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THEDIALOGUE

FEATURED Q&A

Will Venezuela Make Big Changes to Energy Policy?

"Our oil is for Venezuelans," Venezuelan lawmaker Tomás Guanipa told Globovision last week in reference to Petrocaribe and other long-term oil agreements. // File photo: @TomasGuanipa.

Q Leaders of Venezuela's opposition coalition, which last month won control of the country's National Assembly, have said they would prioritize fixing the country's economy before making any political changes. Opposition leader Henrique Capriles also emphasized that the country's previous policy of subsidizing the cost of oil to regional allies has crippled Venezuela's economy. Is it likely that the government will cut the state-subsidized Petrocaribe oil program for ally countries? How will the new National Assembly address Venezuela's struggling oil sector in the coming months? How can the new leadership attract foreign investment? What will be the local and international economic effects of a changed Venezuelan oil sector? How difficult will it be for opposition leaders to get these changes past President Nicolás Maduro, and what remains of the ruling party leadership in the National Assembly?

A Gustavo Coronel, a founding board member of PDVSA: "President Maduro is already preparing to fight the new National Assembly to the death. The two-thirds majority in the assembly can certainly introduce many radical changes to clean up the government mess and prevent further financial hemorrhaging through severe budget control, but they cannot make executive decisions; they can only legislate. The opposition's priorities should also focus on the political area, where the damage has been immense, including the possible suspending of subsidized oil to Cuba and the redefinition of the core business of PDVSA, which has become very corrupt and inefficient under this regime. New foreign investment will not come to Venezuela in the short term. It might take several months just to elucidate who is politi-

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TODAY'S NEWS

POLITICAL

Three Arrested in Killing of Mexican Mayor

Gisela Mota, 33, was killed less than 24 hours after she was sworn in as mayor of Temixo in Morelos state.

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BUSINESS

Smurfit Kappa Buys Two Brazilian Companies

Irish paper and packaging company Smurfit Kappa has bought Brazil's INPA and Paema for approximately $202 million. Smurfit Kappa said the acquisition will help the company expand its reach in Latin America.

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POLITICAL

Venezuelan Opposition Taps Ramos as Assembly Head

Venezuela's opposition, which is to take control of the country's National Assembly on Tuesday, selected Henry Ramos as the legislative body's president.

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Ramos // File Photo: Venezuelan Government.

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POLITICAL NEWS

Opposition Taps Ramos as Venezuela Assembly Head

Venezuela's opposition, which is to take control of the National Assembly this week, on Sunday chose longtime lawmaker Henry Ramos as the leader of the legislative body, Reuters reported. "We represent an alternative," said Ramos, 72, the wire service reported. "We are not going to be the anti-establishment, rather an autonomous legislative power." Ramos won 62 of the 111 votes cast for the post. Ramos is the secretary general of the social-democratic Democratic Action party, which has long opposed the policies of President Nicolás Maduro and his late predecessor, Hugo Chávez, BBC News reported. Maduro's government has described Ramos as part of the country's "old guard." For the National Assembly president position, Ramos defeated Julio Borges, 46, of the Justice First party. The new National Assembly is expected to begin its term with conflict on Tuesday. Last week, Venezuela's Supreme Court blocked four newly elected lawmakers, three of whom are opposition members, from taking office, Reuters reported. The ruling could jeopardize the opposition's two-thirds majority in the assembly. However, the opposition coalition's secretary, Jesús Torrealba, said Saturday that all 112 opposition members who were elected to the 167-seat legislative body in the country's Dec. 6 elections will be seated. "The people chose 112, and 112 will be sworn in," said Torrealba, Reuters reported. The Supreme Court has also agreed to hear legal challenges against the election of six other opposition legislators. Opponents of Maduro's government have vowed to take several major actions, including the release of imprisoned opposition politicians such as Leopoldo López. Maduro, however, has said he would veto any such move. [Editor's note: See **Q&A** about Venezuela's incoming National Assembly in the Dec. 21 issue of the Advisor.]

> **"We are not going to be the anti-establishment, rather an autonomous legislative power."**
>
> **— Henry Ramos**

Three Arrested in Killing of Mexican Mayor

Mexican authorities have arrested three people, including a minor, in connection with the murder of a newly inaugurated mayor in Morelos state, The Wall Street Journal reported Sunday. Gisela Mota, 33, was killed when gunmen burst into her home on Saturday, one day after she was sworn in as mayor of Temixo, a city of about 100,000 people just outside Cuernavaca. Morelos Governor Graco Ramírez blamed Mota's killing on organized crime. Two other people were killed in the attack. Ramírez vowed that there "would be no impunity" in the case. Ramírez also announced that the state would take over the police forces of 15 towns and cities in Morelos in the wake of the killing, BBC News reported.

BUSINESS NEWS

Smurfit Kappa Buys Two Brazilian Paper Product Companies

Ireland-based paper and packaging group Smurfit Kappa acquired two Brazilian paper product producers as part of its plan to expand operations in Latin America, the Financial Times reported today. Smurfit bought INPA and Paema for approximately $202 million. The company said the acquisition will "build on the Group's leadership position as the largest pan-regional corrugated packaging supplier in Latin America."

NEWS BRIEFS

Irregularities Marred First Round of Haiti Election: Commission

A commission probing the first round of Haiti's presidential and legislative elections said Sunday it found that the election was plagued by irregularities, the Associated Press reported. Despite its findings, the commission said that Haiti should move forward as scheduled with the second round of voting on Jan. 17. The commission said several poll workers intervened during the October election to help certain candidates, and recommended that legal action be taken against those involved. The probe did not name those election officials.

U.S. Begins Crackdown on Central Americans Who Entered Country Illegally

The United States have begun detaining Central Americans who are in the country illegally amid a significant increase in migrants attempting to enter by crossing the southern U.S. border, The Wall Street Journal reported Sunday. Government officials confirmed in late December that the Department of Homeland Security was planning to crack down on Central American migrants in January, including women, children and families. The operation began in Georgia and Texas, immigration attorneys and advocates said Sunday, The Wall Street Journal reported.

At Least Five Dead, 150,000 Displaced in Floods

At least five people have been killed and nearly 150,000 displaced amid flooding last week in Paraguay, Uruguay and Argentina, Agence France-Presse reported. Argentina Mayor Enrique Crest called the disaster the worst flooding in 50 years. The three countries declared states of emergency.

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cally in charge. The new assembly should try to minimize and, eventually, end Petrocaribe. Although attitudinal changes will be evident immediately, it will take at least a year to see any significant policy changes in the oil sector, due to the deep deterioration of PDVSA's management and its lack of transparency. It is going to be very difficult for the opposition to accomplish quick gains, because of the complex distribution of power within the political and military sectors. However, Maduro's proven political clumsiness and his lack of popular support could accelerate his ouster."

Lisa Viscidi, director, and Rebecca O'Connor, assistant, of the Energy, Climate Change and Extractive Industries Program at the Inter-American Dialogue: "The National Assembly elections in Venezuela will not have major short-term implications for the oil sector. The opposition's first priority will be to address economic concerns, such as rampant inflation and shortages of basic goods, rather than energy policy. New legislators will also be cautious about implementing unpopular policies that will likely result in political backlash, such as eliminating gasoline subsidies. Moreover, many of the policies that affect the oil sector—such as the terms of Petrocaribe, state oil company PDVSA's management of oil projects and the ability of its minority partners to access their share of profits from oil sales—fall within the power of the executive branch, meaning the National Assembly has little ability to control them. Nevertheless, the election outcome could bring some positive changes for the oil sector. International oil companies will benefit from the macroeconomic adjustments that opposition lawmakers have vowed to undertake, such as the easing of currency controls and adjusting the fixed exchange rate. In addition, opposition lawmakers will likely demand more accurate public information by requesting monthly oil and gas production and export figures from PDVSA, data on the cost of gasoline subsidies and information on how funds received from China are being allocated. This will improve transparency in the sector and may boost public support for longer-term policy changes."

Michael Lynch, president of Strategic Energy & Economic Research in Winchester, Mass.: "Despite having enormous oil reserves, Venezuela's ability to raise prices is limited, since that requires reducing production, and financial reserves are required to do that. Instead, it must rely on others to make the necessary reductions. However, the Saudis and their allies are alarmed by the fact that shale oil production in the United States is enormously profitable at $100 a barrel. Given the economics of shale oil production, an agreement with non-OPEC and smaller OPEC producers to cut production would probably be unworkable, as it would quickly mean higher drilling and production in the United States. And as time passes, and more shales are analyzed, the ability to raise prices will become even more circumscribed. In 1998, the oil market was only temporarily in surplus, and an agreement for a short-term production cut restored prices. Now, the issue has less to do with the current market balance, and more to do with the fact that in the next few years we will likely see a huge and growing surge of production from outside OPEC, including, but not limited to, shale oil. Unlike other commercial disputes, the question of what to do about a large supply of moderately priced oil in the form of shale cannot be overcome by political agreements. Cooperation to maximize efficiency in their resource sectors would benefit South American energy producers, but not raise prices."

Editor's note: The commentaries in this issue were submitted before Venezuela's Supreme Court on Dec. 30 blocked three opposition legislators from taking office, potentially undermining the opposition's supermajority in the National Assembly.

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