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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 impact to Citgo's operations or outlook. As to the PDVSA 2020 bonds, it is

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OIL & GAS

Russia Will Help Cuba Secure Fuel: Prime Minister

Russia's government will help Cuba secure supplies of oil and petroleum products, Russian Prime Minister Dmitry Medvedev said in an interview.

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OIL & GAS

Venezuela Arrests Three in PDVSA Joint Venture

The president of a joint venture between Venezuelan state oil company PDVSA and China's CNPC and two others have been arrested in connection with a corruption investigation.

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OIL & GAS

Moreno Returns to Quito as Protests Rage Over Subsidy

Ecuadorean President Lenín Moreno returned to Quito after temporarily moving his government to Guayaquil as protests continued over his controversial scrapping of a fuel subsidy that had been in place for decades.

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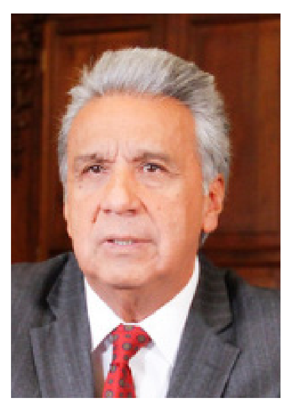

Moreno // File Photo: Ecuadorean Government.

OIL AND GAS NEWS

Moreno Returns to Quito as Strike Paralyzes Ecuador

In a surprise move, Ecuadorean President Lenín Moreno returned to Quito Wednesday after temporarily relocating his government away from the capital amid days of strikes and protests, The Wall Street Journal reported. At the same time, a general strike closed schools, stores and factories across the country. Protesters have disrupted commerce and transportation in Quito for a week to demonstrate against Moreno's decision Oct. 3 to eliminate fuel subsidies that cost state coffers more than a billion dollars annually. Moreno's administration lifted the fuel subsidies a week ago as part of its loan agreement with the International Monetary Fund. Fuel prices rose overnight by about 25 percent for gasoline, and diesel prices doubled, The Guardian reported. Looting and riots broke out in recent days, prompting Moreno to temporarily move the seat of his government to Guayaquil, but he returned to Quito in a move apparently aimed at showing his administration's strength, The Wall Street Journal reported. So far the number of injuries has been minimal, according to media reports. On Monday, stone-throwing demonstrators clashed with police using tear gas to fend off crowds, the Associated Press reported. [Editor's note: See related **Q&A** in the Oct. 4 issue of the Advisor.]

Chevron Buys 40% Stake in Mexico Deepwater Blocks

U.S.-based energy company Chevron Corp. has signed an agreement with a unit of Royal Dutch Shell to buy a 40 percent stake in three deepwater blocks in the Gulf of Mexico, Chevron said Oct. 4 in a statement. The Anglo-Dutch firm had won the blocks in auctions since the Mexican government opened up the energy sector to private participation under the previous administration of President Enrique Peña Nieto. "This agreement furthers strengthens the company's upstream Mexico portfolio and advances its growth strategy in deepwater exploration," Chevron spokesman Ray Fohr said in a statement. The company did not disclose the value of the deal, which Mexico's oil regulator, the National Hydrocarbon Commission, approved earlier last week, Reuters reported.

Russia to Help Cuba Secure Fuel Supplies: Medvedev

Russia will work to help Cuba secure supplies of oil and petroleum products, Russian Prime Minister Dmitry Medvedev said in an interview broadcast on Saturday, Reuters reported. Medvedev vowed to help boost Cuba's energy sector during a visit to the Caribbean nation, though he did not announce any short-term measures to alleviate Cuba's crippling fuel shortages following tougher U.S. sanctions. However, support from both Venezuela and Russia, two of Cuba's closest allies, is unlikely to resolve the fuel shortages, which have prompted the Cuban government to implement energy-saving policies over the last month. Among the measures are cutting public transportation, reducing production at some factories and encouraging the use of more animal-powered vehicles and wood-fired ovens, Reuters reported. "I think we will find other ways to help Cuba get oil and petroleum products," Medvedev told Rossiya 1 TV when asked if Russian ships could escort oil tankers to Cuba. "We discussed this today and agreed that we would draft a work plan for energy supplies to Cuba, bearing in mind conventional

> **"I think we will find other ways to help Cuba get oil and petroleum products."**
> — Dmitry Medvedev

NEWS BRIEFS

Chilean Prosecutors to Press Charges Against ENAP Executives

Chilean prosecutors plan to press charges against six executives of state energy company ENAP in connection with toxic fumes that sickened hundreds of local residents in the city of Quintero last year, the prosecutors' office told Reuters on Saturday. The office said it would soon press charges against officials at ENAP's refineries and port facilities for violating a Chilean law on human health. An attorney representing ENAP workers said the executives and workers are innocent.

Argentine Gov't Grants Permits for Offshore Hydrocarbon Exploration

The Argentine government has granted permits for offshore hydrocarbon exploration activities to three oil companies with the aim of incorporating new reserves and recovering production, according to the country's official bulletin, Reuters reported Monday. The companies are Total Austral, BP Exploration, Tullow Argentina, Pluspetrol and Wintershall DEA, the Energy Secretariat announced.

Engie Chile Launches Construction of 1 GW in Renewables Projects

Engie Energía Chile last Friday launched the construction phase of its plan to install 1 gigawatt of renewable energy projects, starting with three in the country's Antofagasta region, Renewables Now reported. Two of the three projects, the 150-megawatt Calama wind farm and the 100-megawatt-peak (MWp) Capricornio solar park are both scheduled to begin operations in 2021. Construction of the third project, the 120-MWp Tamaya solar park, is set to begin in the first quarter of next year, Engie Chile said.

energy sources, hydrocarbons and maybe some other available avenues," he added. [Editor's note: See related **Q&A** on Cuba's fuel shortages and energy sector in the Aug. 9 issue of the Energy Advisor.]

Venezuela Arrests Three in PDVSA Joint Venture

Venezuelan authorities have arrested the president and two other officials in a graft probe at state oil company PDVSA's Sinovensa joint venture with China National Petroleum Corp., or CNPC, Reuters reported Saturday, citing oil sector and intelligences sources. It is unclear what the specific accusations are against Sinovensa President Alberto Bockh and the two other detained employees. Bockh was arrested in the eastern Anzoátegui State on Thursday, according to five PDVSA sources, an intelligence source and another person in the local oil sector familiar with the case, Reuters reported. The joint venture started an expansion project to increase production to 165,000 barrels per day (bpd), Venezuelan President Nicolás Maduro said in August, up from a current capacity of 110,000 bpd. Sinovensa produces extra-heavy Orinoco crude and blends it with lighter oil to produce medium-grade Merey, whose demand in Asia is high, according to the report. PDVSA has been increasingly shipping crude production to Asia in the wake of U.S. sanctions that have blocked sales of Venezuelan oil to the U.S. market. However, a Chinese oil contractor in September halted Sinovensa's expansion project due to lack of payment, Bloomberg News reported last month. Venezuela owed the contractor more than $52 million in invoices dating back to 2018, according to a project manager at the contractor.

Maduro // File Photo: Venezuelan Government.

Oil Spill Polluting Brazil 'Likely From Venezuela': Minister

Brazilian Environment Minister Ricardo Salles said on Wednesday that the oil polluting the country's northeastern beaches is "very likely from Venezuela," citing a report by Brazilian state oil company Petrobras, Reuters reported. Salles told a congressional hearing that "all indications" point to a foreign vessel near the Brazilian coast caused the spill "accidentally or not," adding that the spill is "enormously difficult to contain," the wire service reported. Earlier this week, Brazilian President Jair Bolsonaro said the oil found was not produced or sold in Brazil and suggested instead that it could be the result of criminal activity or a shipwreck. In the spill, some 100 tons of crude has drifted toward Brazil's coastline, The New York Times reported. Oil has been found on at least 132 beaches. The origin of the spill is still being investigated. Bolsonaro told reporters on Monday that "it could be something criminal, it could be an accidental spill, it could also be a ship that sank," Reuters reported. Petrobras said this week that molecular tests of oil samples showed they are not compatible with the oils the firm produces and sells. In recent weeks, environmental agencies in Brazil have collected more than 100 metric tons of oil across hundreds of kilometers of coastline in the state of Sergipe, Salles has said, according to the report.

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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 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 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

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

— Francisco J. Monaldi

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POLITICAL NEWS

Colombia's Uribe Testifies Before Supreme Court

Former Colombian President and current Senator Álvaro Uribe on Tuesday testified to the country's Supreme Court as part of a probe into his alleged involvement in witness tampering and bribery, El Tiempo reported. Uribe, who has repeatedly declared his innocence and questioned the court's independence, arrived at the Supreme Court early in the morning accompanied by legislative allies and bodyguards, Reuters reported. He declined to provide a statement to reporters. The private hearing, could last days, said one of Uribe's lawyers. Uribe could eventually serve time in prison if convicted in the case, Reuters reported. The hearing is the latest development in a long-standing feud between Uribe and leftist Senator Iván Cepeda.

Uribe // File Photo: Colombian Government.

Guatemalan High Court Suspends Panel Probing CICIG

Guatemala's highest court on Wednesday ordered the suspension of a recently created commission to investigate a U.N.-backed anti-graft agency, the International Commission Against Impunity in Guatemala, or CICIG, El Periódico reported. In late September, Guatemala's Congress voted to approve a commission of five lawmakers to look into the now-defunct CICIG's work over the past 12 years in the Central American country, which included working with prosecutors to bring high-level politicians and businessmen to trial and ultimately jailing then-President Otto Pérez Molina. Two of the five commissioners had faced formal efforts to strip their immunity from prosecution for alleged graft and other crimes, Al Jazeera reported. The commission, which started work last week, aimed to probe the existence of "illegal or arbitrary acts" and potentially recommend legal action, according

ADVISOR Q&A

Is the USMCA Deal Doomed If Congress Fails to Ratify It?

Q Nearly a year after U.S. President Donald Trump's administration reached a trilateral agreement on the United States-Mexico-Canada, or USMCA, trade pact, the U.S. Congress has yet to ratify the deal. Meanwhile, the U.S. manufacturing sector saw the worst reading in 10 years, and Mexico's manufacturing sector ended the third quarter with its worst performance in eight years, according to an IHS Markit survey. How likely is the U.S. Congress to approve USMCA this year, and what sorts of complications would pushing its ratification into 2020 bring? How are political dynamics affecting the deal's passage? If the trade pact is delayed further, to what extent will North America's manufacturers suffer?

A Jim Kolbe, senior transatlantic fellow at the German Marshall Fund of the United States and former Republican member of the U.S. House of Representatives from Arizona: "When negotiations were completed for the USMCA, most supporters breathed a sigh of relief. Such relief was premature. While Mexico and Canada moved swiftly toward approval, the process soon stalled—or slowed to glacial speed—in the United States. The reason? The convoluted process for approval by Congress requiring agreement on the provisions before the text is submitted to Congress for an up or down vote. With Democrats in control of the House, there were some who don't want to give this president a victory on any trade agreement. For others, there was a genuine concern over the labor provisions and whether the Mexican government's budget was sufficient to ensure adequate enforcement. Fortunately for the USMCA, while much of the administration has been in open warfare with Congress, the USTR—Ambassador Robert Lighthizer—has cultivated a positive working relationship with key Democrat leaders in the House and has been transparent in attempting to resolve Democrats' differences over the provisions. Now, however, the impeachment imbroglio raises another barrier to approval of the agreement. Will the House leadership want to take up a trade agreement in the midst of impeachment proceedings? Will they carve out time to get it done before the end of 2019? If submission of the text or a vote in the House is delayed until 2020, the prospects for passage in an election year will be significantly dimmed. In that event the question is reduced to whether the president attempts to initiate a withdrawal from the existing NAFTA agreement. Were that to happen the consequences for the economies of Canada, Mexico and the United States, the largest three-way trading agreement in the world, are likely to be catastrophic."

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

NEWS BRIEFS

Colombia's FARC Political Party Expels Dissidents Returning to Arms

Colombia's FARC political party announced Wednesday that it had expelled a group of dissidents who in August issued a new call to arms, Agence France-Presse reported. "The re-armament announcement disregards our national leadership," the FARC political party said in a statement, which was aimed at rebels including Iván Márquez and Jesús Santrich, who appeared in a video saying they were returning to armed struggle and accusing the government of failing to adhere to its obligations under the country's 2016 peace deal. [Editor's note: See related **Q&A** in the Sept. 16 issue of the daily Latin America Advisor.].

Mexican Senate Approves Medina Mora's Departure From Supreme Court

The Mexican Senate on Tuesday overwhelmingly approved the resignation of Supreme Court Associate Justice Eduardo Medina Mora, who in an unusual move served just four years of a 15-year term, Excélsior reported. The factors that led to Medina Mora's resignation are still unclear, although reports in recent months raised questions about transfers to accounts abroad that allegedly exceeded Medina Mora's declared income.

CAF Denies Consideration of Loan for Venezuela

Multilateral lender CAF said Wednesday that it is not currently considering a $400 million loan to Venezuela, Reuters reported. The development bank's statement contradicted Venezuelan opposition leader Juan Guaidó who said a day earlier that CAF was preparing financing for Venezuela that would not be administered by President Nicolás Maduro's government. Dozens of countries have recognized Guaidó as Venezuela's legitimate president.

to the report. The Constitutional Court on Monday struck it down, after the country's attorney general, a private lawyer and a civil society group had filed injunctions against the commission. The court ruled the panel unconstitutional, saying it violated the Public Ministry's autonomy, Deutsche Welle reported. CICIG left Guatemala last month after President Jimmy Morales, who has accused the anti-corruption body of overstepping, declined to renew its mandate a year earlier.

Nicaragua Refuses to Return Private TV Station to Owners

Nicaraguan President Daniel Ortega's government has said that 100% Noticias, a private television station that police seized in December, will not be returned to its owners, accusing them of inciting anti-government violence, according to a statement submitted to the Inter-American Human Rights Commission, the Associated Press reported Saturday. In the statement, the government alleges the occupation of the TV station is necessary while it probes the station's director, Miguel Mora, and head of news Lucía Pineda for alleged involvement in a "failed coup attempt." Mora and Pineda were both imprisoned for six months.

Rain Has Put Out Bolivia Wildfires: Provincial Officials

Heavy rains have put out wildfires that destroyed more than four million hectares of land on the eastern side of Bolivia, according to a Santa Cruz province official, BBC News reported Monday. "Satellite images no longer detect burning or reactivated fires," said Cinthia Asin, an environmental official in the province, Reuters reported. The fires led to protests against President Evo Morales' environmental policies. Last week, hundreds of thousands of people took to the streets to protest what they say is a slow response to the fires by Morales' government.

ECONOMIC NEWS

Mexico's Inflation Slows to Three-Year Low in September

Mexico's inflation slowed to a three-year low in September, coming in line with the central bank's 3 percent target and with expectations that the Bank of Mexico will continue to lower interest rates as the economy stalls, new data from the national statistics agency showed Wednesday, The Wall Street Journal reported. The country's consumer price index rose 0.26 percent last month from the end of September and increased 3 percent from one year ago, marking the lowest annual rate since September 2016. Core CPI, which does not include volatile prices, such as those of energy and agricultural products, was up 0.30 percent in September from the previous month, bringing the annual rate to 3.75 percent, from 3.78 in August. In a Banxico poll last month, economists lowered their median year-end inflation forecast to 3.07 percent from 3.36 percent in August, The Wall Street Journal reported. The estimate for core CPI remained about the same, at 3.63 percent. "Core services inflation was impacted by the seasonal increase in education costs but benefited from lower professional service costs and declining prices for Internet/TV/phone packages," Alberto Ramos of Goldman Sachs said in a note.

Goldman Eyes Sale of Stake in Mexico Toll Road Operator

New York-based investment firm Goldman Sachs is in advanced talks to sell a majority stake in the Red de Carreteras de Occidente, or RCO, one of Mexico's largest private toll road operators, Bloomberg News reported Wednesday, citing people familiar with the deal. Spain's Abertis Infraestructuras and Singapore's sovereign wealth fund GIC could pay some $3.3 billion for a 70 percent stake in the company, according to the report.

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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 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."

> **"Citgo will almost certainly be sold and merged into another operator."**
> — Michael Lynch

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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