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FEATURED Q&A

Would Forming a State Oil Company Be Good for Guyana?

Guyana is considering the formation of a state-owned oil firm to help manage its offshore oil deposits. ExxonMobil's floating production storage and offloading (FPSO) vessel, the Liza Destiny, is pictured. // File Photo: ExxonMobil.

Q Guyana is considering the formation of a state-owned oil company to manage its offshore crude deposits, Vice President Bharrat Jagdeo said on April 19. In one arrangement under consideration, the government would grant licenses to a new state-run company, which would work with a "strategic partner," possibly from the Middle East, in the development and extraction of offshore oil. What would the creation of a state-run oil company mean for the South American nation? Would Guyana invest in the equipment, technology and know-how necessary to create a self-reliant oil firm, or would it rely on foreign partners to develop the resource? Is Guyana on course to avoid the "oil curse" that has hobbled some other resource-rich nations?

A Jan Mangal, oil and gas consultant and former petroleum advisor to the president of Guyana: "There are numerous reasons why Guyana should not develop a national oil company (NOC) in the short-term, or even over the long-term, due to the climate crisis. Developing a NOC would be putting the cart before the horse. Guyana failed at most prerequisites for a successful industry. And I define success as an industry that benefits the people and future generations, and does not only benefit the oil companies, local business elites and politicians. Success also requires an industry that recognizes its impact on the climate and constrains production. Guyana failed to negotiate fair oil contracts even when it had complete leverage over ExxonMobil in 2015-2016. Guyana failed to award oil blocks in a transparent,

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TOP NEWS

OIL & GAS

Sales of Brazil Crude Projected to Double This Year

Sales of Brazilian crude is predicted to more than double in 2022 and take off over the next 10 years, as foreign oil companies deliver more of the resource to the government as part of oil sharing deals.

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OIL & GAS

Maduro, Iran's Oil Minister Sign Energy Deals

Venezuelan President Nicolás Maduro and officials from his government hosted an Iranian delegation led by Oil Minister Javad Owji this week, where they signed an energy pact.

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POWER SECTOR

Mexico Seeks to Create Regional Lithium Body

Mexican President Andrés Manuel López Obrador said Tuesday he has been in touch with counterparts in Bolivia, Argentina and Chile about creating an association to develop the lithium sector.

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López Obrador // File Photo: Mexican Government.

OIL & GAS NEWS

Direct Sales of Brazil Crude Projected to Double This Year

Sales of Brazilian crude are predicted to more than double in 2022 and take off over the next 10 years as oil companies deliver more of the resource to the government as part of oil sharing deals, Reuters reported Thursday. Brazilian oil reserves will reach 1.1 million barrels per day (bpd) by 2031, Eduardo Gerk, chief of Pré-Sal Petróleo SA (PPSA), the state-run firm that manages the government's oil reserves, told Reuters. "Our scale of magnitude has started to change," he said, the wire service reported. The government formed PPSA in 2013 to oversee Brazil's production-sharing contracts with foreign oil companies operating in the country. The volumes it collected until this year were negligible, but that changed with the spike in oil extraction at offshore platforms off Brazil's coast. PPSA has already sold the 9.5 million barrels it expects to receive this year, Reuters reported. State-run oil producer Petrobras has purchased all that oil, outbidding Shell, Total, Portugal's Galp and a number of Chinese oil companies, the report added. Latin America's largest economy produces about 3 million bpd of crude a day, with PPSA currently taking about 1 percent. But that is likely to increase to 20 percent of total production by 2031, Gerk said, Reuters reported. [Editor's note: See related **Q&A** in the April 22 edition of the Energy Advisor.]

Venezuela's Maduro, Iran's Oil Minister Sign Energy Deals

Venezuelan President Nicolás Maduro and officials from his government hosted an Iranian delegation led by Oil Minister Javad Owji this week, the Associated Press reported Wednesday. The 12-member delegation was in the Venezuelan capital Caracas to discuss closer energy cooperation and efforts to get around economic sanctions imposed by the United States and its allies. The Iranians, who arrived in Caracas on Saturday, signed a number of deals and toured a Venezuelan oil refinery with PDVSA chief Asdrúbal Chávez, Bloomberg News reported. Venezuelan Petroleum Minister Tareck El Aissami lauded "the position assumed by the Persian nation in the construction of routes and mechanisms to overcome the unilateral coercive measures imposed by the government of the United States and allied countries," the AP reported. Both Venezuela and Iran have been sanctioned by the United States, but shortly after the Russian invasion of Ukraine, the administration of U.S. President Joe Biden extended an olive branch to Maduro and sent a delegation of its own to Caracas to discuss buying Venezuelan oil—possibly in exchange for easing sanctions. On Tuesday, Maduro tweeted that Venezuela has "always" had the support of Iran, the AP reported. He added that the Middle Eastern country can count on Venezuela's "support and commitment to continue advancing along the path of shared benefit and complementarity for our peoples." [Editor's note: See related **Q&A** in the April 18 issue of the daily Latin America Advisor.]

POWER SECTOR NEWS

Mexico Seeks to Create Regional Body to Develop Lithium

Mexican President Andrés Manuel López Obrador said Tuesday he has been in touch with counterparts in Bolivia, Argentina and Chile about creating an association to develop lithium, El Universal reported. López Obrador told reporters that, like Mexico, Bolivia has nationalized its lithium reserves, and the two countries have already begun sharing information. The Mexican president plans to create a new state-run company to develop Mexico's reserves of the metal, which is a key component in cellphones and car batteries. "We're going to work. We're already doing so together on

NEWS BRIEFS

Colombia Rolls Out Plan for Offshore Wind Energy Development

Colombia's government on Tuesday unveiled a roadmap for developing offshore wind energy, with presentations in the coastal city of Barranquilla from President Iván Duque and Energy Minister Diego Mesa. The roadmap calls for $1 billion in near-term investments, mostly along the country's Caribbean coast, which has the potential for 50 gigawatts of power generation through offshore wind projects. According to Colombia's Energy Ministry, offshore wind projects can attract investments of more than $27 billion by 2050 and create 26,000 jobs.

Mexico's Pemex Posts $6 Billion in Q1 Profit

Mexican state oil company Pemex on Monday reported a first-quarter net profit of $6.17 billion, Reuters reported. The figure reverses a nearly $2 billion loss in the same period last year. Higher prices for crude oil, as well as favorable foreign exchange conditions and growing output helped boost the results. Meanwhile, Pemex's debt edged down slightly to $108 billion from $109 billion at the end of 2021, an amount that still leaves Pemex among the most debt-laden state-owned oil companies in the world.

Colombian Fertilizer Firm, City of Barranquilla Sign Wind Power Deal

The Colombian fertilizer company Monomeros signed a deal with local officials of the coastal city of Barranquilla to supply with wind power an ammonia plant it plans to build, Renewables Now reported on Tuesday. The waters off Barranquilla will be the site of Latin America's first offshore wind farm after the city inked a separate agreement with the Danish firm Copenhagen Infrastructure Partners in March, the report added.

development, on exploration, processing, new technologies," López Obrador said at a press conference, Reuters reported. Together, Argentina, Bolivia and Chile are known as the "lithium triangle" as the three neighboring countries are home to some of the largest lithium deposits in the world—possessing nearly 56 percent of the world's known reserves, according to the wire service. "Chile already participates in Latin American initiatives for cooperation in the exchange of knowledge, experiences, science and technology, and in this sense, we are willing to participate in initiatives that bring our peoples closer together," Chilean Mining Minister Marcela Hernando told Reuters. At least one mining company—Bacanora Lithium, which is owned by the Chinese firm Ganfeng—is in the final preparatory stages of lithium extraction in Mexico, according to the report. It is unclear whether López Obrador plans to shut down the operations of foreign mining firms, or renegotiate contracts and forge partnerships with the private sector. One analyst thinks the former option is unrealistic: "Mexico doesn't have the equipment, infrastructure or know-how to extract the metal on its own," William Tahil, research director at Meridian International Research, told the Energy Advisor last week. [Editor's Note: See related **Q&A** in the April 29 issue of the weekly Energy Advisor.]

RENEWABLES NEWS

Ecopetrol to Invest $300 Mn in Hydrogen Fuel Production

Colombian state oil company Ecopetrol will invest roughly $300 million to produce hydrogen fuel, beginning with pilot projects in Bogotá and Cartagena, Semana magazine reported last week. Ecopetrol will also launch commercial scale hydrogen production projects at its two refineries, the report added. Those projects, to take place at the state oil company's Reficar and the Barrancabermeja refineries, will create "low-emissions" hydrogen fuel, according to Ecopetrol Vice President Yeimy Báez, Semana

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public manner and in ways to maximize revenues for the country. After seven years, it still failed to develop the human and organizational capacity to negotiate, regulate and manage the industry, and it failed to develop the basic laws, and also to protect its environment. Guyana has not even started to consider and mitigate the very difficult issues associated with the so-called 'Dutch disease' and the resource curse, and has not embarked on sustainable/inclusive national development. It also wants to rescind or alter its sovereign wealth fund. The only positive step seen in Guyana was the publication of the oil contracts in 2017. So to now focus sparse resources on creating a NOC is unwarranted and unjustified, and one has to wonder why the government is so eager to create a state-owned company when it was incapable of completing many prerequisites for success."

A **Mariana Zepeda, Latin America analyst at FrontierView:** "ExxonMobil struck (black) gold after a series of discoveries in 2015, but the company's presence in Guyana dates back to 1999. To sweeten the pot during the early stages of oil exploration, the government signed a product-sharing agreement with Exxon that favored the oil major, and the relationship between Guyana and Exxon has remained asymmetric since then, with the oil market dominated by Exxon and partners like Hess and China's CNOOC. To strengthen its position vis-à-vis the current players, the government will indeed need to diversify management of the industry. Still, even if Guyana succeeds in limiting Exxon's reach in the September oil licensing round, it will be difficult for the country to avoid the resource curse. Working with a strategic partner could expand the country's stake in its burgeoning oil sector, but only if the partnership helps Guyana develop the technical resources and know-how to forge a self-reliant oil company. And even if it does, a state-run company will not necessarily prevent the oil curse; consider the fall from grace of neighboring Venezuela's PDVSA. Guyana's oil resources are vast—the country could have the highest oil production per capita in the world by 2025. But almost three years after the discovery, the government's ability to leverage potential oil wealth into stronger development outcomes remains shaky, particularly since Guyana lacks a concrete plan for managing its oil wealth. Proposals to invest oil windfalls in social services or trade infrastructure will require fiscal discipline, and therefore good governance is a crucial priority."

A **Theodore Kahn, senior analyst for the Andean Region at Control Risks:** "Setting up a national oil company (NOC) has potential upside for Guyana, but there are also considerable risks. A national oil company would allow the state to participate directly in future oil and gas projects, in partnership with international companies. Having a direct share in future projects would potentially increase the government's take on profitable projects. However, it would also have to contribute to the costs of developing oil blocks. New state-owned firms often borrow from their international partners to finance their share of costs. This delays their contribution to government revenues because part of their share of oil is used to pay off debt. In addition, NOCs have been known to be a source of corruption in other countries, especially when oversight is weak. For these reasons, setting up a state-owned oil company is risky, and the government might think twice before taking such a step in the near future. Should it opt for an NOC, the Guyanese government would likely lean on a foreign partner, given the limited resources and know-how. That way, there will be more oil revenue for social and infrastructure spending, which the current Guyanese government wants to prioritize ahead of elections scheduled for later this year (and general elections in 2025). Will Guyana avoid the resource curse? It will be a

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reported. The upgrades that need to be made to each refinery are estimated to cost $150 million each. "What we want to do is join forces with the best companies worldwide, and we are going to surely sign consortiums in the second or third quarter of this year to start feasibility studies in 2023," Báez told the news magazine. The firm has ordered two electrolyzer systems from a company in Seville, Spain, and will deploy one in the Colombian capital in a bid to power its network of TransMilenio buses with hydrogen, according to the report. The other will be set up in the coastal city of Cartagena, where Ecopetrol will partner with two universities there to study how to transition away from fossil fuels, toward hydrogen power. [Editor's note: See related Q&A in the March 25 issue of the Energy Advisor.]

POLITICAL NEWS

Colombia Extradites Drug Baron 'Otoniel' to U.S. to Face Trial

Officials in Colombia on Wednesday extradited Dairo Antonio Úsuga, a drug baron better known as Otoniel, to the United States to face trial, El Tiempo reported. Two police riot tanks and a motorcade of more than 20 vehicles escorted him the to airport. In the United States, Otoniel is charged with the international distribution of cocaine, conspiracy to commit murder, conspiracy to manufacture and distribute international cocaine and use of firearms in order to promote drug trafficking, among other crimes, including sexual abuse of underage women, the Associated Press reported. Colombian President Iván Duque said Otoniel is "comparable only to Pablo Escobar," referring to the late former head of the Medellín drug cartel who remains known worldwide decades after his capture and death. Otoniel's Gulf Clan trafficked up to 200 tons of cocaine a year, BBC News reported. Prior to his capture last October, Otoniel was Colombia's most wanted man. The United States had offered a $5 million reward for his capture.

ADVISOR Q&A

Can the U.S. and Brazil Expect More From Each Other?

Q Top U.S. and Brazilian diplomats on April 25 held their first high-level talks since 2019, discussing issues such as Russia's invasion of Ukraine, deforestation in the Amazon and Brazil's request to join the Organization for Economic Cooperation and Development, or OECD. What would be the main benefits of closer cooperation between the United States and Brazil? What have been the most contentious issues between the two countries, and will they be able to overcome them? What is at stake for the countries' relationship in Brazil's presidential election later this year?

A Nestor Forster Jr., Brazil's ambassador to the United States: "The Brazil-U.S. partnership is a source of well-being and prosperity for our peoples and contributes to the solution of global challenges, including food and energy security. In the recent Brazil-U.S. High Level Dialogue, our countries were able to assess the progress made in a broad array of areas. The economic partnership—so crucial to Brazil-U.S. relations—is experiencing a positive phase: bilateral trade in goods reached a historic $70 billion in 2021, and bilateral investments create jobs and help the post-pandemic recovery in both countries. Supply chain resilience has been the subject of ongoing attention, and the June Summit of the Americas presents a unique opportunity to address this topic of relevance to the hemisphere. Cooperation in multilateral forums is another important item on the Brazil-U.S. agenda. As a nonpermanent member of the U.N. Security Council and a champion of its reform, Brazil has been exchanging views with the United States on the pressing challenges brought before that body. In the OECD, U.S. support for Brazil's accession attests to a commitment to economic modernization. Climate and environment issues are faced with a sense of urgency. Brazil and the United States have joined forces to fight deforestation and promote sustainable development in the Amazon. At COP26 in Glasgow, Brazil announced its goal of achieving carbon neutrality by 2050 and collaborated with the United States to ensure a successful conference. The October elections will show, once again, the strength of democracy in a country that takes a long-term view of its ties with the United States."

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

Leader of Haiti's Most Powerful Gang Sent to United States

Authorities in Haiti on Tuesday extradited one of the nation's most powerful gang leaders to the United States, where he faces charges for kidnapping and smuggling weapons, BBC News reported. Germine Joly, known as Yonyon, allegedly leads the powerful 400 Mawozo gang. He had been serving time in jail in Haiti, according to the report. Joly's gang was responsible for last year's kidnapping of 17 Christian missionaries, most of them U.S. citizens, who were held hostage for two months. Last week, 400 Mawozo also kidnapped a the trade attaché at the Dominican embassy in Haiti's capital Port-au-Prince. On Wednesday,

NEWS BRIEFS

Peru's Ruling Party Seeks to Cut President's Term to Two Years

Legislators from the ruling Peru Libre party last Thursday proposed a measure to cut current President Pedro Castillo's term from five to two years, Reuters reported. The move from members of Castillo's own party would lead to presidential and congressional elections next year. Since taking office last July, Castillo has survived two impeachment attempts and has had four separate cabinets. Polls show that 60 percent of Peruvians want Castillo to resign and call for new elections, the wire service reported. [Editor's note: See related **Q&A** in the April 11 issue of the Advisor.]

Nicaraguan Court Convicts Leaders of Business Group

A court in Nicaragua last Friday convicted Michael Healy, the president of the Superior Council of Private Enterprise, and its vice president, Álvaro Vargas, on charges comparable to treason, Reuters reported, citing the Nicaraguan Center for Human Rights. Healy could receive up to 13 years in prison and Vargas nine years. Police arrested the men last October. The charges against them are similar to those filed against dozens of people, including political and student leaders, who have challenged President Daniel Ortega.

U.S. Resumes Visa Processing in Havana

The U.S. Embassy in Havana has resumed processing visas for Cubans on a limited basis, the Associated Press reported Wednesday, citing an unnamed State Department official. Consular services on the island stopped four years ago under a hardening of relations with the United States. U.S. officials in Havana will only process visa requests from Cubans who are the parents of U.S. citizens.

the foreign minister of the Dominican Republic, Roberto Álvarez, tweeted that Carlitin Guillén Tatis had been released and is "safe and sound" following "four days of kidnapping," Al Jazeera reported. His captors had been demanding $500,000 for Guillén's release, according to The Washington Post, although it is unclear whether any ransom was paid. Haitians have been facing more violence and instability since President Jovenel Moïse's assassination last July, with opponents demanding that Prime Minister Ariel Henry resign. Henry has vowed to hold elections this year. Commenting about the overall situation in Haiti last week, U.S. Secretary of State Antony Blinken told a U.S. Senate committee that the country has "a long path forward" and that "the criminality, violence, the lack of basic law and order, is a fundamental problem," the Miami Herald reported.

ECONOMIC NEWS

Panama's National Assembly Approves Crypto Legislation

Panama's National Assembly last Thursday approved legislation to regulate the use of crypto assets in the Central American nation and also outline rules for its commercialization, Reuters reported. The measure, which passed on a vote of 38-0 with two abstentions, provides for the public and private use of cryptocurrencies and will allow Panamanians to use cryptocurrencies in order to pay taxes and any other civil or commercial payments that are not otherwise prohibited by law, the wire service reported. The legislation aims to regulate "the trading and use of crypto assets, the issuance of digital value, the tokenization of precious metals and other assets, payment systems and other provisions," Coin Telegraph reported. Gabriel Silva, an independent lawmaker and supporter of the measure, said the legislation is broader than measures that El Salvador previously passed, which make Bitcoin legal tender. "We're seeing the emergence of many different types of crypto assets like works of art," said Silva, Reuters reported.

Mexico Unveils New Plan to Fight Inflation

Mexican Finance Minister Rogelio Ramírez de la O said Wednesday that the government had reached a deal with business groups to increase production of staple foods such as corn, rice and beans as part of a plan to control consumer price inflation, Reuters reported. Prices for food are at a two-decade high. The six-month plan does not include price controls, according to the report. Some of Mexico's most important business leaders backed the plan. Billionaire businessman Carlos Slim said his telecommunications companies would not raise prices for the rest of 2022. Baked goods giant Bimbo pledged to maintain the price of white bread, Agence France-Presse reported. Wall Street analysts were lukewarm on the plan. "Overall, in our assessment the announced measures are no substitute for a conservative calibration of monetary and interest rate policy to deal with the challenges of high and disseminated inflation," Goldman Sachs economist Alberto Ramos said.

Cuba Issues Rules for Digital Money Service Providers

Cuba's central bank issued regulations for digital money service providers after the communist government last year approved cryptocurrencies for personal use, Reuters reported last Wednesday. The move could help cash-strapped Cubans and also offer a way around U.S. sanctions, according to the report. Cryptocurrencies use a system that allow for anonymous financial transactions to take place anywhere there is an Internet connection, and the digital transactions are impossible to trace or be subjected to capital controls. However, businesses that allow for cryptocurrencies to be traded and stored in "digital wallets" can often be tracked. Cuba's central bank said it would require people who want to make transactions using cryptocurrencies to obtain a license, Reuters reported.

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major challenge to ensure sound macroeconomic management of oil revenue, promote economic diversification and transition to cleaner energy sources, given Guyana's limited domestic economic capacity. While the government has put in place a reasonable policy framework to achieve this, sticking to the plan will be difficult."

A **Arthur Deakin, co-director of the energy program at Americas Market Intelligence:** "The drawbacks of creating a national oil company (NOC) in Guyana far outweigh the benefits. The Guyanese government has said it is looking for an open, public bidding process for its remaining oil blocks where the most competitive bidder wins. Awarding this to a state-owned oil firm, or limiting key players from participating, goes against that—especially since some of the participating companies have local experience that could lead to economies of scale. The government has also said that it would like to accelerate its oil production to ensure that it doesn't get ostracized by global climate targets. A NOC would potentially delay its oil development, as the government would need to create the supporting legal and regulatory structure around the company. There is also a strong risk of corruption and nepotism, as seen by regional peers such as PDVSA in Venezuela, Petrobras in Brazil and Pemex in Mexico. Perhaps more important, since the blocks are prospective, the NOC would mean new risks and costs for the government. A simpler way to increase their percentage of profits, while avoiding taking on new risk, is by increasing its royalties in future production-sharing agreements. Regarding the oil curse, it is still too soon to tell whether Guyana will be able to dodge it. It has set up a relatively promising sovereign wealth fund, but it is unclear how transparently and efficiently it will spend its oil money. To ensure further economic diversification, and encourage local entrepreneurship, Guyana needs more government incentives, more robust technical training and easier access to financing."

A **Steven Debipersad, economist and lecturer at Anton de Kom University of Suriname:** "The creation of a national oil company, in conjunction with a newly formed hydrocarbons institute, could act as a catalyst in oil-rich Guyana to develop its own oil strategy and improve revenue models from new oil and gas production contracts. In particular, the hydrocarbon institute should be responsible for creating the right conditions for investment and oversee the hydrocarbon activities of the major foreign oil companies operating in Guyana to optimize offshore activities. Just like in neighboring Suriname, Guyana could build an oil refinery plant to meet the local market's gasoline and diesel needs, greatly reducing its dependence on imports of oil derivatives—and a state-owned oil company would suit this need. A national oil company (NOC) would not only create jobs but also a whole new industry in the oil supply chain, making Guyana a more relevant player in shore bases. The government of Guyana may also decide to accelerate the extraction of its currently untapped natural gas reserves through partnerships between the NOC and foreign oil companies. The recent visit by officials from Brazilian state-owned oil firm Petrobras, among others, should be seen in this context. A gas-to-shore project would provide Guyana with an abundant and cheap energy source for large-scale mechanical production and affordable electricity for all. With a well-thought-out government strategy devised for a new NOC, Guyana can ensure that oil does not become a curse but rather a blessing for this South American country in the long run."

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

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