LATIN AMERICA ADVISOR

ENERGY ADVISOR

A WEEKLY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

February 17, 2023

FEATURED Q&A

Will the Mexican Government Be Able to Rescue Pemex?

Mexican state oil company Pemex holds more than $100 billion in debt. President Andrés Manuel López Obrador has vowed to "rescue" it. A Pemex worker at the Madrefil 141 oil well in Cunduacán, Tabasco is pictured. // File Photo: @Pemex via Twitter.

Q **Mexican state-owned oil company Pemex on Jan. 31 issued a 10-year bond worth at least $1.5 billion to refinance part of its debt. Mexican President Andrés Manuel López Obrador has vowed to "rescue" the state oil company and has sought to bolster it with billions of dollars' worth of tax breaks and other support to help it manage its more than $100 billion in debt. Why is the state oil company so indebted? Will the measures implemented by López Obrador be enough for Pemex to refinance its debt? What else can be done?**

A **Fluvio Ruíz Alarcón, Mexico-based oil and gas analyst:** "After exhausting the agro-export model of economic development in the 1970s, the state transformed Pemex into a resource accumulator. From being a fundamentally secure energy supplier, Pemex became the country's main source of tax revenue. Thus, the economic resources generated by the oil company have been used for decades as a substitute for a progressive fiscal reform, and Pemex ended up becoming a kind of indirect mechanism through which to appropriate oil income by big capital. Pemex's role as the main source of tax revenue has been exacerbated since the economic crisis of 1982. Its tax burden has surpassed, year after year, 100 percent of its operating performance. Pemex has had to borrow just to pay off taxes and duties to the ministry of finance. In fact, until 2014, Pemex was obliged to pay the treasury a daily, weekly as well as monthly amount. In addition, Pemex plays a role in adjusting national accounts, so it cannot necessarily freely dispose of

Continued on page 3

TOP NEWS

OIL & GAS

Guyana Finalizing Model for Oil Contracts: VP

Guyana is planning to finalize a new production-sharing model for oil contracts by the second quarter, Vice President Bharrat Jagdeo said Tuesday.

Page 2

POWER SECTOR

European Oil Companies Seek More Control Over Venezuela Projects

European oil companies are reportedly seeking greater control of joint ventures in which they are involved in Venezuela.

Page 2

OIL & GAS

U.S. Reportedly Offers Brazil $50 Million in Environmental Aid

The United States reportedly offered Brazil $50 million for environmental cooperation following last week's meeting between U.S. President Joe Biden and Brazilian President Luiz Inácio Lula da Silva.

Page 3

Lula and Biden (L-R) // Photo: Brazilian Government.

OIL & GAS NEWS

Oil Companies Seek More Control Over Venezuela Ventures

European oil companies are seeking greater control of joint ventures in which they are involved in Venezuela following U.S. oil major Chevron's renegotiation of its contract last year, Bloomberg News reported Wednesday. Italy-based Eni and Spain's Repsol are reviewing drafts of potential contracts after meeting with high-ranking Venezuelan government officials, the news service reported. In those meetings, the companies requested operational control of their oil and gas joint ventures with Venezuelan state oil company PDVSA, Bloomberg News reported, citing unnamed people familiar with the matter. A deal that Chevron received last year reportedly raised hopes among the European companies that they might get greater control over joint ventures in which they are involved. Eni, Repsol and France-based Maurel et Prom can pump an additional 50,000 to 80,000 barrels per day in Venezuela if they increase their operations there, said Francisco Monaldi, a lecturer in energy economics at the Baker Institute for Public Policy at Rice University, the news service reported. Venezuelan President Nicolás Maduro used his government's agreement with Chevron to call on the United States to relax sanctions on Venezuela's oil industry. A deal with the European oil companies would also allow Venezuela to increase oil shipments, which account for the majority of the country's exports. Venezuela's current production of 690,000 barrels per day is approximately a third of its level five years ago, according the Organization of the Petroleum Exporting Countries, or OPEC. Michael C. Lynch, president of Strategic Energy & Economic Research, told the Energy Advisor in a **Q&A** published Dec. 23 that it would be a difficult task for Venezuela to return to its level of oil output in 2002 when it was producing more than two million barrels per day. "While estimates that tens of billions of dollars in maintenance and repair are needed to restore production to 2002 levels are likely exaggerated, nonetheless the task is daunting and needs much more action," said Lynch. "Most especially, the Maduro regime needs to create an environment that will encourage private and/or foreign investment in the oil fields as well as allow for the return of personnel who fled the country over the last two decades," he added

> **The task is daunting and needs much more attention."**
>
> **— Michael C. Lynch**

Guyana Plans to Finalize New Oil Contract Model by Q2

Guyana is expected to complete a new production-sharing agreement model in time for a bidding auction that ends in April, the country's vice president, Bharrat Jagdeo, said Tuesday at an energy conference, Reuters reported. The South American country has become one of the fastest-growing oil regions in decades, holding as much as 25 billion barrels of oil and gas. It has promised to extend new agreements and contracts for several months, but they have been repeatedly delayed. Oil ministers and executives are currently in Guyana exploring 14 oil and gas blocks on offer, and Jagdeo said a new contract would be available by the end of next month or early in the second quarter. "We want multiple numbers of investment groups coming in here because then you can start the exploration activities simultaneously," he said. Riyad Insanally, senior fellow at the Caribbean Initiative of the Atlantic Council's Adrienne Arsht Latin America Center and former ambassador of Guyana to the United States told the Energy Advisor in a **Q&A** published Sept. 16 that "Success at the national level would pave the way for Guyana to anchor regional energy security and perhaps even become a key player in the hemisphere."

NEWS BRIEFS

Petroecuador Names First Female President

State-run oil company Petroecuador on Feb. 11 named María Elisa Soledispa as its interim head in the wake of Chief Executive Hugo Aguiar's resignation earlier in the day, Primicias reported. The first woman to hold the job, Soledispa has spent her career in the oil sector and began working at Petroecuador in 2011. Aguiar's resignation came in the midst of a national corruption scandal among state-owned companies, including Petroecuador.

New Natural Gas Pipeline Planned for Northwestern Mexico

Mexican utility Comisión Federal de Electricidad (CFE) on Monday signed a memorandum of understanding with Carso Energy and Sempra Infrastructure to build a new natural gas pipeline in the country, Natural Gas Intelligence reported. The pipeline will run through the northwestern part of Mexico, including Sonora State and Baja California. It will primarily seek to fuel CFE natural gas power plants but will also help "shoring up energy security in the country," the companies said in a joint statement.

Venezuela Contracting With Iranian Shipyard to Build Two Tankers

Venezuela is set to contract an Iranian shipyard to build two oil tankers under an existing construction agreement to relieve debt, according to people familiar with the matter, Hellenic Shipping News reported on Tuesday. Venezuelan state oil-owned company PDVSA has increased its efforts since last year to buy and lease oil tankers to rebuild its own fleet, which has suffered under U.S. sanctions and a lack of investment. The two tankers will cost 31.66 million euros ($33.77 million) each, according to a PDVSA document.

RENEWABLES NEWS

U.S. Reportedly Offers Brazil $50 Mn in Environmental Aid

The U.S. government offered $50 million to Brazil for environmental cooperation, following Brazilian President Luiz Inácio Lula da Silva's visit to Washington last Friday, Folha de S.Paulo reported Monday. The summit was the first Washington meeting between Lula and U.S. President Joe Biden since Lula assumed Brazil's presidency on Jan. 1. "As part of these efforts, the United States announced its intent to work with Congress to provide funds for programs to protect and conserve the Brazilian Amazon, including initial support for the Amazon Fund," the United States said in a statement, Reuters reported. The $50 million figure was perceived as disappointing to Brazilian negotiators, however, considering the emphasis the U.S. government placed on environmental issues, as well as compared to the amount offered by German Chancellor Olaf Scholz, 200 million euros ($215 million), and the $570 million promised by Norway for the Amazon Fund, which the two countries established to address the protection of the rain forest and promote sustainable development projects. Under Lula's government, deforestation in the Amazon rain forest fell in January as compared to the same month last year, according to satellite data.

López Obrador Eyes U.S. Financing for Mexico Wind Projects

Mexican President Andrés Manuel López Obrador said on Feb. 8 that he expects interest-free loans from the U.S. government or from banks in the United States in order to build wind-power projects in southern Mexico, the Associated Press reported. López Obrador added that he anticipates U.S. officials, including climate envoy John Kerry, to launch the projects in Mexico's Isthmus of Tehuantepec. Additionally, the Mexican president said that he had been told that U.S. electric vehicle manufacturer Tesla would construct a plant in Mexico and that the company was eying the northern border state of Nuevo León or the state of Hidalgo, which is just north of Mexico City, for a factory. "As the global automotive industry continues its transition from combustion to electric engines, Mexico must modernize and retool its manufacturing plants, invest in the development and improvement of its power grid and maximize the utilization of its natural resources to remain competitive, continue attracting foreign direct investment and stimulate economic growth," Eduardo Canales, council at Akin Gump Strauss Hauer & Feld, told the Energy Advisor in a **Q&A** published Nov. 11. The wind farms are part of López Obrador's plan to create 10 industrial parks alongside a rail corridor linking Mexico's coasts on the Pacific Ocean and the Gulf of

FEATURED Q&A / Continued from page 1

the resources it generates. More than just short-term measures, what is needed is a thorough review of Pemex's tax regime, outlined in the Hydrocarbons Revenue Law. This will only be feasible within the framework of an extensive and redistributive fiscal reform, which provides Mexico with the necessary resources to promote the country's sustainable and equitable development."

A **Arantza Alonso, senior analyst for the Americas at Verisk Maplecroft:** "Pemex's position as the most indebted oil company in the world is the result of multiple factors. For the past 30 years, Pemex has financed up to 36 percent of the government's spending, losing at times around 130 percent of its revenue. Its production has nearly halved since peaking in 2004, almost two decades ago. The company has also made poor investment decisions, including pouring billions into building the Dos Bocas refinery while its six refineries are not operating at maximum capacity. Corruption and systemic abuse and misuse of Pemex's resources have also led the company to its current state. The measures implemented by President López Obrador will relieve financial pressure from Pemex, particularly during this year's first quarter. However, they are unlikely to be enough for the company to refinance its debt. Indeed, the next administration will have to continue supporting Pemex. The company could improve its rentability by prioritizing its most profitable business areas and cutting spending in areas that represent a constant drain on revenue, such as refining and the fertilizer business. It could also improve its internal transparency and accountability controls to maximize the use of its resources. However, without a fiscal reform, the government will continue to use Pemex to make up for its limited tax collection base. Thus, despite extraction remaining extremely profitable in Mexico, the government's dependence on Pemex will undermine any efforts to significantly improve the oil company's fiscal position."

A **David Shields, independent energy analyst:** "Pemex is heavily indebted because for decades it was a cash cow for the government, which would tax it excessively and export as much crude oil as possible to cover short-term expenditures. Indeed, many of us have long looked at Pemex as a ticking time-bomb waiting to explode, yet successive federal administrations have been ready to 'rescue' the company by paying debt coming due. Now it is AMLO's turn to rescue Pemex, even though he claims—more in discourse than in practice—that he is changing the company model away from exports and toward self-sufficiency. But oil output is still falling, and Pemex refineries still suffer major losses. The bomb could still explode if a further drop in oil production, or greater financial losses or a run on the Mexican peso were at some point to tip the scale into insolvency for Pemex, causing a macroeconomic shock for the Mexican economy. The solution could lie in divesting

Continued on page 6

Mexico, the AP reported. While López Obrador wants to use the project to create jobs, the initiative to build wind farms has also faced opposition from local residents. Mexico's state-run power company would operate the wind farms, López Obrador has said.

POLITICAL NEWS

U.S. Arrests Four in Assassination of Haiti's Moïse

Authorities in the United States have arrested four additional people in connection with the July 2021 assassination of Haitian President Jovenel Moïse, prosecutors said Feb. 14, the Associated Press reported. Antonio "Tony" Intriago, a Venezuelan-American who owned Florida-based CTU Security is among those accused of conspiracy to kill or kidnap a person outside the United States, among other charges. Intriago stands accused of hiring former Colombian soldiers for the mission, which authorities say was originally planned as a coup rather than a killing. Colombian-born U.S. resident Arcangel Pretel Ortiz, a CTU company representative, faces the same charges as Intriago, the AP reported. Also charged are Florida residents Walter Veintemilla, who is accused of funding the operation, and Frederick Joseph Bergman Jr., who is accused of smuggling items including ballistic vests. "This was both a human tragedy and an assault on core democratic principles," said Assistant U.S. Attorney Matthew G. Olsen in announcing the charges against the four men. Claude Joseph, who was Haiti's prime minister at the time that Moïse was killed, applauded the announcement of the new charges. "Justice must prevail," Joseph said in a tweet. Tama Kudman, an attorney for Veintemilla, told the AP that her client would plead not guilty. In total, 11 suspects are now in custody in the United States, including James Solages and Joseph Vincent, who are accused of being key conspirators in the assassination. A power vacuum followed the assassination, allowing gangs to increasingly attain power and territory in Haiti.

THE DIALOGUE CONTINUES

Can Ecuador End its Oil Dispute With the Waorani Soon?

Q **Ecuador's state-owned oil company, Petroecuador, had to supply a key Amazon oil block with planes to fly in supplies to get around roadblocks erected by a local Indigenous group. The Waorani Indigenous community of Dikaro in Orellana province shut down access to one of the two oil blocks that Petroecuador took over on Jan. 1 from a subsidiary of Canada's New Stratus Energy. The blocks pump more than 14,000 barrels of oil per day. Petroecuador said the protests are related to "demands that were not met by the private operator," Reuters reported Jan. 9. What are the demands of the Indigenous community? To what extent are Indigenous people affecting the country's oil industry, and how well is President Guillermo Lasso handling the situation?**

A **Marc Becker, professor of Latin American history at Truman State University:** "Lasso's pledge to double Ecuador's oil exports is part of his ill-considered strategy to develop the country's economy. As is well known, the export of natural resources underdevelops a country's economy, and the costs of that extraction are born by the most vulnerable people while the profits are privatized and largely flow out of the country. That is the policy of Lasso's government, and why he has faced widespread opposition. A direct result is a collapsing economy with a growing crisis leading to unprecedented migratory outflows from the country. But Lasso is not willing to give up on his privatizing neoliberal economic agenda without a fight, which is why he continues to press extractive industries. And he does this in violation of the rights of nature that were codified into the 2008 constitution and by now have won widespread popular support throughout the country. The Waorani had made significant legal gains—including winning a landmark 2019 constitutional court case—to halt oil extraction on their territory, but now those achievements are being reversed with Lasso refusing to respect their constitutional rights to free, prior and informed consent before commencing with road building and other extractive projects. When a government that does not rule on their behalf, does not listen to their concerns and continues to press extractive economic measures that directly compromise their livelihoods, communities have no other option than to turn to alternative measures to defend their rights."

EDITOR'S NOTE: More commentary on this topic appears in the Q&A of the Jan. 27 issue of the Energy Advisor.

Nicaragua Strips Citizenship of 94 Political Opponents

A Nicaraguan court on Wednesday stripped the citizenship of 94 opponents of President Daniel Ortega's government, including writers Sergio Ramírez and Gioconda Belli, rights activist Vilma Núñez, former Sandinista rebel commander Luis Carrión and journalist Carlos Fernando Chamorro, the Associated Press reported. In a statement, Appeals Court Justice Ernesto Rodríguez Mejía called the government opponents "traitors" and said property they have in Nicaragua would be confiscated. Rodríguez Mejía added that the people on the list were

NEWS BRIEFS

Ecuador's Lasso Taps New Officials Following Referendum Defeat

Ecuadorean President Guillermo Lasso swapped out several officials on Feb. 9 in a government shakeup following his defeat in the country's referendum earlier this month, Reuters reported. Lasso appointed former lawmaker Henry Cucalon as the new government minister, replacing Francisco Jiménez who resigned. Lasso also replaced officials including the secretaries in the Legal Office of the President.

Bolsonaro Planning to Return to Brazil in March to Lead Opposition

Former Brazilian President Jair Bolsonaro told The Wall Street Journal in an interview published Tuesday that he is planning to return to Brazil in March to lead the opposition to leftist President Luiz Inácio Lula da Silva. Bolsonaro has been in Florida since shortly before Lula's inauguration on Jan. 1. "The right-wing movement is not dead and will live on," Bolsonaro told the newspaper. Bolsonaro said he also plans to defend himself against accusations that he incited supporters in their attack on government buildings in Brasília on Jan. 8.

Salvadoran Lawmakers Again Extend Special Powers to Fight Gangs

El Salvador's lawmakers approved a request from President Nayib Bukele to extend authorities' special powers to fight gangs, the Associated Press reported Wednesday. The Legislative Assembly voted 67 in favor, six against and eight abstained. The extension will mark a full year of some suspended rights in the country as it battles gangs. Justice and Security Minister Gustavo Villatoro said the measure will continue until the last gang member is captured.

guilty of "conspiracy to undermine national integrity." Most of the people on the list fled Nicaragua two years ago when Ortega's forces began arresting opponents in a widespread crackdown. Rodríguez Mejía declared the people on the list outside Nicaragua "fugitives," and his statement made no mention of what would happen to the people who remained in the country. The order followed the Nicaraguan government's deportation last week to the United States of more than 200 government opponents who had been imprisoned. Also, on Feb. 10, a Nicaraguan court sentenced Catholic Bishop Rolando Álvarez to 26 years in prison after he refused to be sent to the United States in the prisoner release, Reuters reported

Colombian Gov't, ELN Resume Peace Talks in Mexico City

Representatives of Colombia's government and the National Liberation Army, or ELN, rebels, met Monday in Mexico City to resume peace talks, the Associated Press reported. The two sides launched peace negotiations last November and engaged in discussions for three weeks, but that round led to only modest results, the wire service reported. The Colombian government's representative, José Otty Patiño, said Monday that the relaunched talks should lead to "permanent solutions ... not temporary truces." Pablo Beltrán, the lead negotiator for the ELN, said the latest round of discussions had a goal of producing a "temporary nationwide cease-fire" and that any deal should include "an alternative anti-drug policy that is no longer based on repression and war," the AP reported. Despite the former government's 2016 peace agreement with the Revolutionary Armed Forces of Colombia, or FARC, some rural areas of Colombia remain under the control of drug gangs and rebel groups. Earlier this month, Petro's government said it had reached informal cease-fire agreements with four armed groups: the Clan del Golfo, the Self-Defense Conquistadors of the Sierra Nevada paramilitary group and two dissident FARC groups that rejected the 2016 peace deal—the Segunda Marquetalia and Estado Mayor.

ECONOMIC NEWS

Inflation Making Credit Cards Useless in Venezuela: Report

Venezuela's triple-digit rate of inflation and government restrictions are rendering credit cards useless in the South American country, Reuters reported Monday, citing sources in the banking industry, as well as analysts and consumers. President Nicolás Maduro's government prohibited banks in Venezuela from lending more than 27 percent of their cash flow, leading local businesses to seek loans from abroad, the wire service reported. While the government relaxed some currency controls in 2019 and allowed banks to open accounts denominated in U.S. dollars, several restrictions on credit are still in place. Credit cards have been vital for consumers to make purchases in supermarkets and pharmacies, but low limits and a high rate of inflation have led consumer credit to dry up, according to the report. The country's annual rate of inflation is believed to have reached 305 percent last year, Al Jazeera reported Jan. 16, citing a group of economists not affiliated with the government. Venezuelan Vice President Delcy Rodríguez said Jan. 23 that inflation stood at 234 percent at the end of last year, Reuters reported. "The banks don't have a way to lend and we need these credits," Lina Pereira, a resident of the central city of Valencia, told the wire service, adding that the total limit on her credit cards is $2 per month. While some credit cards in Venezuela have higher limits, of between $30 and $100 monthly, they are still insufficient for many Venezuelans as the monthly cost of food for a family was approximately $370 in December, according to the Venezuelan Finance Observatory, an independent organization, Reuters reported. Credit cards accounted for only 2 percent, or about $16 million, of Venezuelan banks' credit portfolios at the end of December, the wire service reported, citing the country's bank superintendency. That level was 12 percent in 2012. "Hyperinflation and the regulations have ended consumer credit," an unnamed Venezuelan banking executive told Reuters.

FEATURED Q&A / Continued from page 3

Pemex from the government in some way, selling unprofitable assets, improving the business plan and perhaps following Brazil's resilient Petrobras model, which placed company stock on global markets, sought joint ventures and private investment, and is now increasing oil output notably as a result. Sadly, nationalist policies have meant that no one in Mexico is seriously proposing reforms at this time."

> **"Pemex is heavily indebted because for decades it was a cash cow for the government."**
> — David Shields

A **Larry B. Pascal and Carlos Alva, members of the International Practice Group at Haynes and Boone:** "Pemex's long-term indebtedness is a product of a variety of factors, including declining production in legacy fields such as Cantarell, the inability to bring online comparably productive new fields, the lack of maintenance in its refineries and the unwillingness of the state to allow Pemex to retain sufficient earnings to reinvest in its operations. The administration has sought to support Pemex in various ways, including but not limited to, the development of the large new refining facility 'Olmeca' located in Dos Bocas, Tabasco. Recently, the ministry of energy announced that Pemex will commence refining there on July 1, 2023, with a goal to reach an estimated 340,000 barrels per day by the third quarter this year. In addition, Pemex is seeking to develop Lakach Field's deep-water natural gas reserves with the announcement of a new project in Nov. 2022, with New Fortress Energy (NFE). Pemex has reported that the project represents a reserve of 900 billion cubic feet, and it estimates an average daily production of 300 million cubic feet per day (MMcb/d) over a 10-year horizon. Under the agreement, Pemex will sell 190 MMcf/d of gas to NFE, and the remaining 110 MMcf/d will be allocated for domestic consumption. Pemex expects that production will start in the first quarter of 2024. Notwithstanding these efforts, it remains to be seen whether these measures are sufficient, without more comprehensive reform, including entering in more upstream partnerships with third party companies."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

LATIN AMERICA ENERGY ADVISOR
is published weekly by the
Inter-American Dialogue ISSN 2163-7962

Erik Brand
Publisher

Gene Kuleta
Editor

Lara Kovandova
Reporter

Latin America Energy Advisor is published weekly, with the exception of some major U.S. holidays, by the Inter-American Dialogue
1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

Subscription inquiries are welcomed at
ebrand@thedialogue.org

