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FEATURED Q&A

Will Venezuela's Opposition Retain Control of Citgo?



Venezuela's opposition-controlled National Assembly appointed a new Citgo board of directors (pictured above) earlier this year. // Photo: Citgo.

Q A U.S. appeals court last month lifted an impediment that had frozen efforts by defunct Canadian gold miner Crystallex to take control of Citgo, Venezuelan state oil company PDVSA's U.S.-based refiner. The ruling marks a defeat for opposition leader Juan Guaidó and his allies, who have been fighting to prevent creditors from seizing Citgo since taking effective control of the company from President Nicolás Maduro's government. Moreover, if the opposition fails to make a \$913 million payment on a 2020 PDVSA bond due on Oct. 27, creditors reportedly could attempt to seize the company. What does the court's ruling mean for Citgo and for Venezuela? How likely is Crystallex to successfully take control of the U.S.-based refiner, and is it expected to put the Citgo shares up for sale, as it has stated it would do? Is the opposition likely to complete the upcoming payment, and what would happen if it fails to do so?

A Luisa Palacios, chairwoman of Citgo: "In terms of Crystallex, we believe the lifting of the stay by the Third Circuit does not change the underlying situation with Crystallex's claims, which remain stayed by an order of the United States District Court. More importantly, Crystallex does not presently have a license from OFAC, without which it cannot seize or sell the stock in question, and we do not expect that to change. This case continues to work through the appeals process, which means it can still be reversed. The Third Circuit just requested a briefing from Crystallex on why it should not rehear the case en banc. For those reasons and others, we do not see any near-term

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TODAY'S NEWS

ECONOMIC

US Renews Waiver Allowing Firms to Work in Venezuela

The license allows Chevron and four other U.S. oil services firms to work in Venezuela despite sanctions against the government of President Nicolás Maduro. The waiver was set to expire this Friday.

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POLITICAL

Violence Breaks Out in Bolivia, Election Contested

Violent protests erupted Monday night in nine cities across Bolivia amid confusion over the result of Sunday's presidential election.

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POLITICAL

Trudeau's Party Secures Minority Government

Canadian Prime Minister Justin Trudeau and his Liberal Party on Monday held on to just enough seats in Ontario, Quebec and the Atlantic provinces to win a minority government. With some ballots yet to be counted, the Liberals appear to have won 156 seats.

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Trudeau // File Photo: @Justin-Trudeau via Twitter.

POLITICAL NEWS

Violence Breaks Out in Bolivia as Election Result Contested

Violent protests erupted Monday night in nine cities across Bolivia amid confusion over the result of Sunday's presidential election, La Razón reported. The most damage was reported in Potosí, Oruro, Tarija and Chuquisaca. In Potosí, two people threw themselves off the second floor of the offices of the Departmental Electoral Court (TED) to save their lives after protesters set fire to the building, according to the report. The vote count was suspended in La Paz, Oruro, Potosí, Chuquisaca and Tarija. In the capital of La Paz, supporters of President Evo Morales and his closest rival in the race, Carlos Mesa, tried to enter the hotel where the

With 95 percent of the votes counted Monday night, Morales led with 46.8 percent.

members of the Supreme Electoral Tribunal, or TSE, were coordinating the vote count, clashing with police. In Oruro, a Morales party campaign office was burned, and the police gassed protesters. Bolivian Interior Minister Carlos Romero accused the opposition of trying to create turmoil and warned that Mesa would be held responsible. "Violence can generate dire consequences for people, institutions and public and private goods," he warned. Election officials abruptly stopped releasing results hours after the polls closed Sunday. As of early Tuesday morning, results showed Morales topping the eight other candidates and just barely reaching the 10 points needed to avoid what would have been the first runoff in his nearly 14 years in power, The New York Times reported. Morales led with 46.8 percent to Mesa's 36.7 percent, with about 95 percent of the votes counted. The president had claimed an outright

victory late Sunday, telling supporters that the votes still to be counted would be enough to give him the win. "The people again imposed their will," he said. The U.S. State Department accused Bolivian authorities of trying to subvert the vote, and an observer mission from the Organization of American States expressed concerns about the counting process, The Washington Post reported. Being forced into a runoff would be a sharp blow to Morales, "whose political success has been impressive, and who seemed confident of a first-round win," Michael Shifter, president of the Inter-American Dialogue, told The Washington Post.

Canada's Trudeau Ekes Out a Win, Loses Seats in Parliament

Justin Trudeau and his Liberal Party on Monday held on to just enough seats in Ontario, Quebec and the Atlantic provinces to secure a minority government, CBC reported. With some ballots yet to be counted, the Liberals appear to have won 156 seats, 21 fewer than they started with before the election. The Conservatives moved up from 95 seats to an estimated 122, while the left-of-center New Democratic Party, or NDP, lost 15 seats to end up with 24. The Conservatives likely won the popular vote, taking 34.5 percent of the vote to the Liberals' 33 percent. Conservative turnout and support was very high in the prairie provinces. In Alberta, the Conservatives won almost 70 percent of the popular vote to the Liberals' 14 percent, while in Saskatchewan, the Conservatives won 65 percent of the vote to the Liberals' 10 percent. "Tonight Conservatives have put Justin Trudeau on notice," said Andrew Scheer, Trudeau's rival in the race. "And Mr. Trudeau, when your government falls, Conservatives will be ready and we will win," he added, Fox News reported. Polls showed Scheer had a chance of victory after a combination of scandals and unmet expectations damaged Trudeau's prospects. Trudeau, who will likely have to work with the Conservatives to pass any major legislation, has pushed for securing the United States-Mexico-Canada Agreement to

NEWS BRIEFS

Trump Extends Venezuela Sanctions Waiver for Oil Companies

The administration of U.S. President Donald Trump on Monday renewed a waiver that allows several oil companies to continue operating in Venezuela despite U.S. sanctions against the regime of President Nicolás Maduro. The U.S. Department of the Treasury said five companies—Chevron, Halliburton, Schlumberger, Baker Hughes and Weatherford—could continue operating in the country. The license was due to expire this Friday, but the Trump administration decided to extend it through Jan. 22, 2020.

JetBlue Reports Lower Earnings on Latin America Disruptions

New York-based JetBlue Airways said today that disruptions in its operations across Latin America and the Caribbean hurt its third quarter results. "Our Latin and Caribbean franchise was impacted by disruption in multiple markets," said Joanna Geraghty, JetBlue's president and chief operating officer. The company said third quarter revenue per available seat mile declined nearly 1 percent, year over year, while operating expenses increased slightly over the period.

Shell Sells Stake in Brazil Pre-Salt to Ecopetrol

Colombian state oil firm Ecopetrol has reached an agreement with Shell Brasil to acquire 30 percent of interests, rights and obligations in two areas in the Gato do Mato discovery in Brazil's pre-salt area, Ecopetrol said Monday. Under the deal, Shell will cut its stake from 80 percent to 50 percent but will continue managing operations. French company Total will maintain the remaining 20 percent stake in the Gato do Mato shared production agreement. Light hydrocarbons have been found in three wells in the two blocks, Ecopetrol said.

replace NAFTA, the North America Free Trade Agreement, which remains mired in the U.S. Congress.

U.S., Mexico Agree to Curb Illicit Guns

Mexican President Andrés Manuel López Obrador's call with U.S. President Donald Trump over the weekend will mark a "before and after" in the fight against illicit arms trafficking from the United States to its southern neighbor, Mexican Foreign Minister Marcelo Ebrard said Monday on Twitter. His comment followed a meeting between Mexican Security Minister Alfonso Durazo and U.S. Ambassador to Mexico Christopher Landau to discuss measures to "freeze" the black market for arms between



Durazo // File Photo: Mexican Government.

the two nations. The high-level meeting comes days after Mexican authorities arrested and then immediately released drug cartel leader Ovidio Guzmán, the son of renown drug kingpin Joaquín "El Chapo" Guzmán. Ovidio Guzmán's capture in the city of Culiacán sparked a fierce gun battle between members of the Sinaloa drug cartel and Mexican armed forces that spread across the city, prompting the authorities to release Guzmán. López Obrador supported their decision, saying the choice to let him go prevented further violence and saved many lives. On Saturday, Trump called the Mexican president to express his "solidarity" following the failed arrest attempt, López Obrador said. Research shows that a majority of guns in Mexico come from the United States, with 70 percent of guns that Mexican authorities seize traced back to its northern neighbor, PBS reported earlier this year. A study from the Center for American Progress in Washing-

ton has found that the United States was the primary source of weapons used in crime in Mexico and Canada, according to the report.

Protests Continue Across Chile

Thousands of protesters gathered in city plazas across Chile on Monday after a weekend of riots, looting and clashes with security forces that left 11 dead, Bloomberg News reported. In the capital of Santiago, more than 10,000 soldiers and police officers met the protesters with riot gear and tear gas. The Chilean Prosecutor's Office said that more than 2,100 people have been detained. So far, the damage to the city's metro transit system is estimated to cost at least \$200 million. Interior Minister Andrés Chadwick told reporters Monday that 110 supermarkets were looted and 13

buildings were set ablaze, including an office of energy company Enel Chile, the Associated Press reported. The violence, which broke out initially over transit fare increases but has morphed into an expression of frustration and outrage over economic inequality, marks the worst social unrest in decades in Chile, which is set to host the Asian Pacific Economic Cooperation, or APEC, summit next month. The country's peso currency and local shares dropped sharply Monday, as violence seemed poised to continue. In a statement televised Sunday night, President Sebastián Piñera imposed curfews and extended the country's state of emergency in hopes of deterring more protests. The United Nations' human rights chief, Michelle Bachelet, who served as Chile's president from 2006 to 2010, tweeted about the violence, asking protesters to organize peacefully and urging the government to "find solutions and bring calm."

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impact to Citgo's operations or outlook. As to the PDVSA 2020 bonds, it is hard to imagine that the Guaidó administration should be expected to make an almost \$1 billion payment to satisfy the Maduro regime's irresponsible debts in the midst of an unprecedented humanitarian crisis. We are confident that a solution will emerge that is consistent with the Trump administration's policy of saving Citgo on behalf of Venezuelan democracy. Continued support from the United States government also is vitally important to preserve American jobs and energy security."

A **Francisco J. Monaldi, fellow in Latin America energy policy and lecturer in energy economics at Rice University's Baker Institute for Public Policy:** "The ruling was undoubtedly negative for the Guaidó team, but the dispute is far from over. The legal case continues, and although rulings are hard to reverse in the appeal process (or the Supreme Court), the case is unusual because the Guaidó team was only able to

come in during the last stages, and the court wasn't able to balance the policy of the U.S. government supporting Guaidó against the interest of the speculators who acquired the claim from Crystallex. Even if the ruling is upheld, the shares' value is a multiple of the

“Losing Citgo would be a significant blow to U.S. foreign policy toward Venezuela.”

— Francisco J. Monaldi

claim, and it would be a matter of protracted litigation how the process of selling these shares would be implemented. But, more importantly, right now, the claimants do not have a license from the Treasury and thus cannot execute the sale of the stock. The PDVSA 2020 bondholders are a more immediate threat to Citgo, because the creditors do have a license to execute the collateral. It would be very challenging, financially and even more politically, for the Guaidó

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team to make a payment of this size, when it does not control the country's cash flow, and Venezuela is facing the worst economic collapse in the region's history. Losing Citgo would be a significant blow to U.S. foreign policy toward Venezuela, to the Guaidó team and to the possibility of an orderly recovery of Venezuela's public finances and economy, after a transition. The Trump administration would be ill advised to allow these creditors, who were part of a legally dubious financing deal with Maduro, to carve out Citgo. The ball is in their hands."

A **Asdrúbal Oliveros, director, and Giorgio Cunto Morales, economist, both at Econanalítica in Caracas:** "The Third Circuit Court of Appeals' ruling increases the risk of Venezuela losing its most valuable asset overseas, as it could incentivize other creditors of the country's debt to push for similar settlements, given Crystallex's successful precedent of linking PDVSA as an 'alter-ego' of the Venezuelan government and allowing debt from the latter to be essentially transferred to the former; the list of potential claimants over Citgo could grow considerably larger. Likewise, current holders of PDVSA's debt may be emboldened to push their claims in the face of steeper competition. In practice, though, these legal proceedings can be extended for prolonged periods and, even with a denouement in favor of claimants, Crystallex and others would require a license by the U.S. government, as current sanctions forbid transfer of Venezuelan government's assets within the United States. The biggest concerns lie with PDVSA's 2020 bond, which is backed by 50.1 percent of Citgo shares, as General License 5 of Executive Order 13835 clears the way for bondholders to claim the collateral in case of default. The opposition-controlled National Assembly, which honored a \$71 million interest payment in April, has focused

its efforts on attaining asset protection from either the U.S. government or the United Nations. Failure to meet the bond payment, revoke GL 5, secure asset protection or reach agreement with creditors could increase the risks of losing Citgo in the short term, which could be a heavy blow for the Venezuelan oil industry and its recovery prospects in the future."

A **Michael Lynch, president of Strategic Energy & Economic Research in Amherst, Mass.:**

"The latest court ruling could hasten the end of Venezuela's control of Citgo, one of its more valuable assets at present. Although there is every likelihood of continuing court action, and possibly an

“Citgo will almost certainly be sold and merged with another operator.”

— Michael Lynch

effort by the Trump administration to assist opposition leader Guaidó in order to prevent the transfer of control to Crystallex, it might be too late to prevent that. At any rate, Citgo seems increasingly unlikely to remain under the control of Petróleos de Venezuela, as it continues to deteriorate, and its operations become more and more problematic. Perhaps the best outcome would be for a court-appointed receiver to assume control of the company so that it can continue to function, but ultimately, Citgo will almost certainly be sold and merged into another operator."

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter
achacon@thedialogue.org



Michael Shifter, President

Rebecca Bill Chavez, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

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