wants to appropriate the assets, the Financial Times reported. The Bank of England refused to release the gold to Maduro after the British government and dozens of other countries backed Guaidó as Venezuela's legitimate leader in 2019. Monday's ruling by Britain's Supreme Court overturned a ruling by the Court of Appeal, which said in 2020 that although the British government recognized Guaidó as Venezuela's president, it also implicitly dealt with the Maduro government in practice, the Financial Times reported. The case will drag on, however, as the U.K. Supreme Court sent it back to a lower court to determine whether Guaidó's central bank board has any legal standing after Venezuela's Tribunal of Justice ruled that the opposition leader's appointments were unconstitutional, the AP reported. Guaidó welcomed Monday's ruling and said he would continue fighting for control of the gold. "We look forward to the opportunity in the next phase of the litigation to demonstrate that the U.K. courts should not recognize decisions of the Supreme Court of Justice of the Maduro regime declaring null and void the appointments made by the legitimate president to the board of directors of the [Venezuelan central bank]," Guaidó said in a statement.

ECONOMIC NEWS

Colombia Raises Rates to 3 Percent Over Inflation Fears

Colombia's central bank last Friday raised interest rates by 50 basis points to 3 percent. The peso's value jumped 1 percent on the news, as the Colombian and other Latin American central banks attempt to slow higher rates of inflation brought on by global forces unleashed by the still-spreading Covid-19 pandemic, Reuters reported. Colombia's government reduced its fiscal deficit target for 2021, citing a larger tax collection following an improvement in economic growth.

Brazil Posts $6.5 Bn Current-Account Deficit for November

Brazil's current-account deficit ballooned to $6.5 billion in November, the largest deficit for the month in seven years, the country's central bank said Wednesday. In the 12 months to November, the deficit reached 1.9 percent of gross domestic product, the highest since September 2020, Reuters reported. Between January and November this year, the South American country's deficit was $22.4 billion, up from a deficit of $16 billion for the same period in 2020. But in a more encouraging signal, foreign direct investment in November reached $4.6 billion, almost a billion dollars more than the forecast, the Banco Central do Brasil said. The trade balance deficit reached $2.5 billion in November, from a surplus of $1.7 billion in the same month in 2020.

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facilitate heavy oil production. Further, Malaysia and Singapore have become crucial transit points for Venezuelan crude. Russia and Turkey reportedly provide PDVSA access to financial systems. But perhaps most critical is the role of China, the single largest consumer of Venezuelan crude. Regrettably, sanctions have failed to achieve the restoration of democracy in Venezuela. U.S. politics have prevented the Biden administration from addressing a much-needed policy overhaul. Maduro and his cronies displayed their grip on power when crude production fell below 400,000 b/d in 2020. Clearly, Maduro has honed his ability to circumvent sanctions, which he will continue to do. It is time for U.S. and international policy toward Venezuela to evolve."

A **Nelson Altamirano, professor of economics at the School of Business and Management at National University:** "Economic sanctions against the main source of Venezuela's income are effective to debilitate the financial and economic operations of PDVSA, the central bank, and other entities of the Venezuelan government. However, they are not perfect because black markets are used to get essential parts for oil operations and also because of money laundering and drug smuggling. In addition, companies from Iran and Russia are willing to challenge U.S. economic sanctions. The oil export boost this year came after Iranian supply of condensate to dilute extra heavy oil was shipped regularly to Venezuela. It is not a surprise that when U.S.-Iran and U.S.-Russia political relationships are bad, economic sanctions are weaker. On top of that, 2021 has been special. In July, the Biden government relaxed the sanctions for liquefied petroleum gas, food and vaccines for humanitarian reasons for a year. The main problem is that the Venezuelan government controls distribution channels for food, liquefied petroleum gas and vaccines internally. So, it may end up reinforcing Maduro's grip on power, and people will still be leaving the country by foot. It would be better, less costly and more effective to offer a direct food/health program to the millions of Venezuelans now in Central America and South America who left their country because of hyperinflation, extreme poverty and a lack of hope for change."

A **Gustavo Coronel, a founding board member of PDVSA:** "On the basis of my limited knowledge of what is going on in Venezuela's oil industry, I believe Maduro's claim is an insult to our intelligence. What we know of the margins between Venezuelan current production costs and realized export prices of whatever volumes Venezuela is able to export, leads us to believe that sometimes they even lose money. In the best of cases, their low export earnings per barrel, combined with modest export volumes of the order of 500,000 barrels per day or so, cannot possibly finance any significant share of Maduro's budget. What can be surmised from the scant data available is that Venezuelan oil production is at around 500,000-600,000 barrels per day and that any figures much above this volume are probably faked and include re-exports of some of the oil and products imported from Iran and other countries. There are no drilling rigs making new holes in the country, the state of equipment is dismal, the morale of the workforce is very low and PDVSA's management is notoriously ignorant and incompetent. In light of all these severe limitations, how can anyone believe in oil production or oil export increases for Venezuela? Today the Venezuelan oil industry is not an important source of income for Maduro. He has found more illicit alternatives."

> **"I believe Maduro's claim is an insult to our intelligence."**
> — Gustavo Coronel

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