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FEATURED Q&A

What Does Maduro's 'Energy Emergency' Mean for Venezuela?

Venezuelan President Nicolás Maduro last month created a commission with the aim of revamping the country's oil industry, which he said was in a state of emergency. // File Photo: Venezuelan Government.

Q Venezuelan President Nicolás Maduro on Feb. 19 declared an "energy emergency" and announced the creation of a commission to rehabilitate state oil company PDVSA in a bid to bolster the country's crumbling industry. The announcement came one day after the United States blacklisted Rosneft Trading, a subsidiary of Russian state oil firm Rosneft which has become a major intermediary for Venezuelan crude since the Trump administration slapped sanctions on PDVSA. What is the "energy emergency," and what should Maduro's commission focus on to successfully boost Venezuela's crude output? To what extent will the new Rosneft sanctions deter the company, and more broadly Russia, from doing business with the Maduro government? How much will the latest sanctions hurt Venezuela's oil production and exports, and will the move ultimately result in significantly more pressure on Maduro to step down?

A Francisco J. Monaldi, fellow in Latin America energy policy at Rice University's Baker Institute for Public Policy and lecturer in energy economics at the Center for Energy Studies: "The U.S. sanctions on PDVSA that started in 2019 significantly reduced the company's cash flow. Before the sanctions, PDVSA exported about 550,000 barrels per day (bpd) to the United States and produced about 1.3 million bpd. U.S. refineries also supplied around 125,000 bpd of products to Venezuela. By the second half of 2019, PDVSA did not trade oil or products with the United States and produced about 800,000 bpd. Production also fell due to other factors, such as electricity blackouts, but exports have been constrained by lack of buyers.

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Colombia's state-run oil company has placed restrictions on business travel to all Asian and European countries in response to the coronavirus outbreak.

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Venezuela Names New VPs for Four PDVSA Units

Venezuelan President Nicolás Maduro's government appointed new vice presidents for the state oil company's finance, exploration, refining, and supply and trading units.

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OIL & GAS

Pemex Virtually Doubles Losses, Misses Targets

Mexican state oil company Pemex nearly doubled its losses last year and failed to meet production targets despite a slight improvement in its debt situation. Mexican President Andrés Manuel López Obrador has repeatedly promised to boost the firm's output.

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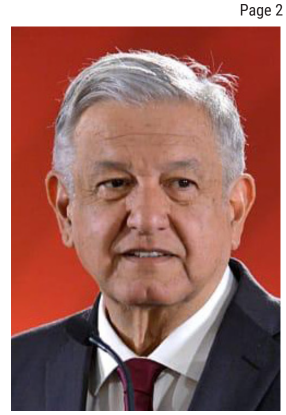

López Obrador // File Photo: Mexican Government.

OIL AND GAS NEWS

Mexican State Oil Firm Nearly Doubles Losses, Misses Target

Mexican state oil company Pemex virtually doubled its losses last year and failed to meet production targets despite a slight improvement in its debt situation, the Financial Times reported Feb. 27, Pemex posted a loss of 169.8 billion pesos ($8.7 billion) in the fourth quarter, compared to a 157.3-billion-peso loss in the same three-month period a year earlier and a loss of 88 billion pesos in the previous quarter. For last year overall, the company reported a 346.1-billion-peso loss, 91 percent higher than the 180.4-billion-peso loss registered in 2018. Debt at the end of last year stood at $105.2 billion, down 0.6 percent from the end of 2018, Reuters reported. Pemex's crude production was also down in the fourth quarter, to 1.693 million barrels per day (bpd), compared with 1.723 million bpd in the same quarter the previous year. Including production from private sector partners, total output was 1.712 million bpd, higher than the 1.738 million bpd in the same quarter in 2018 but below the company's target of 1.8 million bpd by the end of last year. In a conference call, Pemex executives highlighted a slight rise in crude production during the first months of this year. Credit ratings agencies are widely expected to downgrade Pemex's rating to junk status in the first half of this year amid concerns over the company's ability to implement a sustained increase in production, the Financial Times reported. Mexican President Andrés Manuel López Obrador took office in December 2018 vowing to boost Pemex's oil output by about half by the end of his six-year term, Reuters reported. Last year, he shrugged off ratings' downgrade, slamming agencies such as Fitch Ratings as "hypocritical," Mexico Daily News reported. When asked about Fitch's ratings cuts in January of last year, López Obrador responded, "Investors with ethics know very well that Pemex is a solid company because now it's being managed with honesty."

Venezuela Names New VPs in Four Key Areas of PDVSA

The government of Venezuelan President Nicolás Maduro has appointed new vice presidents for four units of state oil company PDVSA, as well as a new president for the unit that handles joint ventures with private companies, PDVSA said Saturday, Reuters reported. The moves come after Maduro declared an "energy emergency" and the creation of a new commission, led by Economy Vice President Tareck El Aissami, in a bid to revamp the country's shattered oil industry. The government named Oswaldo Pérez, who currently serves in the finance ministry, as PDVSA's vice president of finance, Erwin Hernández was vice president for exploration and Gabriel Oliveros as vice president of refining. Hernández has previous experience managing Venezuela's main oil port, the José terminal, as well as Petrocedeno, a crude joint venture between PDVSA, France's Total and Norway's Equinor, Reuters reported. Oliveros was previously PDVSA's executive director for new refinery projects. Antonio Pérez Suárez was appointed to be the vice president for supply and trading on an interim basis, according to Venezuela's official gazette, and Germán Márquez, who is currently the vice minister for hydrocarbons at the oil ministry, was named president of Venezuelan Petroleum Corp., which handles PDVSA's stakes in exploration and production joint ventures with private oil firms. The company also has a new human resources manager, Víctor Ramón Zamora.

Ecopetrol Restricts Trips to Asia, Europe Due to Coronavirus

Colombian state-run oil company Ecopetrol on Monday placed restrictions on business travel to all Asian and European countries in response to the coronavirus outbreak, CEO Felipe Bayón told Reuters. In an interview in

NEWS BRIEFS

Colombia Issues Decree With Fracking Rules for Pilot Projects: Ministry

Colombia's Mines and Energy Ministry on Tuesday issued a decree outlining the rules for pilot projects employing fracking in the country, Reuters reported. Among the published rules, projects will be able to use the fracking technologies for exploration but not yet to enter the production stage. Additionally, the projects will require an environmental license and are subject to civilian oversight, Reuters reported.

AES Gener to Invest in 1.6 Gigawatts of Renewables in Chile, Colombia

Chilean power company AES Gener has announced plans to invest $1.8 billion to add approximately 1.6 gigawatts of new wind and solar capacity in Chile and Colombia, Renewables Now reported Monday. AES Gener said the projects will be partially financed through a capital increase of $500 million. The announced investment will cover 1.1 gigawatts of wind capacity and 500 megawatts of solar capacity, to be added by 2024.

Guyana Opens Tender for One-Year Contract to Market its Share of Crude

Guyana has opened a tender for a one-year contract to market its portion of light sweet crude from the ExxonMobil-operated deepwater Stabroek block, Argus Media reported Feb. 27. The tender is set to close on March 12, the government said, adding that the successful bidder would manage at least five cargoes of Liza crude between this year and next year. The South American country in December awarded three cargoes to Shell in a restricted tender, covering all shipments to load in the first half of this year. Guyana's government was up for re-election on Monday's national vote. Official final results have not yet been reported.

New York, Bayón told the wire service that the firm is closely watching the virus' effects on the demand of crude oil, adding that China has so far not limited its crude purchases. Oil prices have taken a hit as the spread of coronavirus threatens to hurt global crude demand, plummeting more than 20 percent to multi-year lows, according to the report. Approximately 46 percent of Ecopetrol's crude exports were to Asia last year, Bayón told Reuters, with the majority destined for China. In the fourth, 54 percent of Ecopetrol's total exports were shipments to Asia.

Petrobras Sets New Record for Fuel Oil Exports in February

Brazilian state oil company Petrobras said Wednesday that it set a new record for fuel oil exports in February, reaching 238,000 barrels per day and exceeding one million tons for the month. The new world standard for marine fuels, known as IMO 2020, which sharply reduced the sulfur rate limit, "generated an unique opportunity" for the company, Petrobras said in a statement. Both oil and fuel oils that the firm produces tend to have low sulfur rates. Although the coronavirus outbreak restricted demand in Asia, traditionally the top destination for Petrobras exports, the company said it shipped more oil and fuel oils to the Caribbean, United States and Europe to compensate for the drop. "It is important to highlight that it is not yet possible to safely estimate all the impacts the company may suffer concerning its operations and results, considering the unfolding events of the COVID-19 outbreak in the world economy," Petrobras added.

Venezuela Military Forced Tanker to Discharge Oil: Citgo

Citgo, the U.S. based refiner of Venezuelan state oil company PDVSA, said last Friday that the Venezuelan military had forced a tanker to port at the country's Jose Terminal, unveiling details of an oil cargo carrying $57 million worth of crude that had been lost for more than a year, Reuters reported. The Gerd Knutsen oil tanker last week finished discharging 960,000 barrels of crude oil that both Citgo and PDVSA claim. The refiner said the ship departed Venezuela's Jose Terminal on Feb. 27 and entered international waters early the next day, adding that the tanker was "forcibly escorted by a

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Rosneft has been trading more than half of Venezuela's oil exports, and PDVSA has had to discount the barrels it sells by as much as 40 percent and import around 150,000 bpd of products in disadvantageous swaps. As a result, PDVSA's net cash flow fell by close to $10 billion. Sanctions on Rosneft Trading are a blow that should increase the risk of buying from PDVSA and the discounts it has to give. But if, as it appears, Russia wants to continue trading Venezuelan oil for geopolitical reasons (it also made handsome profits and was paid close to $2 billion in debt for doing so), it would do so through other subsidiaries, such as TNK Trading, at the risk of also getting it sanctioned. The threat of sanctions might dissuade other buyers, such as Reliance, Repsol and ENI, from trading with PDVSA. Thus, production and exports should continue to fall in 2020, although at a much lower rate than in 2019. Gen. Quevedo's leadership of the company has been disastrous, and there is no doubt that a change is required. But appointing Tareck El Aissami as head of the restructuring board seems like a move by Maduro to reduce the power of Diosdado Cabello. If, as repeatedly stated, the government wants to increase the role of international partners in joint ventures, picking a person on the United States' most-wanted list for trafficking narcotics does not seem to be the right move."

A **Massimiliano Ballotta, Moscow-based partner, and Javier Coronado, associate attorney, both at Diaz, Reus & Targ:** "U.S. sanctions on relatively small Rosneft Trading, which was created in 2011 to assist Rosneft on foreign projects, will not deter Russia from doing business with the Maduro regime. The designation does not apply to Rosneft or its other subsidiaries and affiliates. In fact, right after learning of these sanctions, Rosneft, in line with Russia's traditional position on U.S. sanctions, publicly criticized them as illegal and said it would continue with its Venezuela-related operations. However, the fact that the United States is imposing secondary sanctions on non-U.S. firms operating in the oil sector of the Venezuelan economy, such as Rosneft Trading, makes the picture appear grim for Maduro. While the 2019 U.S. economic sanctions on PDVSA caused a drastic drop in Venezuela's oil production and created severe barriers for Venezuela to trade with U.S. refineries, Maduro managed to keep Venezuela's oil industry afloat by dealing with companies not subject to U.S. jurisdiction. Secondary sanctions pose a threat to that strategy and force Venezuela to increasingly rely on dealings with Russia. Not surprisingly, PDVSA is preparing a fuel rationing plan for domestic consumers. To further address the crisis in Venezuela's oil industry, Maduro is considering to transfer ownership of a number of PDVSA's subsidiaries to international corporations. Although that change in ownership would be a step in the right direction to boost Venezuela's crude output, it will only work if international corporations also take control over PDVSA's operations and work alongside the U.S. government. Otherwise, these international corporations could also face economic sanctions."

> **"Secondary sanctions ... force Venezuela to increasingly rely on dealings with Russia."**
> **— Massimiliano Ballotta and Javier Coronado**

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military vessel" into port so the oil cargo could be transferred to PDVSA. The captain was reportedly ordered to make the transfer under threat of criminal penalties, including jail, Reuters reported. Neither the Venezuelan Armed Forces nor the Information Ministry responded to the wire service's requests for comment. Citgo vowed to continue efforts to collect losses from Venezuela and "any entities that may have assisted," Reuters reported. Opposition leader Juan Guaidó's backers control Citgo. Dozens of countries including the United States recognize Guaidó as Venezuela's legitimate interim president. Citgo has sought a U.S. court order to block the tanker from returning the oil loadings to PDVSA. According to Refinitiv Eikon data, as of late last week, the Gerd Knuntsen was sailing toward the Caribbean island of Aruba.

POLITICAL NEWS

Opposition Leads in Guyana Election by Just 50,000 Votes

With nine of Guyana's 10 electoral districts having officially declared their results of the country's national election, the opposition PPP/C party is leading President David Granger's APNU+AFC party by more than 51,000 votes, Stabroek News reported Thursday morning. The two parties had both claimed victory amid rising tensions as party supporters gathered outside the remaining vote-counting center after a dispute arose over a spreadsheet's data not matching corresponding documents. The matter was resolved before any violence broke out. The Atlanta-based Carter Center, which among other international groups is monitoring the elections for fairness, has called on everyone, including political parties, to refrain from declaring election results while the country waits for the Guyana Elections Commission (GECOM) to officially report them. "We appeal to political parties to refrain from declaring any results if they want to do justice to democracy in Guyana," Aminata Touré, the co-chair of the Carter Center, stressed. The head of the European Union's election team in Guyana, Urmas Paet, has called out the APNU+AFC coalition and opposition PPP/C for using state resources to campaign for Monday's general and regional elections. Again on Wednesday, parents kept their children out of school, and there was a clear slowdown in business activity, leaving residents nervous and frustrated. Collecting ballots from remote locations in territory dominated by forests, mountains and rivers can be slow, and full results are not expected by the end of this week, Agence France-Presse reported. The election is being

ADVISOR Q&A

Why Is Peru's Economy Slowing Down?

Q Peru's economy grew 2.19 percent last year, its weakest performance in a decade, the country's statistics agency said Feb. 14. A day earlier, the country's central bank kept interest rates unchanged at a nine-year low in an effort to encourage growth. Why has economic growth slowed in Peru? Will the country's economy continue to struggle this year, or will it see a sharp rebound? Which industries face the strongest headwinds this year, and which will thrive?

A Alfredo Thorne, principal director at Thorne Associates and former Peruvian economy minister: "Last year's 2.2 percent real GDP growth rate after a 4-percent expansion in 2018 may indicate that Peru has joined Latin America's low-growth trend. Close inspection of the GDP report indicates that commodity sectors subtracted about one percentage point from overall growth. This was a collateral effect of the U.S.-China trade war, as both countries are Peru's main trading partners. Fishing output fell sharply, by 26 percent in 2019, but its weight in overall GDP is small, 0.7 percent. However, the expenditure side indicates that more permanent factors are at work and that the economy is converging to a 2 percent to 3 percent long-term growth trend. For one, the under-execution of public works may have subtracted between 0.5 and one percentage point from GDP. Some may be related to the government's fight against graft. Yet, most may have resulted from self-imposed restrictions, as the new legislation that the government enacted for undertaking new public works and public and private partnerships (PPP) has proven to be extremely cumbersome. On the positive side, private expenditures grew above overall real GDP in 2019. According to the central bank's estimates, private consumption grew at 3 percent and investment at 4 percent. This has sustained overall real GDP growth in positive territory. Key to the outlook is how well the private sector performs in a more politically volatile environment. President Vizcarra shut down Congress on Sept. 30, a new Congress was elected in late January, and presidential and congressional elections are scheduled for early 2021. In this environment, our outlook anticipates real GDP expanding 2.8 percent in 2020 (and 2.5 percent if the COVID-19 outbreak extends beyond the first quarter), with government expenditures taking the lead and the private sector feeling less robust."

> **"The economy is converging to a 2 percent to 3 percent long-term growth trend."**
> — Alfredo Thorne

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

NEWS BRIEFS

Mexican President to Leave Fate of Brewery to Public Consultation

Mexican President Andrés Manuel López Obrador said Tuesday that his government will ask the public whether to allow U.S. company Constellation Brands to open a massive brewery in the border city of Mexicali in northern Mexico, Reuters reported. The brewery, set to be worth more than $1 billion, has sparked some controversy, with local groups protesting its potential opening on claims that it would cause water shortages. López Obrador said his administration would organize a public "consultation," despite U.S. officials' opposition to the idea.

Chile's SQM Posts Lower Profit on Lithium Decline

Chilean mining giant SQM, the world's number-two lithium producer, on Monday reported net income of $66.9 million for the fourth quarter of last year, a 38-percent fall compared to $108.6 million in the same three-month period a year earlier. For last year overall, the company posted net income of $278.1 million. Gross profits fell 30 percent to $137.8 million, while quarterly lithium revenues also plummeted 57.4 percent, amid lower prices for the metal.

Brazil Spending on Military Up 11 Percent in Bolsonaro's First Year

During his first year in office, Brazilian President Jair Bolsonaro spent $1.46 billion more than expected on the military, Folha de S.Paulo reported Monday. The figure is 10.9 percent higher than the previous year and is probably one of the largest historical increases in nominal terms, according to the report. Bolsonaro has named scores of military leaders to posts in his government, with 9 of 22 ministers in his cabinet now coming from the armed forces, The Wall Street Journal reported.

watched more closely than might ordinarily be the case because the eventual winner will be in control of a coming oil boom that is expected to transform Guyana. [Editor's note: See related **Q&A** on the implications of Guyana's elections for the country's oil sector in the Feb. 21 issue of the weekly Energy Advisor.]

ECONOMIC NEWS

Latin America's Outlook Dims Amid Coronavirus Fears

Investors in Latin America are bracing for stronger-than-expected consequences from the global outbreak of the new coronavirus. Despite having only two confirmed cases in its borders, Brazil's real currency posted a record-closing low on Tuesday of 4.51 reais per U.S. dollar, Reuters reported. Meanwhile, in Mexico, the government of Andrés Manuel López Obrador has been in close contact with the country's central bank to coordinate a response to building economic pressures, Finance Minister Arturo Herrera said on Tuesday, The New York Times reported. The peso slumped 5.5 percent in the second half of last month, along with other emerging markets hit by a flight to safe-haven assets, but it rebounded more than 1 percent Tuesday in the wake of emergency rate cuts in the United States. That rebound may not last long, as uncertainty over the U.S. election is likely to keep up the pressure on the peso, Reuters reported. Goldman Sachs on Tuesday lowered its 2020 growth forecast in Brazil to 1.5 percent, from 2.2 percent, and in Mexico to 0.6 percent, from 1 percent. It also downgraded its growth forecasts in Colombia to 3 percent, from 3.4 percent, and in Peru to 2.8 percent, from 3.3 percent. In related news, Argentina and Chile said on Tuesday they had confirmed their first cases of the new coronavirus, or COVID-19, the Associated Press reported. In both cases, the patients had recently returned from travels, one from Italy and the other from southeast Asia. The two new cases bring the total number in Latin America to 17, with Ecuador and Mexico the worst affected countries, with seven and five cases, respectively. Meanwhile, in Brazil, the region's most populous country, only two confirmed cases remain identified, but the number of suspected cases of infection with COVID-19 has increased from 433 to 488, according to the health ministry. By comparison, the United States has had more than 125 confirmed cases and at least nine deaths. [Editor's note: See also the Advisor's **video** interview with Fitch's Shelly Shetty on the region's sovereign ratings outlook.]

Private Bondholders Meet With Argentine Officials on Debt

Some of Argentina's largest private sector creditors flew to Buenos Aires this week for talks with Alberto Fernández's government over debt negotiations, Bloomberg News reported Wednesday, citing people familiar with the matter. Representatives from BlackRock, Pacific Investment Management Co. and Ashmore Group met with Economy Minister Martín Guzmán, a respected U.S.-trained economist who has little direct experience in debt negotiation. Guzmán is also set to meet with investors from Greylock Capital, according to the report. The meetings come as Fernández's new administration attempts to persuade bondholders that it will negotiate in good faith and the government has a plan for putting the South American country's troubled economy on a stable path after decades of turbulence. However, the new program being discussed by Argentina and its biggest single lender, the International Monetary Fund, could set up private bondholders for heavy losses without requiring the spending cuts needed to make the country solvent, investors told Reuters in a report this week. "Our view is that the capacity for Argentina to service its debt is a lot higher than what the government claims and they should be aiming for a higher fiscal surplus," Steffen Reichold, portfolio manager at Stone Harbor Investment Partners, which holds some Argentine debt, told Reuters. Guzmán insists that growth, not fiscal surpluses, should be first on Argentina's economic agenda.

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A **Arturo H. Banegas Masiá, partner at the Latin America and the Caribbean practice group of Akerman:** "Rosneft has been a key foreign patron of Nicolás Maduro to overcome the effects of U.S. sanctions on Venezuela's PDVSA, allowing the sale of Venezuelan crude to tankers and other international buyers. However, sanctions and an FAQ that OFAC released specifically excluded Rosneft, one of the largest oil companies in the world, and any other company of which Rosneft Trading owns less than 50 percent, either directly or indirectly. However, this does not prevent the U.S. government from extending its sanctions to other companies of the Rosneft group and even its parent, which may be disastrous to Russia. As an almost immediate reaction, Maduro declared by decree an 'energy emergency,' after Venezuela's oil production fell to its lowest level in 75 years, producing much less than one million bpd, according to Trading Economics report. A new commission was created to restructure PDVSA, with the name of a late energy minister known for his fierce opposition to the opening of the oil sector in the 1990s, which led to Venezuela's highest oil output. This commission will be headed by Tareck El Aissami, a sanctioned Venezuelan vice president, and will include three other individuals, two of whom are also sanctioned by OFAC, too. According to recent reports, other sanction-free companies of Rosneft group are quickly stepping up to replace Rosneft Trading and keep selling Venezuelan crude. El Aissami is internationally known for having presided over a debt restructuring commission in Venezuela in 2017, when the first set of sanctions were imposed. He was already designated at that time and that prevented all banks and bondholders subject to U.S. jurisdiction to negotiate the expected restructuring. The results of that commission, more than two years after it was created, are PDVSA's default on some of its bonds in 2017 and on the rest of its bonds in 2019. It is in default on $6 billion in interest and principal. We cannot expect a different outcome from the new 'energy emergency' commission."

> **"Other sanction-free companies of Rosneft group are quickly stepping up to replace Rosneft Trading..."**
> — Arturo H. Banegas Masiá

A **Richard N. Sawaya, vice president of the National Foreign Trade Council:** "When one reviews the sanctions-based maximum pressure campaigns directed at Iran and North Korea, the major economic sanctions directed at Russia, and the results of the sanctions on Venezuela to date, one can only conclude that the sanctions directed at the Maduro regime will probably not result in his removal. As Robert Pape wrote in 'Why Economic Sanctions Do Not Work': 'Modern states can adjust to minimize their vulnerability to economic sanctions, because administrative capabilities allow states to mitigate the economic damage of sanctions through substitution and other techniques. Coercers never anticipate all the adjustments and reworking that targets can devise, including endless varieties of conservation, substitution, and more efficient methods of allocation.' "

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

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