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FEATURED Q&A

Can Venezuela's PDVSA Avoid Total Default?

Under Venezuelan President Nicolás Maduro, the government and state oil company PDVSA have been declared to be in partial default, and state power company Corpoelec has been declared to be in total default. // File Photo: Venezuelan Government.

Q **S&P Global Ratings on Nov. 13 declared Venezuela in selective default following the South American country's failure to make payments on bonds following the expiration of a 30-day grace period. Venezuela's state oil company PDVSA and state power company, Corpoelec, have been declared to be in default, as well. What do debt restructuring talks mean for the future of PDVSA and for Venezuela's energy sector in general, upon which the government almost entirely depends for income? How likely is PDVSA to default on more debts? What does the declaration by the by the International Swaps and Derivatives Association that PDVSA is in default mean for its assets and operations?**

A **David Voght, managing director at IPD Latin America:** "While ISDA and the rating agencies have put Venezuela squarely in default, the fact is that the country continues to pay principal and coupons. Investors with credit default swaps may be getting ready to cash in, but this early consequence poses virtually no threat to PDVSA's operations. The bigger question is, when will bondholders be ready to start accelerating payments? Until they do, Venezuelan production declines will continue to be the result of operational inefficiencies, falling capital expenditures and the inability to obtain financing, due in large part to PDVSA's own risk profile and U.S. sanctions, not default. We find it difficult to envision a successful restructuring. But even once Venezuela stops paying, which will likely be next year, we question how much investor efforts to recover capital will actually disrupt the country's oil industry. The effects will certainly not be immediate. Before asset at-

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TOP NEWS

OIL & GAS

State Regulators OK Keystone XL Route in Nebraska

Nebraska regulators on Monday in a 3-2 vote approved Canadian oil company TransCanada's route through the U.S. state for part of its 1,200 mile-long Keystone XL Pipeline.

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POWER SECTOR

Whitefish Halts Work in Puerto Rico

Montana-based energy company Whitefish Energy Holdings said it was stopping work to help restore electricity to Puerto Rico, saying the U.S. territory's government had not paid its workers as part of a contract.

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OIL & GAS

Venezuela Arrests Acting Citgo Chief

Venezuelan chief prosecutor Tarek Saab said authorities have arrested the acting president of Citgo, the U.S. subsidiary of state-owned oil company PDVSA, and five other executives at the company over corruption allegations.

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Saab // File Photo: Citgo.

OIL & GAS SECTOR NEWS

Committee Declares Venezuela, PDVSA in Default

A committee of creditors on Nov. 16 declared Venezuela's government and its state oil company, PDVSA, to be in default following their failure to make required debt payments, the Financial Times reported. The International Swaps and Derivatives Association, a finance industry body, unanimously voted that the government and the state oil company are in default, a decision that is likely to trigger insurance-like contracts on their bonds. Cash-strapped Venezuela has been using grace periods to try to stay current on its payments, and President Nicolás Maduro earlier this month called for a restructuring of the country's debt, which is estimated to be at least $120 billion. The ISDA committee members, which include JP Morgan, Goldman Sachs, Elliott Management, AllianceBernstein and Citadel, decided in a 15-0 decision that both Venezuela and PDVSA had a "failure to pay credit event," the Financial Times reported. The decision will mean that holders of credit default swaps, which bondholders typically purchase for protection in case the debt issuer defaults, will be able to cash in, CNBC reported. Venezuela and PDVSA do, however, remain current on some of their debts. There are credit default swaps in the amount of $1.3 billion for Venezuela's sovereign debt and in the amount of approximately $250 million for PDVSA, CNBC reported, citing Caracas Capital. Last month, Venezuela began failing to make interest payments ahead of two critical payments amounting to nearly $2 billion. The 30-day grace periods of the interest payments ended earlier last week. Major credit ratings agencies have already declared Venezuela to be in "selective default" due to its nonpayment on various bond issues.

El Aissami // File Photo: Venezuelan Government.

State Regulators OK Keystone XL Pipeline Route in Nebraska

Nebraska regulators on Monday in a 3-2 vote approved Canadian oil company TransCanada's route through the U.S. state for part of its 1,200 mile-long Keystone XL Pipeline, CNBC Reported. The approval by the Nebraska Public Service Commission removed a major obstacle to the company's plans for the controversial pipeline. Plans for the project still face a likely legal battle and could be derailed by low global oil prices. The decision came days after TransCanada's original Keystone pipeline system, to which Keystone XL would be an addition, spilled more than 210,000 gallons of oilsands crude in South Dakota on Nov. 16, Quartz reported. The company has been operating the Keystone pipeline since 2010 and had 35 oil spills the same year. Under Nebraska state law, commissioners were not allowed to consider the risk of spills when ruling on the permit for the project, The New York Times reported. Groups opposed to the building of the pipeline can appeal the panel's decision in state district court. The pipeline will bring oil from Alberta, Canada to Steele City, Neb., where it will connect to TransCanada's existing pipeline system. Former U.S. President Barack Obama had denied approval for the project, citing an inadequate environmental review of the project. His decision was overturned in January after U.S. President Donald Trump took office.

Venezuela Arrests Acting Chief of Citgo

Venezuelan authorities have arrested the acting president of Citgo, the U.S.-based subsidiary of state-owned oil company PDVSA, and five other

NEWS BRIEFS

Ecopetrol, Repsol Acquiring New Gulf of Mexico Oil Blocks

Colombian state oil company Ecopetrol and Spain-based energy company Repsol have partnered to acquire four new oil blocks in the Gulf of Mexico for deepwater exploration, Ecopetrol said Nov. 17, Reuters reported. Ecopetrol's U.S. subsidiary, Ecopetrol America, and Repsol will be able to explore the blocks for five years at a depth of about 240 meters or 787 feet, per the contract. The four blocks, Garden Banks 77, 78, 121 and 122, are close to platforms and existing infrastructure.

U.S. State Dept. Pledges $4.3 Mn for Caribbean Energy Diversification

The U.S. State Department on Nov. 16 announced it would provide $4.3 million in funding to promote energy diversification in the Caribbean, Caribbean Life News reported. "This funding … will [provide] energy-related technical assistance, grant funding for project preparation, and new opportunities for globally competitive U.S. energy firms and exports," the State Department said.

Bolivia Signs Natural Gas Development Deals

The Bolivian government on Tuesday signed natural gas development deals with Spain's Repsol, Brazilian state oil company Petrobras, Royal Dutch Shell and Pan American Energy, with plans to bring in $1.6 billion in investment to increase natural gas output, Reuters reported. The deals were signed at the Gas Exporting Countries Forum that began on Tuesday in Santa Cruz, Bolivia. Declining natural gas output in Bolivia is seen as one of the main obstacles to boosting exports to Argentina and Brazil. The forum, which has modeled itself after the Organization of the Petroleum Exporting Countries, includes Qatar, Iran, Russia and Venezuela.

executives at the company over corruption allegations, officials said Tuesday, the Associated Press reported. Chief Prosecutor Tarek Saab said José Pereira and five Citgo vice presidents were arrested on suspicion of having been involved in an embezzlement scheme tied to a $4 billion plan to refinance company bonds. The plan in question gave "unconscionable and unfavorable" terms of sale for PDVSA and offered Citgo as a guarantee on repayment. Saab said the agreement was made without having sought prior government approval, and that members of the contract allegedly are eligible for a 1.5 percent payoff of the total. Saab accused the executives of being facilitators of U.S. and international pressure on Venezuela's oil sector, saying they were "putting at risk Citgo's assets while obtaining personal benefits." President Nicolás Maduro said the thefts were blatant and urged oil-sector employees to stand with him in the fight against corruption. "While I'm working hard every day, there's a group of bandits stealing from the people," Maduro said in a televised address. "What's that called? Treason." Since taking the position of chief prosecutor in August, Saab's office has made nearly 60 arrests related to corruption at PDVSA, including many senior managers. The arrests come as U.S. prosecutors conduct an ongoing corruption probe into the company. In 2015, the U.S. Treasury Department accused a bank in Andorra of laundering some $2 billion that had been stolen from PDVSA.

POWER SECTOR NEWS

Whitefish Halts Work in Puerto Rico Citing Nonpayment

Montana-based energy company Whitefish Energy Holdings on Monday said it was stopping work to help restore electricity to Puerto Rico following Hurricanes Irma and Maria earlier this year, saying the U.S. territory's government had not paid its workers as part of a contract that had led to accusations of the company overcharging for its services and of incompetence, and which contributed to the resignation of the company's director, the Associated Press reported. The company said in a statement that invoices for work done were outstanding, and that Whitefish could no longer provide services without pay. The Associated Press obtained a letter signed by Whitefish Energy CEO Andy Techmanski that said Puerto Rico's government owed more than $83 million to the company, and that work would be suspended if Whitefish was not paid. The company said the lack of payments is a breach of the $300 million contract that Puerto Rico Governor Ricardo Rosselló canceled last month. Even though the contract had been canceled, both the company and the commonwealth's government agreed that Whitefish would continue to work on its current projects and would remain on the island through Nov. 30. "It may have not been the best business decision coming to work for a bankrupt island," Techmanski told CNN. "We were assured PREPA was getting support from FEMA and there was money available to pay us for 100 percent of our work." CNN contacted PREPA, the Puerto Rico Electric Power Authority, for a comment, but its spokeswoman did not directly address the situation with Whitefish Energy.

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tachment, for example, we consider that U.S. sanctions are by far the biggest obstacle for the Venezuelan oil industry. The inability of foreign operators to carry PDVSA financially presents the most imminent risk to crude production. We expect that the Russians and the Chinese will be the biggest winners, as new project opportunities become available to those companies not subject to sanctions. In an effort to prop up current production efforts, Venezuela's energy authorities will maintain, or even try to improve, their relationships with all foreign operators, including U.S. and European interests. PDVSA is out of options and must give its partners greater operational control over existing assets. Done successfully, this could neutralize downward pressure on production, at least in the short term."

A **Gustavo Coronel, a founding board member of PDVSA:** "Although the exact definition of the event remains confused among the experts, the ISDA has declared a partial default, and this, in itself, is serious enough. When it is accompanied by inflation expected to reach 4,700 percent next year, a dollar in the parallel market at 60,000 bolívars versus the official rate of 10 bolívars, and a GDP drop of 14 percent for 2017, the situation becomes desperate. The government seems to be without answers, as shown by the chaotic meeting of bondholders held in Caracas, with almost no attendance from abroad. China has not shown any willingness to bail out Venezuela, and Russia has relaxed debt payment demands but has not offered fresh money. Politically, this forces the Venezuelan regime to recognize the National Assembly, which the opposition controls, if it wants the United States to allow any new bond emissions in its territory. Even if this took place, it could prove to be too little, too late. Oil production is dropping rapidly, the industry is in disarray and trust in the government, the main requisite for any new money entering the country, has disappeared. As default expands, international debtors will become very aggressive and will attempt to grab PDVSA or other government assets abroad.

> **"Russia and China will be the biggest winners, as new project opportunities become available to those companies not subject to sanctions."**
> **— David Voght**

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POLITICAL NEWS

Piñera, Guillier Head to Runoff in Chile Presidential Election

Conservative former Chilean President Sebastián Piñera emerged as the top vote-getter Nov. 19 in the first round of Chile's presidential election and will face center-left Senator Alejandro Guillier in a Dec. 17 runoff. With almost 95 percent of the ballots counted, Piñera garnered 36.6 percent of the vote, while Guillier won 22.7 percent of the votes cast, The Wall Street Journal reported. Piñera and Guillier had been expected to be the top two finishers in the first round. The biggest surprise

Guillier // File Photo: Guillier Campaign.

was the surge from the left, as leftist journalist Beatriz Sánchez came in a close third, with 20.3 percent support. Piñera would have needed more than 50 percent of the votes cast in order to avoid the second round. He celebrated with supporters despite a showing that was weaker than expected. "We've achieved a great electoral result," Piñera told supporters. "We've opened the door to better times." Polls ahead of the vote had predicted the former president would win between 40 and 45 percent of the vote. The results suggest that the runoff could be a closer contest than expected between Piñera and Guillier. Voters also cast ballots on Sunday for the members of the lower chamber of Congress as well as half the members of the Senate. Preliminary results on the night of Nov. 19 gave Sánchez's Frente Amplio party, which was founded earlier this year, significant gains in Congress, The New York Times reported. The results mean that as of next year, political power in Chile will not be held solely by the two coalitions that have governed the country since the end of military rule in 1990. Voter turnout was low, at about 45 percent. Current President Michelle Bachelet, who also served as president from 2006 to 2010, ends her current term in March and is constitutionally barred from seeking immediate re-election. She has said she will not seek elected office in Chile again in the future.

ADVISOR Q&A

Were Nicaragua's Elections Free and Fair?

Q **Nicaragua's ruling Sandinistas on Nov. 5 extended their dominance in the country's local elections, maintaining control of most of Nicaragua's municipalities, including Managua, winning 135 of the 153 mayoral posts up for grabs. Violence marred the result, however, and after the balloting, the Organization of American States' mission in Nicaragua called on the government to investigate and punish those responsible for at least five killings that occurred amid the elections. What do the election results mean for President Daniel Ortega and his agenda? To what can the Sandinistas attribute their victories? How free and fair were the elections?**

A **Mario Arana, director of the Nicaraguan Foundation for Social and Economic Development and former Nicaraguan minister of finance and central bank president:** "Elections in Nicaragua unfortunately have devalued significantly since the electoral system began to lose legitimacy and credibility in the 2008 municipal elections, and especially since the presidential election of 2011. This situation has worsened, and abstentionism has become the norm. People are no longer bothering to vote, which should be a major problem for the country as much as for Ortega. Under those circumstances, the outcome is predetermined by the Sandinista militants, who are still going to the ballot box. The reaction and the threat of sanctions by the U.S. Congress in the context of the anomalies of the last presidential election led the government and the Organization of American States to agree on a roadmap over the next three years to address the many shortcomings. It has also led to an effort by the private sector, concerned by the potential damage to the economy, to lobby against those sanctions, but with the understanding that Nicaragua's government must undertake a transition to democracy and institutionalization. This much Ortega has recently offered to do after the current municipal elections, to perfect the electoral process, as he publicly and indirectly recognized the high level of abstentionism and reminded everyone that elections present the appropriate alternative, as opposed to chaos and war, which Nicaragua experienced in the past. The lack of reforms could also derail an outstanding economic performance if the country ends up confronting U.S. economic sanctions. The effectiveness of the Ortega administration under abundant Venezuelan external resources has reached its limits, and a potential adverse balance is tilting against its ability to maneuver economically and politically in the future. The government must undertake institutional and electoral reforms as Ortega ponders his own historical legacy. It seems closer to becoming a more reasonable option than other alternatives, which under current circumstances could lead to polarization and undesirable economic and political instability. The country's economy has been doing well, and it will strengthen if reforms are timely and effective."

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

NEWS BRIEFS

Brazil's Lower House Approves Increase of Mining Royalties

The lower house of Brazil's Congress on Tuesday approved an increase in mining royalties for several commodities, including iron ore and gold, Reuters reported. The hike was part of broader mining-sector reforms that President Michel Temer has proposed to boost the South American nation's economy. The legislation now heads to the Senate. It must be fully approved by Nov. 28, or it will expire.

China Vows to Help Panama After its Break With Taiwan

China will provide Panama any help it needs, a top Chinese diplomat said Nov. 17 following talks between the two countries' presidents in Beijing, Reuters reported. The comments by Zhao Bentang, who heads the Chinese foreign ministry's Latin America division, came five months after Panama cut diplomatic ties with Taiwan in favor of establishing them with China.

Rio de Janeiro State Legislature Votes to Free Jailed Speaker

Rio de Janeiro's state legislature on Nov. 17 voted to overturn a court ruling that had placed state speaker Jorge Picciani in jail while he waits trial on corruption charges, Agence France-Presse reported. The 39-19 vote has been portrayed in Brazilian media and on social networks as an example of the widespread impunity public officials that have been charged with corruption appear to enjoy. Picciani, a member of the ruling PMDB party, had been detained after being charged with running a corruption scheme in the transportation sector. The state legislature argued it has the authority to overturn a judge's ruling regarding members of its body.

U.S. Ends Temporary Protected Status for Haitians

The administration of U.S. President Donald Trump on Monday announced that it was ending Temporary Protected Status for the nearly 60,000 Haitians living in the United States under the immigration status, giving them until July 2019 to leave or face deportation, The New York Times reported. The humanitarian program has allowed the Haitians to live and work in the United States since the catastrophic earthquake that hit their country in 2010. The administration of former U.S. President Barack Obama extended the protections for the Haitians several times, but the Trump administration has said the program was intended to be temporary, not a way to make foreign nationals long-term residents of the United States. "Since the 2010 earthquake, the number of displaced people in Haiti has decreased by 97 percent," Acting Homeland Security Secretary Elaine Duke said in a statement, The Washington Post reported. "Significant steps have been taken to improve the stability and quality of life for Haitian citizens, and Haiti is able to safely receive traditional levels of returned citizens." Allowing Haitians living in the United States under Temporary Protected Status a year and a half before they must leave will allow for an "orderly transition," that will allow them to "arrange for their departure" and Haiti's government to prepare for their return, Duke added. The United States created the immigration designation, known as TPS, in 1990 to shield foreign nationals from deportation if the executive branch determined that armed conflict or disasters in the foreign citizens' home countries created unstable conditions. Among those who have called for Haitians' Temporary Protected Status to be renewed is U.S. Senator Marco Rubio (R-Fla.). Those "sent home will face dire conditions, including lack of housing, inadequate health services and low prospects for employment ... Failure to renew the TPS designation will weaken Haiti's economy and impede its ability to recover completely and improve its security," Rubio wrote last week in the Miami Herald. Earlier this month, the U.S. Department of Homeland Security ended TPS for some 2,500 Nicaraguans living in the United States, giving them until Jan. 5, 2019 to obtain legal immigration status through a different category or leave. At the same time, the department also extended the deadline for some 57,000 Hondurans living in the United States under TPS until next July. The administration may end TPS for Hondurans after that extension ends. [Editor's note: See related **Q&A** in the Nov. 16 issue of the Latin America Advisor.]

ECONOMIC NEWS

López Obrador Vows to Prioritize Mexico's Economic Stability

Mexico's left-wing presidential frontrunner, Andrés Manuel López Obrador, known as AMLO, on Monday vowed to prioritize economic stability while boosting spending for infrastructure, Reuters reported. López Obrador on Monday unveiled his economic plan, which includes austere government spending in order to more easily identify and root out corruption and redirecting government spending to go toward more public works projects and social programs without creating new taxes or increasing Mexico's debt-to-GDP ratio. He rejected critics' concerns that he would implement Venezuela-style economic policies if elected. "Let's be very clear, we are not inspired by any foreign governments, neither [Venezuelan President Nicolás] Maduro nor [U.S. President Donald] Trump." Though AMLO has largely avoided making comments about Trump throughout his campaign, on Monday he said he would seek friendly relations with the U.S. government but would demand respect, as well. His team also reiterated previous calls for the Mexican government to hold off on renegotiating the North American Free Trade Agreement until after the election, saying that the current administration under President Enrique Peña Nieto would not defend the country's interests during the negotiations. [Editor's note: See related **Q&A** on how Mexico's elections will affect its economy in the Sept. 29 issue of the Energy Advisor.]

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In fact, some attempts of this type have already started, even before the default was declared. Canadian mining company Crystallex has been trying to get its hands on Venezuelan government funds at the Bank of New York Mellon."

A **R. Evan Ellis, assistant professor of national security studies at the William J. Perry Center for Hemispheric Defense Studies in Washington:** "The specific consequences of a PDVSA default depend on the specifics of the default provisions in existing contracts with the company, in combination with the evolution of the myriad of claims against the company in international courts, and which PDVSA assets the claimants seek and succeed in attaching. PDVSA has reduced its vulnerability somewhat by moving its current accounts to China's CITIC Bank, and by structuring transactions to minimize oil shipments and other confiscatable assets belonging to the company outside Venezuela. The threshold that PDVSA has crossed with the present (perhaps not first) technical default increases the likelihood it will act similarly in the future. PDVSA's increasing inability to function in international petroleum markets, due to both U.S. sanctions and evaporating creditworthiness, will drive it to rely on more closed relationships, such the loans-for-oil deal with China, or a similar arrangement with Russia's Rosneft, possibly shipping oil to India's Vadinar refinery, which is part of Rosneft's $12.8 billion purchase of Essar, in order to repay Rosneft loans. Regarding Venezuela's desire to restructure some non-sovereign debt, there may not be sufficient participation from traditional investors, unless Russian and Chinese entities participate in significant ways. The Constituent Assembly could modify the Constitution to allow Maduro to mortgage more of the national patrimony to back the loans, yet its questionable legal legitimacy, and the accumulating claims against Venezuelan assets in international tribunals, makes the restructured debt enormously risky. The role played by sanctioned individuals such as Vice President Tareck El Aissami may make participation illegal, as well."

A **Asdrúbal Oliveros P., director of Ecoanalítica:** "At Ecoanalítica, we believe that the capacity of Maduro's administration to offer a viable debt restructuring is extremely limited. Just in October, oil production fell nearly 130,000 barrels per day. Venezuela is approaching hyperinflation, due to severe monetary and fiscal imbalances, and the humanitarian crisis has hit its lowest point since 2014. Also, the U.S. sanctions that explicitly forbid the issuance of new debt, and the fact that the head of the commission in charge of the restructuring process has been sanctioned by the U.S. government for alleged ties with drug trafficking, limits Maduro's possibilities of a successful deal with investors. A default on additional PDVSA bonds is extremely likely, given that: 1) next year a presidential election is scheduled in Venezuela, creating political pressure to increase subsidized food imports; 2) oil production continues to decline, with no clear signs of a recovery and crude prices remaining stable; and 3) there's no access to financial markets available to the government or PDVSA. Even though the ISDA ruling doesn't imply extra disbursements by the government, it severely harms its reputation and reduces its ability to sell more assets and further limits their virtually non-existing access to the markets."

> **"A default on additional PDVSA bonds is extremely likely."**
> — Asdrúbal Oliveros P.

Editor's note: The Energy Advisor requested a commentary from the Venezuelan embassy in Washington, but did not receive a response.

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