

BOARD OF ADVISORS

Diego Arria

Director, Columbus Group

Devry Boughner Vorwerk

Corporate VP, Global Corporate Affairs
Cargill

Joyce Chang

Global Head of Research,
JPMorgan Chase & Co.

Dirk Donath

Senior Partner,
Catterton Aimara

Marlene Fernández

Corporate Vice President for
Government Relations,
Arcos Dorados

Peter Hakim

President Emeritus,
Inter-American Dialogue

Donna Hrinak

President, Boeing Latin America

Jon Huenemann

Vice President, U.S. & Int'l Affairs,
Philip Morris International

James R. Jones

Chairman,
Monarch Global Strategies

Craig A. Kelly

Director, Americas International
Gov't Relations, Exxon Mobil

John Maisto

Director, U.S. Education
Finance Group

Nicolás Mariscal

Chairman,
Grupo Marhnos

Thomas F. McLarty III

Chairman,
McLarty Associates

Carl Meacham

Associate VP for Latin America
Int'l Advocacy Division, PhRMA

Carlos Paz-Soldan

Partner,
DTB Associates, LLP

Beatrice Rangel

Director,
AMLA Consulting LLC

Gustavo Roosen

Chairman of the Board,
Envases Venezolanos

Andrés Rozental

President, Rozental &
Asociados and Senior
Policy Advisor, Chatham House

Roberto Sifon-Arevalo

Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

FEATURED Q&A

Will Russia Keep Providing Lifelines to Venezuela?



Russia has provided Venezuela's cash-strapped government with funding over the years. Venezuelan President Nicolás Maduro and Russian President Vladimir Putin are pictured above. // Photo: Venezuelan Government.

Q Venezuela's government in mid-December awarded Rosneft licenses to develop two offshore gas fields in a 30-year agreement that will allow the Russian oil major to export all of the gas that the fields produce. Over the past three years, Russia and Rosneft have provided Venezuela's government with some \$10 billion in assistance, throwing the cash-strapped South American country a lifeline as it teetered on the edge of default. To what degree can Russia rescue Venezuela from further economic collapse or regime change, and how willing will the Putin administration be to provide it more support this year and beyond? With less access to international capital markets amid messy default proceedings, what does an increased Russian presence mean for Venezuela's oil and gas sector? Should Venezuela's neighbors, the United States and others in the region view Russia's involvement in the oil and gas sector as a threat to their national interests?

A Michael Lynch, president of Strategic Energy & Economic Research in Amherst, Mass.: "Giving money to Venezuela is like pumping blood into a patient with an open jugular vein. The regime seems able to destroy wealth faster than anyone can compensate for, so it is only a matter of time before the country's creditors abandon them, they default and/or there is regime change. After that, the chances are high that the next Venezuelan government will abrogate or at least renegotiate Rosneft's contract. A massive upstream investment by Russian firms might stabilize the economy eventually, especially if they restore nearly one million barrels a day of capacity shut in by

Continued on page 3

TODAY'S NEWS

POLITICAL

Ecuadoreans Vote to Limit Presidents to Two Terms

The vote was a blow to former President Rafael Correa who returned to Ecuador to campaign against the reforms of his successor, Lenín Moreno.

Page 2

BUSINESS

Victims' Families Sue Chiquita Over Payments to FARC

The families of six Americans who were killed by Revolutionary Armed Forces of Colombia rebels filed suit against Chiquita Brands over payments it made to the rebel group.

Page 3

POLITICAL

Evangelical Singer Tops Field in Costa Rica Vote

Fabricio Alvarado Muñoz, a right-wing evangelical singer and lawmaker, emerged as the top vote-getter in the first round of Costa Rica's presidential election, which was upended in a debate over same-sex marriage.

Page 2



Alvarado Muñoz // File Photo: Costa Rican Government.

POLITICAL NEWS

Evangelical Singer Tops Field in Costa Rica Presidential Vote

Right-wing evangelical singer and lawmaker Fabricio Alvarado Muñoz was the top vote-getter in the first round of Costa Rica's presidential election Sunday and will face off against center-left former labor minister Carlos Alvarado Quesada in the April 1 runoff. With about 90 percent the ballots counted,

“Costa Rica has sent a message to traditional parties—never again will they meddle with the family.”

—Fabricio Alvarado Muñoz

Alvarado Muñoz had nearly 25 percent of the vote, while Alvarado Quesada garnered almost 22 percent, The New York Times reported. A candidate would have needed at least 40 percent of the vote to win the election in the first round. A debate over same-sex marriage propelled Alvarado Muñoz, 43, who is not related to his opponent, up from single digits in recent polls. The conservative member of the country's Legislative Assembly and member of the National Restoration Party opposes same-sex marriage. Alvarado Quesada, 38, of the Citizens' Action Party, supports it. An advisory opinion last month by the Inter-American Court of Human Rights, to which Costa Rica is a signatory, said that international law requires governments to recognize same-sex couples' rights, including their right to marry. Alvarado Muñoz has said the decision is a violation of Costa Rica's sovereignty and has threatened to pull the Central American country out of the court if elected president. Alvarado Muñoz was the only candidate in the first round who did not announce his support or willingness to respect the ruling from the court, NPR report-

ed. “We propose the sovereignty of the family as the fundamental basis of society,” Alvarado Muñoz told supporters after the results of the first round were announced, Reuters reported. “Costa Rica has sent a message to traditional parties—never again will they meddle with the family.” For his part, Alvarado Quesada told supporters that he would give Costa Rica Latin America's best education system and also reiterated his support for civil rights. “The Costa Rica of the 21st century requires a government that knows how to move forward with vigor, love, happiness [and] the agenda of equality,” he told supporters.

Ecuadoreans Vote to Limit Presidents to Two Terms

Ecuadoreans went to the polls on Sunday and voted in favor of a measure that sets limits on presidents to serving two terms, essentially blocking former President Rafael Correa from returning to the presidency, The Wall Street Journal reported. Ecuador's National Electoral Council said two out of every three voters approved the measure proposed by President Lenín Moreno, who was elected in 2017 and was widely seen as a placeholder for Cor-



Correa // File Photo: Ecuadorean Government.

rea until he could run again for president in 2021. He served for six years as Correa's vice president, but surprised Ecuador by almost immediately turning against Correa once elected president. He has made efforts to fight corruption, most notably with his former vice president, Jorge Glas, being sentenced to six years in prison on charges of taking bribes from a construction company. Moreno has also

NEWS BRIEFS

Mexican Police Find 200 Migrants Hidden in Truck

Nearly 200 undocumented immigrants from Guatemala, Honduras and El Salvador were found by Mexican police hidden in a truck without food or water in Tamaulipas state in northeastern Mexico, BBC News reported Sunday. The migrants were found just south of the Texas border, on their way to the United States. Three people were arrested on suspicion of human trafficking. The people in the truck had been without food, water or proper ventilation. Twenty-four of people in the truck were unaccompanied minors, officials said.

Colombia Opens Shelter for Fleeing Venezuelans

The Colombian government on Saturday opened its first shelter for Venezuelans fleeing the country's economic and political crises, The Wall Street Journal reported. The shelter is located near the border city of Cúcuta, and is expected to provide shelter for up to 48 hours for 120 people per day. Priority will be given to pregnant women, the elderly and minors who entered Colombia legally. The Red Cross will administer the shelter. Some 35,000 Venezuelans cross into Colombia every day, many seeking to live with relatives or to purchase food and medicine to take back home with them.

U.S. Might Restrict Imports of Venezuelan Oil: Tillerson

The United States is considering restrictions on imports of Venezuelan oil, U.S. Secretary of State Rex Tillerson said Sunday during his five-country tour of Latin America, Reuters reported. “One of the aspects of considering sanctioning oil is what effect would it have on the Venezuelan people? Is it a step that might bring this to an end more rapidly?” Tillerson said in Buenos Aires, referring to the country's political and economic crises.

worked to improve relations with journalists, indigenous groups and business leaders, groups that were often challenged by Correa during his presidency. Moreno pushed for a total of seven constitutional changes in the referendum, most of which reverse policies from the Correa administration. The reforms received between 63 percent and 74 percent support from Ecuadoreans. "The days of confrontation are behind us," Moreno said, the Associated Press reported. Correa, who had recently returned to Ecuador from his wife's native Belgium to campaign against the reforms put forward by Moreno, said the president had used the powers of the state to run an unfair campaign, The Wall Street Journal reported.

BUSINESS NEWS

Victims' Families Sue Chiquita Over Payments to FARC

The families of six Americans who were kidnapped and killed in Colombia in the 1990s by the Revolutionary Armed Forces of Colombia, or FARC, are suing banana company Chiquita Brands International over payments it made to the rebel group, the Associated Press reported Saturday. The families are seeking potentially tens of millions of dollars in damages. The trial is set to begin with jury selection today in U.S. federal court in West Palm Beach, Fla. The families say that because Chiquita gave financial support to the FARC, which is classified as a terrorist group, it should be held responsible for the Americans' deaths and should pay damages. Chiquita has admitted to paying the FARC some \$220,000, but says it did so only to protect the company's employees from violence by the rebels. To win their case, the families suing the banana company must prove that Chiquita executives knew the FARC was engaged in violence that could affect Americans, and that the deaths of the six people in the 1990s would have been foreseeable when Chiquita made the payments, according to the plaintiffs' attorney, Gary Olsen.

FEATURED Q&A / Continued from page 1

lack of maintenance. But gas fields intended for export will take years to develop, and so the Rosneft deal alone is unlikely to save the current government. If Russian firms increase their involvement in the Venezuelan upstream more broadly, the country's neighbors and many Washington politicians will undoubtedly fear Russian dominance of the (potentially) wealthy Venezuelan oil sector. However, the political and management problems are so great that the investment could be more of an albatross than a goose that lays golden eggs."

A **R. Evan Ellis, assistant professor of national security studies at the William J. Perry Center for Hemispheric Defense Studies in Washington:** "Russian involvement in Venezuela's petroleum sector is not a threat to U.S. strategic interests per se, but the growing dependence of Venezuelan President Nicolás Maduro's regime on Russian (and Chinese) capital, the extended life that those funds afford to its anti-U.S. regime, and the potential access to Venezuela it enables for Russia's intelligence services and military (just as Venezuela hosted Russian forces in 2008 and 2013), is indeed a threat. The seating of Venezuela's unconstitutional constituent assembly, the refusal of its military to defend the constitutional order and apparent Maduro victories in recent gubernatorial and local elections create the appearance that the regime is successfully consolidating control. Yet, even with Russian and Chinese loans, through gross mismanagement, corruption and international sanctions, the Venezuelan government is still running out of money, with international reserves under \$10 billion and at least \$1.4 billion in bonds now in technical default. Rosneft has attempted to exploit Maduro's desperation for resources, and to manage risk by securing rights to Venezuelan oil and gas fields, including Petromonagas, Petroperija, Boquerón, Petrovictoria and Petromiranda. The lucrative 30-year concessions to

exploit the Patao and Mejillones offshore gas fields (noted in the question), is but the most recent example. Yet Rosneft's position is fragile. Given the break in Venezuela's constitutional order, widely acknowledged by

“Rosneft has attempted to exploit Maduro's desperation for resources...”

— R. Evan Ellis

the international community, the legal status of the commitments Russia has received for the billions of dollars it has provided are dubious, just as its claim to Citgo holdings (it received as a guarantee for \$1.5 billion it transferred to PDVSA) may be blocked by the Committee on Foreign Investment in the United States.”

A **Chris Cote, energy market analyst at ESAI Energy:** "The lifeline Russia has extended to Venezuela and PDVSA in the past looks to have been withdrawn. Facing default late last year, Venezuela looked to Russia for rescue yet again, and came away with its debt restructured, but with no new cash. Meanwhile, Russia came away with new gas fields. Like many other creditors, Russia and Rosneft will work to recover investments that they have made in Venezuela. At this point, the purpose that their influence serves is to skip to the front of the growing line of clamoring creditors. In the longer term, Russia's interests, like those of the other international firms there, are in Venezuela increasing its oil production. But the problems that have dragged down production by more than 450,000 barrels per day in the past two years are not just technical, but also social and political. Sim-

Continued on page 4

FEATURED Q&A / Continued from page 3

ply drilling more wells will not reverse the production declines. Thousands of skilled workers have left PDVSA, the government's excessive printing of money has reduced the value of their wages to next to nothing, and systematic corruption and a lack of funds have reduced the reliability of supply chains. International service companies await payment before continuing their drilling, leaving the work to inexperienced, government-run companies. Russia and Rosneft are unlikely to lend more money, especially as assets are being seized by Western creditors. To be sure, Russia has amassed a large position in Venezuela's oil and gas fields, from which it stands to benefit as the political and economic situation worsens. However, given the complexity of the situation in Venezuela and that Russia's assets are currently relatively secure, non-financial types of intervention are unlikely."

A **Antero Alvarado, Venezuela director at Gas Energy Latin America:** "The license granted in Patao and Mejillones is another step in the privatization process of the gas business in Venezuela. This is the first license that allows a private company to operate 100 percent of the project and also to export the gas, deciding price and destiny. This is a sign of change in Venezuela's energy policy. PDVSA has been trying to develop those fields since the late 1980s. Low local gas prices have been the main challenge for this project. Those fields are far for domestic markets, with expen-

sive transportation costs to bring to main industrial areas. However, Venezuela needs this gas to face the local deficit of more than two billion cubic feet per day. Next to the Patao and Mejillones blocks is Dragon field, which is 100 percent operated by PDVSA.

“Huge investments have been made for many years, but the project remains unfinished.”

— Antero Alvarado

Huge investments have been made for many years, but the project remains unfinished. This field finally will be evacuated to Trinidad and Tobago in the short term, with the cooperation of Shell and NGC. Exporting gas from those fields will bring U.S. dollars in the mid-term to Venezuela. PDVSA has no experience operating in the offshore. This gas coming from Patao and Mejillones will probably be marketed to the neighboring countries: Trinidad and Tobago (with a PDVSA royalty share, 20 percent of the project), the Southern Cone, Caribbean islands and Central America. In the Patao and Mejillones gas field, a final investment decision must be taken by Rosneft in 2020. Until then, no relevant investment will be done to help PDVSA avoid any default."

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2018

Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Nicole Wasson

Reporter, Assistant Editor
nwasson@thedialogue.org



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

Michael Camilleri, Director, Peter D. Bell Rule of Law Program

Kevin Casas-Zamora, Nonresident Senior Fellow

Ariel Fiszbein, Director, Education Program

Alejandro Ganimian, Nonresident Fellow

Peter Hakim, President Emeritus

Claudio Loser, Senior Fellow

Nora Lustig, Nonresident Senior Fellow

Margaret Myers, Director, China and Latin America Program

Manuel Orozco, Director, Migration, Remittances & Development

Jeffrey Puryear, Senior Fellow

Tamar Solnik, Director, Finance & Administration

Lisa Viscidi, Director, Energy Program

Denisse Yanovich, Director of Development and External Relations

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.

LATIN AMERICA ADVISOR

Financial Services Advisor

The answers to questions that informed executives are asking.

SUBSCRIBE