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FEATURED Q&A

How Likely is Venezuela's PDVSA to Default?

PDVSA used its stake in its U.S. unit, Citgo, as collateral for a loan it obtained from Russian state-owned oil company Rosneft. // File Photo: PDVSA.

Q Venezuelan state oil company PDVSA on April 12 staved off default by making some $2.2 billion in bond payments. The possibility of the cash-strapped company defaulting has raised alarm among U.S. lawmakers, who have expressed concerns about the possibility that Rosneft could take control of Houston-based Citgo, because PDVSA used a stake in Citgo as collateral for a loan that it obtained from the Russian state oil company. Will PDVSA be able to continue making its scheduled bond payments? If it defaults, what are the consequences for PDVSA, President Nicolás Maduro's government and importers of Venezuelan oil? What would result from Rosneft taking control of Citgo?

A Carlos A. Rossi, president and owner of EnergyNomics in Venezuela: "PDVSA and Venezuela are at a breaking point regarding debt repayment, having passed the point of no return of self-recovery some 22 months ago when Saudi Arabia decided to help out its OECD clients by driving the price of oil to less than half of what it was the summer of 2014. As the oil price collapsed, the full nakedness of its pseudo-socialist model came into full view of all Venezuelans. Between 2014 and 2016, Venezuela's GDP contracted some 25 percent, imports 63 percent, export income (oil) 31 percent and international reserves some 50 percent while inflation rose by more than 920 percent. To top it all, since Venezuela lacks sufficient hard currency to cover imports of basic goods, manufacturing inputs, debt payments and PDVSA capital goods, all of which have suffered, oil production has declined over the same period by about 20 percent. According to unofficial estimates in

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TOP NEWS

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Argentina to Export 12.4 Mcf of Natural Gas to Uruguay

Argentina is currently a net importer of natural gas, mostly from Bolivia, but the government is hoping to boost production.

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RENEWABLES

Brazil Agriculture Minister Backs Ethanol Tariffs

Brazil is the United States' main importer of ethanol, and imports have surged in recent months as cane farmers in Brazil turn to producing sugar.

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OIL & GAS

Ecuador Pays Schlumberger $150 Million to Reduce Debt

The government paid the oil company in central bank notes that can be used to pay taxes in an effort to pay down the government's $1.1 billion in debt owed to the company, President Rafael Correa said.

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Correa // File Photo: Ecuadorean Government.

OIL & GAS SECTOR NEWS

Argentina to Export 12.4 Mcf of Natural Gas to Uruguay

The Argentine government has authorized the exportation of as much as 12.4 million cubic feet of natural gas to Uruguay over the next two years, Reuters reported Wednesday, citing

Aranguren // File Photo: Argentine Government.

Argentina's national gazette. Though Argentina is currently a net importer of natural gas, mostly from Bolivia, the government is hoping to boost production at one of the world's largest shale reserves, Vaca Muerta. The gazette said Argentina is required to import an equivalent amount of gas as it is exporting to Uruguay, and that the measure will become void if Uruguay does not import natural gas within 180 days. In related news, Argentine Energy and Mining Minister Juan José Aranguren said that between $6 billion and $8 billion in investments have been confirmed for the Vaca Muerta shale field, Reuters reported. He added that the government expects another $12 billion to $15 billion in investments next year and $20 billion in annual investments from 2019 onward.

Venezuelan Oil Exports Fall for Third Month in a Row

Venezuelan crude oil sales to the United States fell in March for the third month in a row to 651,710 barrels per day due to declining exports of Merey crude, Reuters reported Tuesday, citing Thomson Reuters trade flows data. The amount of crude state oil company PDVSA and its joint ventures exported in March was down 2.3 percent from the month before and down 18 percent year-over-year. Last year, Venezuela's crude output fell to its lowest level in 23 years, and it is expected to fall even further in 2017, due to low investment and cash flow problems at PDVSA. Merey exports to the United States started decreasing in February, and in March averaged only 165,320 bpd, the lowest export rate for the extra-heavy oil since August. Merey is a blend made from extra-heavy crude oil that comes from Venezuela's Orinoco Belt and lighter crudes. PDVSA's U.S.-based refining unit, Citgo, was the largest importer of Venezuelan crude last month, followed by Valero and Chevron. Earlier this week, PDVSA announced a tender to buy as many as four 500,000-barrel cargoes of U.S. light crude to refine mostly at its 335,000 bpd Isla refinery in Curaçao, which just recently resumed operations after temporarily closing for maintenance work.

Total to Invest $500 Mn in Argentina Shale Production

France's Total is planning to spend $500 million over the course of three or four years to develop a shale-gas field in Argentina, the oil and gas company's chief executive officer told reporters Thursday on the sidelines of a conference in Paris, Bloomberg News reported. "We have giant resources of non-conventional gas under our feet in Argentina," said CEO Patrick Pouyanne. "It's the beginning of a nice story." The company is planning to proceed with the first phase of the Aguada Pichana Este license in Argentina's Vaca Muerta formation, and it plans to boost its interest in a license, which is co-owned by YPF, Winterhall Energia

Argentina extended a program to incentivize the development of Vaca Muerta.

NEWS BRIEFS

Argentina, U.S. Should Continue to Collaborate in Energy Sector: Macri

Argentine President Mauricio Macri on Thursday during a trip to the United States said the two countries should continue to collaborate on energy matters. Argentina's energy sector can thrive with the help of "access to your technology, because you have already developed shale gas in the United States." He added that if the country has access to secure energy at a good price, "the chance of developing all types of industries in Argentina increases."

Brazilian Power Sector Regulator to Auction Power Line Licenses

Brazilian power sector regulator Aneel on Monday said it will auction more licenses to operate power transmission lines, Reuters reported. A director at the regulator, André Pepitone, said the auctions would take place in the second half of this year, and the projects are expected to require some $1.4 billion in investments. Earlier Monday, Aneel had received bids for 31 licenses to build and operate power lines.

Ecuador Pays Oil Company Schlumberger $150 Mn to Reduce Debt

The Ecuadorean government has given $150 million to oil services company Schlumberger in central bank notes that can be used to pay taxes in an effort to pay down the government's $1.1 billion in debt owed to the company, President Rafael Correa said Monday, Reuters reported. "There has been a somewhat inflexible position on the part of the company, but that debt will be paid," he said. Schlumberger on April 21 said its latest quarterly results had been negatively affected by production constraints on its Ecuador project due to its difficulty in collecting on unpaid bills from state oil company Petroamazonas.

and Panamerica Energy, to 41 percent from about 27 percent, subject to local authorities' approval, the news service reported. To encourage drilling at Vaca Muerta, Argentina's government has extended a program that guarantees a minimum price until 2021 for the gas that companies produce.

Bomb Attack Halts Flow of Oil in Colombian Pipeline

Colombian state-run oil company Ecopetrol on Thursday halted the flow of crude oil in the country's second-largest oil pipeline, Caño-Limón Coveñas, following a bombing of the pipeline early Thursday morning, which caused an oil spill, the company said, Reuters reported. The attack has not had an effect on production at the Caño-Limón field, which is operated by U.S.-based Occidental Petroleum, or exports from the field. The company said the oil spill is affecting a water source for 3,500 Colombians living near the pipeline.

RENEWABLES NEWS

Brazil Agriculture Minister Backs Ethanol Tariffs

Brazilian Agriculture Minister Blario Maggi has asked the country's foreign trade council to enact tariffs on ethanol imports in the wake of an increase of shipments from the United States, an official said Thursday, Reuters reported. Brazil is the United States' main importer of ethanol, and imports have surged in recent months as cane farmers in Brazil turn to producing sugar, due to higher expected revenues from the product. Ethanol imports from the United States to Brazil quintupled to a record of 720 million liters in the first quarter, worth approximately $363 million. In related news, the Brazilian government may set biofuel mandates to fuel distributors, with the goal of reducing carbon emissions and increasing the use of renewable fuels, said Miguel Ivan Lacerda de Oliveira, the director of biofuels in the Department of Mines and Energy, Reuters reported Tuesday. The proposal, which would require fuel distributors to buy a certain amount of biofuels each year according to mandates set by the government, is a central component of a new program called RenovaBio, which is designed to boost the country's biofuels sector. Oliveira said the program would help bolster sugar and ethanol mills and biodiesel producers as they compete with gasoline producers amid historically low prices for oil, which has translated to lower gasoline and diesel prices. "If this sector remains in the situation it is in today, companies are likely to close down, production of hydrous ethanol could be sharply reduced," Oliveira said. Hydrous ethanol and gasoline compete for use in flexible-fuel vehicles in Brazil, since the vehicles can use any combination of the two fuels. Hydrous ethanol has lost market share over the last two years in Brazil following a new pricing policy from Petrobras that more closely follows international oil prices. The downward trend for the biofuel is expected to continue this year, and sugar and ethanol mills

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2015, PDVSA's gross income was more than $26 billion, but costs including production and refining, liquid imports and its state commitments to China and elsewhere totaled more than $39 billion, not including the nearly $4 billion we estimate it owes PDVSA's foreign partners and suppliers. The total cash deficit in PDVSA's income statement is more than $47 billion, which needs to be financed. Venezuela's gamble is that the world needs oil to recover its meager GDP growth to prevent the country from imploding. That is only half true, because the world is now convinced that the only way to recover Venezuela's energy and economic health is through a political catastrophe for the unpopular, dictatorial Venezuelan regime, so that it can be replaced by a forward-looking government with a credible action plan that restores investor confidence. Since PDVSA desperately needs to borrow to cover its debt payments, it needs to increase its collateral abilities in oil and gold assets, but that, too, has dangerous consequences, as the new government will either depend on a very large balloon loan from the IMF or World Bank, or will have its oil reserves divided up among its creditors."

> **"PDVSA and Venezuela are at a breaking point regarding debt repayment."**
> — Carlos A. Rossi

A **Gustavo Coronel, a founding board member of PDVSA:** "PDVSA is in a desperate financial crisis, depending almost exclusively on Russian and Chinese loans to avoid default. In several ways, the company has already defaulted, since it has failed to pay suppliers and contractors, some of which are resorting to capturing PDVSA oil cargoes in Caribbean terminals in order to get reimbursed. My guess is that PDVSA will be able to keep bond payments for this year, with the help of the countries mentioned above, for two reasons: One is political. China already has more than $60 billion in loans to Venezuela and it sees an orderly transition in Venezuela as the best way to recover its money. The other reason is that many of PDVSA's bonds are in the hands of government elites and friends. In an important way, therefore, the government is obtaining more loans in order to transfer the money received from Russia and China to its own pockets. As for the impact of default, I believe this impact is already being felt as PDVSA deteriorates daily. Importers know well that PDVSA can collapse at any moment and are adjusting. The government is falling in slow motion. A change in government is

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are starting to turn more cane into sugar, which offers better returns currently. Oliveira said the proposal for the RenovaBio program could be put to a vote this year, and he expects it would be implemented in 2019.

POWER SECTOR NEWS

Brazil Expecting $4 Bn in Investment from Power Auction

Brazil's National Electric Agency, or ANEEL, held an energy auction on Tuesday during which 31 of the 35 slots available for the construction, operation and maintenance of energy transmission lines were authorized, The Rio Times reported. The government expects to see a total of approximately 12.7 billion reais, or $4 billion, from the concessions. "The quality of [participating] companies, their appetite and the volume of investment shows we are coming out of the recession. I am extremely excited and I leave here confident," said Brazilian Minister of Mines and Energy Fernando Coelho Filho. Companies bid on the construction, operation and maintenance of 4,600 miles of transmission lines and substations that are expected to produce 13.2 thousand megavolts of electricity. A total of 21 consortium groups and 50 individual companies participated in the auction. All of the substations that were tendered were auctioned off, and 96 percent of the offered lines were also successfully auctioned off.

POLITICAL NEWS

Only Early Election Will Solve Venezuela's Crisis: Capriles

Only an early presidential election will put an end to Venezuela's political crisis, opposition leader Henrique Capriles told BBC News in an

ADVISOR Q&A

How Prepared Are the Americas for Yellow Fever?

Q Brazil has seen its largest outbreak of yellow fever since the 1940s, and it continues to grow. The contagion comes at a time when the world's supply of yellow fever vaccine is low, with not enough doses to protect Brazil's population, not to mention the rest of the Americas, according to Dr. Anthony Fauci of the National Institutes of Health. Health authorities throughout the region have green-lighted trials for using genetically modified mosquitoes that would destroy their own species, with the goal of reducing the population of the disease-carrying insects. Others have called for more insecticide spraying and other tactics to stem the spread of yellow fever. How prepared are the Americas to prevent a yellow fever epidemic, and which other countries are most at risk? How likely is it that the disease will significantly spread beyond some regions in Brazil? Which tactics for deterring its spread are the most promising? Why is there a shortfall in vaccine availability?

A Francisco Becerra, assistant director of the Pan American Health Organization (PAHO): "In Brazil, the current outbreak of jungle yellow fever is the largest in recent decades and has extended to new areas, but has not yet transformed into an urban outbreak. Areas at risk in 18 Brazilian states and its federal district are primarily in forest areas. Occasionally, humans working or living nearby or traveling in the forest are bitten by infected mosquitoes and develop yellow fever. In the five Brazilian states with human yellow fever cases, the 623 confirmed cases have been linked to jungle mosquito species Haemagogus and Sabethes. So far, there is no evidence of human cases of yellow fever infection transmitted in Brazil by Aedes aegypti, the mosquito that could sustain urban transmission of yellow fever in urban areas. Vaccination is the most important means of preventing yellow fever. In the Americas, the priority is to ensure high vaccination coverage for persons going into forest areas. Prompt detection of yellow fever and rapid response through emergency vaccination campaigns are the essential tools used in controlling outbreaks. Since January, the Ministry of Health of Brazil has distributed more than 22.3 million doses of the yellow fever vaccine to areas where cases have been reported. These vaccines are in addition to the country's routine yellow fever vaccination programs in 19 states. The vaccine is safe and affordable, and a single dose provides life-long protection. It is difficult to forecast how many vaccines are needed each year to respond to outbreaks worldwide. In the face of increasing demands, the four major manufacturers that supply the global stockpile of the yellow fever vaccine have been working to replenish the stockpile. One of the manufacturers is in Brazil, and it has increased its production of the vaccine. PAHO/WHO is supporting Brazil in controlling the outbreak and has mobilized experts in disease control, surveillance, virology, immunization, vector control and other fields to collaborate with health officials in the affected states. The World Health Organization has updated its advice for international travelers going to areas in Brazil with risk of yellow fever transmission to get vaccinated at least 10 days prior."

EDITOR'S NOTE: More commentary on this topic appeared in Tuesday's issue of the daily Latin America Advisor.

NEWS BRIEFS

Jamaica Extradites Eight to U.S. in Connection With 'Lottery Scam'

Eight Jamaicans have been extradited to the United States to face charges in connection with a "lottery scam" that bilked 90, mainly elderly, victims out of more than $5.7 million, the Bismarck Tribune reported Thursday, citing the U.S. attorney for North Dakota. The eight were arrested in Jamaica more than a year ago.

Paraguay's Lower House Rejects Presidential Re-election Measure

Paraguay's Chamber of Deputies on Wednesday voted down a proposed constitutional amendment that would allow a sitting president to run for re-election, the Associated Press reported. The vote came four weeks after the Senate secretly voted to approve the measure, sparking riots in which protesters of the amendment burned furniture in Congress. Re-election is a controversial topic in Paraguay, where a 35-year-long military dictatorship controlled the government until 1989.

Brazil's Chamber of Deputies Passes Labor Reform Bill

Brazil's lower house of Congress on Wednesday passed the main text of President Michel Temer's proposed labor reform bill, Reuters reported. The bill was aimed at increasing investment and pulling the economy out of its recession. The main text of the measure passed 296-177, though the lower house still needs to vote on amendments to the proposal before it will be sent to the Senate for a vote. The vote came two days before a planned national strike and demonstrations called by labor unions and left-wing parties in opposition to the reform, which the groups say undermine workers' rights for the benefit of the business sector.

interview. Nearly 30 people have been killed this month in the Andean country, where the residents are grappling with shortages of basic goods including food and medicine, as well as skyrocketing inflation. Capriles said President Nicolás Maduro must allow an early presidential election in order to end the crisis. "How long can Maduro stand denying Venezuelans the right to vote? I don't think much longer," said Capriles, the news service reported Friday. "Nothing that the government is doing is in defense; it's repression, savage repression that violates our Constitution and human rights." Capriles lost the country's 2013 presidential election to Maduro and this month was banned by the government's comptroller's office from holding political office for 15 years over allegations of "administrative irregularities" stemming from his role as governor of Miranda state. Capriles and other opposition members blame Maduro for the country's political and economic crises, while Maduro blames his opponents and the United States, saying they have sabotaged the economy.

ECONOMIC NEWS

Nationwide Strike Shutters Businesses, Schools in Brazil

Brazilian unions nationwide led strikes early Friday in protest of President Michel Temer's government and the administration's austerity measures, closing down factories, businesses and schools, Reuters reported. Protesters used burning tires and other materials to barricade highways and major airports, while police clashed with the demonstrators, blocking them from entering the airports and firing tear gas to clear roads. The strike could be Brazil's largest in more than two decades if participation numbers meet union leaders' expectations. "It is going to be the biggest strike in the history of Brazil," said Paulo Pereira da Silva, the president of trade union group Força Sindical. Workers are striking in protest of the progress this week of legislation in Congress that would weaken labor regulations and change the country's national pension system, forcing many Brazilians to work for years longer than traditionally stipulated before drawing pension payments. The strike was called for 24 hours starting just after midnight on Friday morning. Demonstrations are expected to take place across the country, and more than 200 million people are projected to participate.

Trump Tells Mexico, Canada He'll Rework, Not Scrap, NAFTA

U.S. President Donald Trump on Wednesday told the leaders of Canada and Mexico that he would not immediately move to terminate the North American Free Trade Agreement, just hours after officials in his own administration said that withdrawal from NAFTA was imminent, The New York Times reported. In separate evening phone calls with President Enrique Peña Nieto of Mexico and Prime Minister Justin Trudeau of Canada, Trump said he would start the process of renegotiating NAFTA rather than abandoning it. "It is my privilege to bring NAFTA up-to-date through renegotiation," Trump said in a statement issued by the White House after the call. Later on Twitter, Trump said, "if we do not reach a fair deal for all, we will then terminate NAFTA. Relationships are good—deal very possible!" Washington must give Canada and Mexico six months' notice before exiting the trade agreement, but alarms over the prospect of the United States pulling out entirely from the deal, in force for more than two decades, sent the Mexican peso plummeting past the 19 peso-per-dollar mark Wednesday, the Financial Times reported. Both the Canadian dollar and peso are recovered in early trading Thursday, Business Insider reported. After toning down its rhetoric over NAFTA in recent months, the Trump administration has once again become more critical of the deal. Earlier this week, U.S. Commerce Secretary Wilbur Ross announced that the United States would impose a tariff on Canadian softwood lumber, the latest move in a longstanding dispute between the two countries. [Editor's note: See **Q&A** on NAFTA in the April 5 issue of the daily Latin America Advisor.]

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getting closer by the minute, and the existing financial mess will most probably have to be faced by whoever replaces this narco-regime."

A **Michael Lynch, president of Strategic Energy & Economic Research in Amherst, Mass.:** "Venezuela's financial situation has become increasingly desperate, and a default could put its U.S. unit of state oil firm PDVSA, Citgo, in the hands of Rosneft, which holds collateral bonds worth 49.9 percent of the company. This does not appear imminent, but could happen before the year is out. Alternatively, PDVSA could sell Citgo in part or in total to Rosneft, and earn about $3 billion in cash and debt forgiveness. Such a move would no doubt raise howls of protest from many U.S. politicians, but might go through anyway, given the Trump administration's free-market bent (at least among the senior officials). The damage to PDVSA would be primarily to its reputation, but Citgo has been a reliable customer for its crude. And Rosneft might arrange a long-term supply to lock-in the preferred crude for the refineries. But Mexican and Canadian heavy crudes could also displace Venezuelan crudes, and finding new customers, especially more distant ones, could reduce the price the company receives for its crude by $2 a barrel or so, meaning about $500 million a year less in revenue. Despite concerns about Russian ownership of Citgo, the truth is that it would provide economic leverage over Russia. Rosneft could, at best, resell the company to avoid potential lawsuits from any of a number of aggrieved parties that cannot reach into Russia for legal settlements, and at worst it would simply operate Citgo normally. It might export products to governments that the U.S. disapproves of, such as Syria, but given that the world market is fungible, this would have no tangible effect."

> **"Despite concerns about Russian ownership of Citgo, the truth is that it would provide economic leverage over Russia."**
> — Michael Lynch

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

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