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FEATURED Q&A

Can OPEC Raise Oil Prices to Pre-2014 Levels?

The head of Venezuelan state oil company PDVSA, Eulogio Del Pino, and Venezuelan President Nicolás Maduro (L-R) have lobbied for OPEC to collectively cut oil production in order to boost global prices. // File Photo: Venezuelan Government.

Q **At its meeting in Vienna on May 25, OPEC extended by another nine months an accord between member and some non-member states that cuts oil production in a bid to stabilize the oil market. The Venezuelan oil ministry voiced its support for the decision, saying the agreement "has been successful in helping crude oil prices recover." Has the agreement indeed helped boost global oil prices? Will extending the cut in oil production help Venezuela and Ecuador, the two Latin American OPEC member states, bolster their oil sectors? What else can OPEC do to help global oil prices recover, and to what degree will non-OPEC states in the Americas collaborate with the cartel?**

A **Alexis Arthur, independent energy analyst:** "OPEC's days should have been numbered. The rise of U.S. shale producers introduced a new swing player in the global oil market. And when prices tumbled in 2014, the OPEC oil cartel—ostensibly led by Saudi Arabia—was unable to halt the slide. Fast forward to 2017, and while oil prices have never recovered to the historic highs of 2010-2014, they have more or less stabilized above $50 a barrel. The May 25 deal is OPEC's latest effort to rebalance the market, although the oil club has recognized the limits of its own power and has begun cooperating with other major producers, namely Russia. The extent to which these agreements have contributed to oil price stability is debatable. It is clear, however, that OPEC's clout has diminished, and it would be a misnomer to call the body a true 'cartel' today. Instead, as oil analyst Daniel Yergin has argued, the global oil market appears to have settled into a tripartite

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TOP NEWS

OIL & GAS

Goldman Sachs Buys $2.8 Bn in PDVSA Bonds

Venezuela's National Assembly is asking the U.S. Congress to investigate a deal in which Goldman Sachs purchased $2.8 billion of bonds issued by state oil company PDVSA.

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U.S. Auditing Loans for Chilean Energy Projects

The U.S. government is auditing a foreign aid program approved by the government's Overseas Private Investment Corporation, or OPIC, in which nearly $1 billion was loaned for renewable energy projects in Chile.

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OIL & GAS

Chevron to Sell Shell Its Trinidad Gas Assets

The vice president of Shell's Trinidad and Tobago unit, Derek Hudson, said the company will continue to evaluate other ways to expand its operations in the region.

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Hudson // File Photo: Trinidadian Government.

OIL & GAS SECTOR NEWS

Chevron to Sell Shell Its Trinidad and Tobago Gas Assets

U.S. multinational oil company Chevron has agreed to sell its gas-related assets in Trinidad and Tobago to Shell, the U.S.-based oil subsidiary of Royal Dutch Shell, for $250 million, Argus reported. Chevron will sell its 50 percent interest in Shell-operated Block E, Block 5(a) and Block 6, which are located in the East Coast Marine Area off Trinidad, as well as its 50 percent stake in LNG marketing and transportation company Trinling and its 50 percent stake in the Chevron-operated Manatee gas field. "Trinidad and Tobago represents a rich opportunity for us to continue building our integrated gas position in country and securing new competitive production," said Derek Hudson, the vice president of Shell's Trinidad & Tobago unit, Trinidad Express reported. The Manatee field is part of the 10 trillion cubic-foot Loran-Manatee, a field that straddles the maritime border between Trinidad and Venezuela, though the countries have already agreed on unitizing the resource, and Chevron has separate licenses on each side of the border, Argus reported. The company said it does not anticipate the deal having any effect on the progression of the unitizing of the Loran-Manatee, and said it will continue to be the operator of the unit.

Goldman Sachs Buys $2.8 Bn in PDVSA Bonds

Venezuela's opposition-led National Assembly is asking the U.S. Congress to investigate what it is calling an "immoral" deal in which New York-based Goldman Sachs purchased $2.8 billion of Venezuelan bonds issued by state oil company PDVSA for pennies on the dollar, Reuters reported. The bank has faced criticism for going through with the deal, which infuses the government with desperately needed cash. Goldman in a statement said it bought the securities from a broker and did not communicate with the government, The Wall Street Journal reported. "We recognize that ... Venezuela is in crisis," the bank said. "We agree that life there has to get better, and we made the investment in part because we believe it will."

> **"We agree that life [in Venezuela] has to get better, and we made the investment in part because we believe it will."**
> **— Goldman Sachs**

Shell Begins New E&P Activities Offshore Brazil

European oil company Royal Dutch Shell announced that its Brazilian subsidiary BG E&P Brasil and its partners had begun production in the deepwater field in the pre-salt Santos Basin off the coast of Brazil at a platform that can process as much as 150,000 barrels of oil per day and 210 million cubic feet of natural gas per day, UPI reported May 26. The floating production and storage offloading vessel, or FPSO, called P-66, is the first owned by the BM-S-11 consortium and the seventh in the Lula oil field. "The consortium has additional FPSOs in this series planned over the next three years," said Andy Brown, the director of exploration and production for Shell. Shell has a 25 percent

Brown // File Photo: Shell.

NEWS BRIEFS

Mexico Sees Slower Drop in Oil, Gas Reserves

The Mexican oil commission said that the country's proven and possible oil and natural gas reserves dropped again in 2016, but that the rate at which they dropped seemed to have moderated, the Associated Press reported Tuesday. Unproven but possible reserves that are known as "2P" increased by 5.7 percent to 16.8 billion barrels of crude equivalent, while unproven but possible reserves that are known as "3P" decreased by 1.1 percent to 25.9 billion barrels. As of Jan. 1 of this year, proven reserves had dropped by 10.5 percent to 9.2 billion barrels year-over-year.

Power China to Build Solar Plant in Argentina

The governor of Argentina's Jujuy province, Gerardo Morales, has said that Chinese energy company Power China will build a 1-gigawatt solar and storage plant in the province, PV Magazine reported Wednesday. The plant will supply electricity 24 hours per day. "We should be able to meet the deadlines for securing adequate capacity for the production and transportation of energy," Morales said. He also said that an un-named Italian company is planning to build a lithium-ion battery factory in Jujuy.

Trump Withdraws from Paris Agreement on Climate Change

President Donald Trump announced Thursday that he was withdrawing the United States from the Paris Agreement on climate change. Trump said his decision is based on his campaign promise to make U.S. workers his first priority, NPR reported. He added that the United States would begin negotiations to potentially re-enter the agreement if he can strike a deal that is better for U.S. workers. The United States is the world's second-largest carbon dioxide emitter.

stake in the consortium developing the Lula field in the BM-S-11 block, and Petrobras is the chief operator of the field, with a 65 percent stake.

RENEWABLES NEWS

U.S. Auditing OPIC Loans for Chilean Renewable Projects

The U.S. government is auditing a foreign aid program approved by the government's Overseas Private Investment Corporation, or OPIC, in which nearly $1 billion was loaned for renewable energy projects in Chile, Reuters reported. OPIC loaned approximately $890 million to projects including solar farms that are in financial trouble, and the loans may never be fully repaid, according to people familiar with the matter. The Office of Inspector General for the U.S. Agency for International Development, or USAID OIG, confirmed to the wire service that it would be auditing the loan. The audit centers on OPIC's funding of five Chilean solar farms and a hydroelectric project in 2013 and 2014. The audit started in 2016, but had not been previously reported. At least three of the five Chilean solar projects have already started restructuring their debt, according to two people familiar with the projects. They said OPIC could see losses exceeding $160 million on the projects. In a statement, OPIC said it believed it would recover the loans over the coming decades, though not in the original timeline the agency had projected. It added that most of its projects are on solid financial footing, and said it would evaluate the USAID OIG's recommendations once it completed the audit. U.S. President Donald Trump has proposed cutting funding for any new OPIC projects in his 2018 budget, which was released last week.

The audit focuses on OPIC's funding of five solar projects and a hydro-electric project in Chile.

USAID Holds Energy Efficiency Workshop in Antigua

The U.S. Agency for International Development, or USAID, through its Caribbean Clean Energy Program, known as CARCEP, conducted an energy efficiency workshop in Antigua on May 24-25 in order to help hotels reduce their energy use and costs, Caribbean News Now reported. The workshop focused on energy conservation and energy efficiency, as well as how hotels can implement renewable energy initiatives on their properties. "It is clear that there is a real need for this type of information, and it is critical that the hotels do everything possible to maximize their profits, as they are competing in a global marketplace, and the cost of energy in the region is amongst the highest in the world, which erodes the hoteliers' profitability," USAID CARCEP energy efficiency promotion specialist John Marcocchio said.

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structure of swing producers: Saudi Arabia, Russia and the United States. A freer market should be fairer to all. Latin American oil producers have little choice but to accept this new normal. Venezuela has welcomed the OPEC+ club's deal, though it will take more than an oil price recovery to undo decades of mismanagement in the petroleum sector. The country's current political and economic crisis runs far deeper than oil. Ecuador has so far weathered oil price instability better than its Bolivarian neighbor, in part because petroleum exports comprise around a third of the country's export total, compared to Venezuela, where petroleum accounts for around 94 percent of the country's export income. Still, new Ecuadorean President Lenín Moreno would do well to pay attention to the shifting geopolitics of the global oil market."

A R. Kirk Sherr, president of Clearview Strategy Group: "As expected, on May 25 OPEC extended its production cuts for an additional nine months. OPEC countries have now lowered production by about 1.8 million barrels in hopes that the market will work down the current global inventory. But OPEC is rowing against the current, with increased output from non-members, especially the United States, poised to ruin their plans. Since mid- 2015, West Texas Intermediate crude has averaged above $55 per barrel or less, and the likelihood of a significant increase before the end of the year is poor. Moreover, the regional outlook for increased production, both near-term

"OPEC production limits won't drive prices up to save [Venezuela and Ecuador] this year, and probably not in 2018, either."
— R. Kirk Sherr

and long-term, is good. Latin America's non-OPEC producers should see increases over the next 18 months for disparate reasons, from increased shale investment in Argentina, to better offshore terms in Brazil, to successful recent bid rounds in Mexico and recent offshore finds in Colombia. Long term, new producers like Guyana and new production areas like Brazil's pre-salt will continue to boost regional output, just as Mexico regains some of its production footing onshore and offshore. Added to booming U.S. shale production, this spells trouble for both OPEC and Latin American producers with poor investment climates. Against this backdrop, Venezuela and Ecuador will find no rabbit's foot to rub that will bring back the

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POLITICAL NEWS

OAS Meeting Ends Without Agreement on Venezuela

Organization of American States member nations met Wednesday in Washington to discuss Venezuela's political crisis, but the meeting ended without agreement, BBC News reported. The United States, Canada, Mexico, Panama and Peru proposed a declaration calling for an immediate end to the violence that has raged in the country for two months, as well as for political prisoners to be released and for the Andean nation's government to respect the rule of law and human rights. The declaration also demanded the President Nicolás Maduro's government drop a plan to form a "constituent assembly" to rewrite the Constitution. "Our goal is to return to full respect for the rule of law, full respect for freedoms of political expression and participation," said Tom Shannon, the U.S. undersecretary for political affairs, Reuters reported. "Today is an opportunity for us to demonstrate that this commitment remains alive and well relevant to the current plight of our Venezuelan neighbors." However, the declaration failed to receive the support of the required two-thirds of member countries present, BBC News reported. Venezuela did not send a representative to the meeting and had previously announced that it would withdraw from the OAS after a majority of the body's members voted to hold the meeting. Nicaragua's government, which supports Maduro, also opposed the meeting, saying Venezuela was the victim of a "political lynching." Several other small Caribbean islands, which receive subsidized oil from Venezuela, also defended Maduro's government at Wednesday's OAS meeting, Reuters reported. Venezuela's government celebrated the meeting's suspension without action as a victory against "interventionist countries" seeking to meddle in the country's affairs, BBC News reported. As the discussions were happening in Washington,

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>
> **— Tom Shannon**

ADVISOR Q&A

Will Brazil Force Another President From Office?

Q Doubts increased this month that embattled Brazilian President Michel Temer would be able to finish out his term after the release of secretly recorded audio in which Temer purportedly was heard endorsing the payment of hush money to Eduardo Cunha, the jailed former speaker of the lower house of Congress. The development led to massive violent protests in Brazil and calls for Temer's ouster. Will Temer be able to finish his term, or is it a matter of time before he is forced from office? If Temer does have to step down, who is likely to serve out the rest of his term? What does the possibility of two presidents being forced from office, Dilma Rousseff last year and Temer this year, mean for the country's politics and democracy? What does the current political uncertainty mean for investors at home and abroad who have been watching Temer's efforts at economic reforms?

A David Fleischer, emeritus professor at the University of Brasília and editor of Brazil Focus: "Brazil is going through very difficult times. Less than one year after former President Dilma Rousseff was impeached, her successor, Michel Temer, is now facing ouster due to the insinuation he committed serious crimes during a secretly taped conversation with JBS executive Joesley Batista. Four parties in Temer's support coalition in Congress have joined the opposition, and some other larger parties have adopted a 'wait and see' posture and are discussing possible candidates in an indirect election to succeed Temer. It is possible that Temer might be removed by the Supreme Electoral Tribunal, which will begin to deliberate the use of illicit campaign contributions by the Dilma-Temer slate in the 2014 elections. There is a good chance (perhaps 80 percent) that the court might remove Temer. In that case, Chamber of Deputies President Rodrigo Maia would become interim president for up to 30 days, while a joint session of Congress holds an indirect election to select a new president and vice president to fill out the rest of this presidential term, until Jan. 1, 2019. Possible candidates frequently mentioned are Senator Tasso Jereissati as well as former deputy, ex-Supreme Court President and former Minister of Justice and Defense Nelson Jobim. However, because the deputies hold a very large majority in this indirect election, it is possible that they might insist on selecting a current deputy. Current Finance Minister Henrique Meirelles is a potential candidate, but the government coalition would prefer to maintain him at the Finance Ministry and keep him in reserve as a possible candidate in the 2018 presidential election. This situation has produced a strong feeling of alienation and discredit in Brazil's democracy by a large part of the electorate."

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

NEWS BRIEFS

Brazil Slashes Key Interest Rate by Full Percentage Point

Brazil's central bank on Wednesday slashed its benchmark Selic interest rate by a full percentage point, to 10.25 percent from 11.25 percent, continuing a loosening cycle that began in October, The Wall Street Journal reported. The country's struggling economy and below-target inflation led to the decision, the central bank said in a statement accompanying the rate announcement. The trend for inflation is still favorable, and recent economic indicators point to a gradual recovery this year, policymakers added.

Mexico's Central Bank Increases Growth Forecast

Mexico's central bank has revised its 2017 growth forecast upward to between 1.5 and 2.5 percent, up from the previous projection of between 1.3 and 2.3 percent, the Financial Times reported Wednesday. GDP increased 0.7 percent in the first quarter from the fourth quarter, and grew 2.8 percent year-over-year, slightly ahead of estimates of 2.7 percent year-over-year growth. Banco de México said its 2018 GDP forecast would remain unchanged at between 1.7 percent and 2.7 percent.

Assange a 'Hacker,' But Can Continue Living in Embassy: Moreno

Ecuador's new president, Lenín Moreno, on Monday called Julian Assange, who has been holed up in the country's London embassy since 2012, a "hacker," his strongest comments to date against the founder of WikiLeaks, Reuters reported Monday. Moreno did emphasize, however, that Assange would be permitted to stay at the embassy. Moreno's comment breaks with those of his predecessor, former President Rafael Correa, who called Assange a "journalist."

thousands of anti-government protesters again took to the streets in Caracas in an attempt to march to the foreign ministry. At least 89 people were injured when demonstrators clashed with security forces. Some 60 people have been killed in two months of unrest in Venezuela. [See related **Q&A** in the May 9 issue of the daily Latin America Advisor.]

Trump Eyeing Changes to U.S. Policy on Cuba

U.S. President Donald Trump may roll back parts of the Obama administration's thaw with Cuba as early as June, CNN reported Wednesday, citing a U.S. government official involved in the review of Washington's policy toward the island nation. This month, Trump could

Diaz-Balart // File Photo: @MarioDB on Twitter.

announce that the United States will make no further unilateral concessions to Cuba, which the Obama administration was accused of doing, according to the official, as well as other current and former administration officials and Cuba experts. Trump is also expected to demand the extradition from Cuba of fugitives such as Assata Shakur, who escaped from a U.S. prison and received political asylum in Cuba after being convicted of killing a New Jersey state trooper. Trump also is expected to prohibit U.S. companies from making deals with Cuba's military, which controls much of the country's tourism industry. While Trump is not expected to roll back all of former President Barack Obama's thaw with Cuba, he is expected to make symbolic gestures to the U.S. lawmakers who are staunch opponents of the Cuban government as well as conservative Cuban-American voters. "I'm 1,000 percent sure the president is going to deliver on his commitment," Rep. Mario Diaz-Balart (R-Fla.), recently told the National Journal. "I have no doubt that you're going to see in short order a different policy." Cuban officials have not publicly commented about the possible changes in U.S. policy toward the communist-run island. The developments come as Raúl Castro is expected to soon step down as Cuba's president. Castro has said that he will leave the post next February. While the United States still officially bans tourism to Cuba, the U.S. Treasury allows Americans to "self-license" under 12 categories of travel, including educational tours and participation in sporting events, a practice that allows virtually anyone to travel to the island. Trump could end that loophole, sources told CNN.

ECONOMIC NEWS

Ecuadorean Gov't Raises $2 Billion in Bond Offering

The Ecuadorean government raised $2 billion from its most recent bond offering on Tuesday, indicating that investors were optimistic about the ability of new President Lenín Moreno to curb spending, Reuters reported. Moreno's narrow victory initially caused concern that he might not make the necessary policy moves to lower public spending, but investors say they have seen positive signs from his government. "Some market-friendly people have been put into key posts of the central bank," said Sean Newman, a portfolio manager at Invesco. Citigroup priced the offering, with a $1 billion six-year tranche carrying a yield of 8.75 percent, and a $1 billion 10-year tranche with a 9.63 percent yield. Ahead of the sale, Ecuador met with buyside participants in the United States and Britain, and in the past had indicated to investors that the country would need to raise $12.5 billion this year. It was expected that nearly half of the funds raised would come from external sources like bilateral loans and the international bond market, Newman said.

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good old days. They will find new investment harder to come by, compounding internal problems caused by energy subsidies and over-dependence on oil export earnings. OPEC production limits won't drive prices up to save them this year, and probably not in 2018, either."

A **Gustavo Coronel, a founding board member of PDVSA:** "The oil production cut established by OPEC has not really been successful in generating a clear price recovery. Oil prices have been oscillating between the mid-$40s and the mid-$50s since the cut was enacted. Greater increases have been blocked by relatively high global oil inventories. There is a general feeling that OPEC has lost its power to determine global oil prices. One strong reason for this feeling is the speed and magnitude of the recovery of U.S. shale oil production, especially in the Permian basin region, with contributions from Eagle Ford and other areas. Over the last year, shale oil production in the United States has increased by more than half a million barrels per day, largely compensating for the reduction in OPEC oil production, and helping to maintain a level of global oil supply that is keeping prices within the above-mentioned range. Oil analysts seem to agree that this increase in U.S. shale oil production will be sustained through 2017 and probably into 2018. Short of a major price increase, which is highly unlikely, OPEC's maneuvering will not help Venezuela or Ecuador much. Venezuelan oil export capacity has been decreasing at a rate that no modest price increase could compensate for. In fact, higher oil prices will have an adverse effect on their capacity to import crude oil and products required to balance declining domestic production and refining shortcomings. OPEC has lost much of its muscle, and Latin American non-members seem to have no interest in joining forces with the organization."

> **"There is a general feeling that OPEC has lost its power to determine global oil prices."**
>
> — Gustavo Coronel

A **Leonardo Sempértegui, partner at Sempértegui Ontaneda in Washington:** "I do not think the OPEC agreement has done much to stabilize the oil market. It was overdue for a correction after the high prices of earlier this decade, and that is what happened in the last two years. We have now an oil price that seems reasonable for all parties and is sustainable in the long term. It is clear now that OPEC alone has lost its market power, which is a good sign, since it means that the demand and supply logic is working in the oil market, as it should have been from the beginning. This is without interference to favor sellers or buyers. Unfortunately, several oil-producing countries became used (and adapted their policies) to a very high oil price, which was not coherent with the decreasing rate of economic growth around the world. Venezuela and Ecuador need to take several actions to improve their oil sectors' performance. However, the two cases are strikingly different. Venezuela probably needs a complete institutional reconstruction, which also includes reigning in PDVSA and providing a very basic level of institutional certainty. For Ecuador, the recipe is straightforward: avoid making decisions based on ideology and then offer private investors the international contract design they are looking for (production sharing agreements), which is available under the current legislation, duly protecting the country's interest in each deal. If there is a lesson that Venezuela and Ecuador can learn from their neighbors (which have rightfully refrained from collaborating with OPEC), it is that politics must be as far-removed as possible from oil- and gas-sector decisions."

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