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FEATURED Q&A

Have Guyana's Oil Prospects Been Hit By the Pandemic?

Some plans and actions by the administration of Guyanese President Irfaan Ali, who took office in August, should reduce some investor uncertainty, Jennapher Lunde Seefeldt writes below. // File Photo: Guyanese Government.

Q: Estimated resources at Guyana's offshore Stabroek block are now nine billion barrels of oil equivalent (boe), up from more than eight billion boe forecast earlier this year, Hess Corp., one of the companies developing the block, said last month. What is the current state of oil production in Guyana, nearly a year after it began? How have low oil prices and increased uncertainty this year affected the South American nation's prospects for oil development? Is the government of President Irfaan Ali, who took office in August, implementing the right policies to both attract investment and effectively manage oil revenue?

A: Jennapher Lunde Seefeldt, assistant professor at Augustana University: "Guyana's current production is less than what was expected, due to Covid-19 and an oil price bust. Additionally, ExxonMobil's expenditures were reduced, and the Stabroek block's production faced technical problems. Nevertheless, the company refocused its efforts in Guyana and began drilling in an adjacent block. Ali's inauguration helped stabilize the political situation. Ali's early moves as president should be attractive to investors. In November, Ali reflected on his first 100 days in office, remarking on the utilization of the emergency budget to launch critical infrastructure developments. This will facilitate and support the growth of local content investment with contracted majors. While Ali said he will not pursue changes to the original Stabroek contract, he is expected to take a firmer stance on future contracts. As more oil is found, Guyana's position to negotiate

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TOP NEWS

OIL & GAS

Colombia Eyes Changes to Fuel Market: Official

Colombia's government is preparing a long-awaited reform to the fuels market, including changes to its pricing system, according to José Manuel Moreno, the director of hydrocarbons at the Mines and Energy Ministry.

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Chinese State Firm Purchases Mexico's Zuma

China's State Power Investment Corp. has completed the acquisition of Mexico's largest independent renewable energy company, Zuma Energía.

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OIL & GAS

Peru's Sagasti Taps Gálvez as Energy Minister

New Peruvian interim President Francisco Sagasti has named Jaime Gálvez as the country's new mines and energy minister, the sixth one Peru has had this year. Gálvez formerly served as the deputy mining minister.

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Gálvez // File Photo: Peruvian Government.

OIL AND GAS NEWS

Peru's Sagasti Names Gálvez as New Mines and Energy Minister

New Peruvian interim President Francisco Sagasti has chosen Jaime Gálvez as the country's new mines and energy minister, the sixth one Peru has had this year. Gálvez previously served as deputy mining minister. Minerals are some of Peru's most important resources, accounting for nearly 60 percent of the nation's export revenue, Argus Media reported. Peru is also the world's second-largest copper producer. The country is better known for its natural gas rather than its crude, as it's the only liquefied natural gas exporter in South America. Amid social conflicts earlier this year, Peru's Block 95, the only one operating in the nation's northern jungle region, was shut down several times. Canadian firm PetroTal, whose export plans have been halted for the time being, operates the block. Before his position as deputy mining minister, Gálvez, an economist, worked as the director general of promotion and sustainability of mining at the ministry, Gestión reported. Sagasti took office as Peru's interim president last week following Congress' controversial ouster of former President Martín Vizcarra and massive demonstrations against Manuel Merino, the former head of Congress who replaced Vizcarra. Merino's administration lasted just five days. [Editor's note: See related **Q&A** in the Nov. 17 issue of the daily Latin America Advisor.]

Colombian Gov't Eyes Fuel Market Reforms: Official

The government of Colombian President Iván Duque is preparing a long-awaited reform in the fuels market, including changes to the pricing system and greater competition with imports, Argus Media reported last week. The director of hydrocarbons at the Mines and Energy Ministry, José Manuel Moreno, said that the reform will ease fiscal pressure while encouraging actors other than state-controlled oil firm Ecopetrol to import fuel. Speaking at the Colombian oil chamber's annual summit, Moreno said the new market-based pricing mechanism would provide flexible price signals, replacing the current "hyper-regulated" system, which he said does not adjust rapidly to market conditions. The new system would shift wholesale motor fuel pricing from export parity to import parity to reflect the increasing domestic market imbalance, particularly in gasoline, Argus Media reported. As such, gasoline and diesel prices would move within a band designed to offset market volatility through an existing government-run fuel subsidy fund, a move that mirrors systems in other Latin American countries. Additionally, although imports are already technically open, the government hopes to encourage competition. "In the strict sense, imports are already open, but the way the institutional architecture works, imports are only carried out by one actor," Moreno said. The reform will also encourage bilateral fuel supply contracts in the domestic market, which Ecopetrol, the country's only refiner, continues to dominate, according to the report.

The new pricing system would shift wholesale motor fuel pricing to import parity.

Chile's GeoPark Selling 10% Interest in Brazil Gas Field

Chile-based oil and gas explorer GeoPark announced Monday that its board of directors has approved an agreement to sell its 10 percent nonoperated working interest in the Manati gas field in Brazil to Rio de Janeiro-based company Gas Bridge in a transaction worth 144.4 million reais ($27 million). That amount included a

NEWS BRIEFS

Venezuelan Authorities Arrest Oil Workers' Union Leader: Other Officials

Venezuelan authorities have detained oil workers' union leader Eudis Girot, union officials said last week, as the government of President Nicolás Maduro continues a crackdown on dissent at state oil company PDVSA, Reuters reported. Girot, the executive director of the FUTPV union and a critic of PDVSA's management, on Nov. 19 wrote on Twitter that authorities had arrived at his residence with an arrest order. A union official said Girot was being held by the Directorate of Military Counterintelligence on charges of terrorism and divulging confidential information.

Environmental Authority of Chile's Tarapacá Region to Evaluate Solar Project

The environmental authority of the northern Chilean region of Tarapacá has agreed to assess the environmental impact of the proposed Oxum del Tamarugal solar project, which would have a capacity of 318.2 megawatt-peak, Renewables Now reported Monday. Chile's Ampra Ingeniería, an environmental consultancy, filed the environmental impact statement for the project in October, and the Chilean environmental evaluation service accepted the request to evaluate it last Friday.

Jamaica Focused on Next Tranche of Renewable Energy Projects: Official

Jamaica's science, energy and technology minister, Daryl Vaz, said the Caribbean country's government is focusing on executing its next tranche of renewable energy projects that will bring the country closer to its goal of generating 30 percent of its electricity from renewable sources by 2030 and half its electricity from renewable sources by 2050, the government said Sunday in a statement.

fixed payment of 124.4 million reais in addition to an earn-out of 20 million reais, which GeoPark said is subject to the obtaining of several regulatory approvals. The transaction is effective Dec. 31 and is subject to conditions including Gas Bridge's acquisition of the remaining 90 percent of the working interest in the Manati gas field, as well as its operatorship. GeoPark, which is headquartered in Santiago, said two other nonoperating partners in the Manati gas field consortium, which have a combined 55 percent interest in the gas field, have already announced agreements to sell their working interest to Gas Bridge. GeoPark's sale of its interest in the field to Gas Bridge is expected close in the fourth quarter of next year, subject to regulatory approvals and agreement to sell by the rest of the consortium. GeoPark added that the Manati gas field has net proven and provable reserves of approximately three million barrels of oil equivalent.

RENEWABLES NEWS

China's State Power Investment Corp. Buys Mexico's Zuma

China's State Power Investment Corp., or SPIC, has completed its purchase of Mexico's largest independent renewable energy company, Zuma Energía, the government-run firm said last week, Reuters reported. SPIC, one of the Asian nation's top-five electricity producers, did not disclose the value of the acquisition. It will fully own the Mexican company, a move SPIC said was in line with furthering its goals to boost overseas presence and green generation capacity. "The investment by SPIC in Zuma signifies our continuous commitment and support for clean and renewable power generation," company chairman Qian Zhimin said in a statement. As of the end of last month, the Chinese power generator had installed electricity generation capacity of 165 gigawatts, with 53.3 percent of that coming from noncoal sources. Zuma Energía has two solar plants in the Mexican states of Sonora and Chihuahua and two

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increases. Lastly, Ali initiated the creation of a Petroleum Commission, which is meant to limit political influence in managing the industry—something investors will surely appreciate. But as a frontier, Guyana's regulatory framework remains limited. This slows processes down and costs the government billions in lost revenue. Ali hopes to avoid further losses by strengthening the state's administrative and regulatory capacities. While new or altered regulations might detract investment, establishing a framework offers stability and signals the rules of the game. Several indices consider Guyana as mediocre for investment openness. Ali's plans and actions should reduce some investor uncertainty. These promises and already-initiated plans offer Guyana the chance to remain the world's fastest-growing economy."

A **Raúl Gallegos, director of Control Risks:** "Based on the latest numbers coming from ExxonMobil, it appears production has surpassed 100,000 barrels per day in recent weeks. Of course, low oil prices pose a challenge to any expensive oil development, especially offshore. That said, the commitment of oil companies operating in Guyana seems to be to continue to invest and develop offshore resources in that country regardless of the low-price scenario. Naturally ExxonMobil's financial muscle is much more ample than that of other companies, so it looks likely that ExxonMobil and its partners will continue to make Guyana their primary investment bet even during a difficult time for the industry globally. Since Ali took office, the government has moved ahead with permits needed for the Payara development, after having conversations with the private sector, which is an encouraging sign for the continued development of the country's energy assets. The Ali government will continue to take a business-friendly approach to dealing with oil companies, particularly because its intent is to make sure the oil sector develops quickly, and with it see an increase in oil revenues for the government. The ability of the government to manage oil revenue responsibly and transparently is another matter. That is the big question for the entire Guyanese political class, not just the Ali government. The current structure of the natural resources fund managed by the central bank, and which is intended to save some of the windfall, is such that the country's president has ultimate say over how those resources are spent and invested. This setup risks becoming a petty cash fund for the leader in charge, which means the funds saved can be used for unsustainable, politically motivated projects by an irresponsible government. The incentive to use those resources to favor a particular ethnic group will grow the larger the fund becomes."

A **William Walker, Guyana-based oil and gas journalist:** "Covid-19 initially hit the local economy hard and affected oil sector operations, but ExxonMobil moved quickly to set up systems to safely rotate workers, so disruption was limited. Technical issues with the new floating production storage and offloading (FPSO) unit were more impactful, but it appears these are being overcome, with production at Liza Destiny close to its 120,000 barrel per day (bpd) nameplate capacity. Despite global price uncertainty, the timeline is firmly on track for two more FPSOs by early 2024 and 560,000 bpd. Indeed, as international oil companies move to make their portfolios more resilient, Guyana looks like a priority. John Hess recently talked of an FPSO each year for the next 10 years. The new administration has moved quickly to cut red tape for the sector, specifically when it comes to zoning and various permits for subcontractors supporting operations. One investor says they are 'encouraged by the new government's business-friendly demeanor.' That said, there is some 'analysis paralysis' when it comes to formulating policy and a regulatory

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wind farms in Tamaulipas and Oaxaca, with a combined installed capacity of 818 megawatts, according to the report. SPIC has a 2020 target of reaching 8 gigawatts of overseas power generation capacity, which the transaction of Zuma would help it meet.

POLITICAL NEWS

Mexican Authorities Recover 113 Bodies From Secret Grave

Authorities in Mexico have recovered 113 bodies and additional human remains from a clandestine grave near Guadalajara, the Associated Press reported Monday. Thirty of the victims had been identified, Jalisco state's attorney general, Gerardo Octavio Solís, said late Sunday. Authorities discovered the secret burial site in El Salto, southeast of Guadalajara, last month. The state is the home of the Jalisco New Generation Cartel, one of Mexico's most violent and powerful drug trafficking organizations. Between 2006 and Sept. 30 of this year, authorities have recovered 897 bodies from secret graves in Jalisco. In late October, at least 59 bodies were discovered in a grave site in neighboring Guanajuato state.

Protesters Set Fire to Congress Building in Guatemala City

Protests broke out in Guatemala City on Saturday, with demonstrators setting the congressional building on fire, following the approval of a bill that would cut the health and education budgets while boosting lawmakers' meal stipends, The New York Times reported. The legislation, passed last week, came amid devastation from two back-to-back hurricanes that have displaced thousands of people, wrecked homes and destroyed critical infrastructure. Sparking anger, immediate demonstrations, which also included peaceful marches in Guatemala City's central plaza, broke out across the country. One group of protesters broke the windows of the Congress building and set it on fire, which firefighters quickly put out, according to local newspapers. Police officers used tear gas on demonstrators. President Alejandro Giammattei denounced the arson incident on Twitter. "We cannot permit public and private property to be vandalized," he said, adding that those responsible for the "criminal acts" would "be punished with the full force of the law," The New York Times reported. Early Monday morn-

ADVISOR Q&A

Should Mexico Follow the IMF's Advice on Taxes?

Q Mexico should carry out tax reforms after its economy recovers from the downturn brought by the Covid-19 pandemic, directors of the International Monetary Fund said Nov. 4. Mexico should broaden the country's tax base and raise state or local taxes, among other measures, the IMF directors said. Does Mexico need a tax reform as the directors say, and if so, what should such a reform include? How likely are President Andrés Manuel López Obrador, Mexico's Congress and state leaders to implement any changes? How would higher taxes affect Mexico's economic recovery?

A **Eugenio Grageda, senior counsel at Holland & Knight:** "Even though tax collections are at an all-time high, Mexico's current economic situation calls for the implementation of short-term tax incentives as opposed to escalations in tax rates. A tax reform that increases sources of revenue and broadens the tax base is indeed necessary, especially if it accomplishes this without creating disincentive effects in the economy. In fact, broadening the base or implementing certain new taxes could indeed give the government more tools to support public welfare in these difficult times. Yet, the convenience of implementing a tax reform for the sole purpose of raising federal or local tax rates before the economy recovers is questionable. Mexico has already seen, under the umbrella of BEPS, one of the most serious tax reforms implemented in 2020, and another that will become effective in 2021. It is likely that in the next year or two, this administration will propose a third tax reform attempting to raise corporate and individual tax rates. This is a mistake that would harm any potential chances of a fast recovery. As opposed to new rates, tax reform in the coming years should rather be focused on 1.) eliminating VAT exemptions, 2.) increasing the tax base, 3.) implementing new taxes with wealth distributive potential such as a temporary wealth tax and 4.) the creation of an ensured set of consistent incentives for investment and enterprise, such as temporary reductions in capital gain rates, depreciation allowances or credits on employment."

> **"Mexico's current economic situation calls for the implementation of short-term tax incentives as opposed to escalations in tax rates."**
> **— Eugenio Grageda**

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

NEWS BRIEFS

Dominican Republic's New President Regrets Controversy Over Budget

Reflecting on his first 100 days in office, President of the Dominican Republic Luis Abinader said he regretted not properly explaining new taxes included in the 2021 budget that have led to public pushback, Listín Diario reported Tuesday. Abinader said his administration was still in talks with the financial sector as well as Barrick Gold, a major source of tax revenue, when it submitted the proposal to Congress. "I think then we didn't explain well to the population what our proposal was," Abinader said.

Honduras' President Calls for International Aid After Hurricanes

Honduran President Juan Orlando Hernández called for urgent international aid as the death toll of Hurricane Iota continues to rise, reaching at least 40 across Central America and Colombia, with most deaths recorded in Nicaragua and Honduras, Reuters reported. "We are in a situation of great calamity, and we need the world to help us rebuild our country," Hernández said in a news conference last Thursday. Iota struck areas that were still reeling from the aftermath of tropical storm Eta less than two weeks earlier.

Belize's New Prime Minister Tests Positive for Covid-19 Virus

Belize's new prime minister, Johnny Briceño, has tested positive for the novel coronavirus and will be isolating for the next two weeks, the prime minister's office said in a statement on Monday, Reuters reported. Briceño, of the People's United Party, was selected to head the Central American nation earlier this month, replacing longtime Prime Minister Dean Barrow, who had led the Central American country since 2008.

ing, lawmakers announced that the process for the budget to go on to the president for review had been halted, Prensa Libre reported. Congress' president, Allan Rodríguez, said that although the bill was constitutional, lawmakers decided to suspend the process with the aim of maintaining the country's governability and peace.

Biden to Prioritize Immigration Policy in First 100 Days

U.S. President-elect Joe Biden (D) said Tuesday that he planned to use his first 100 days in office to take action on an immigration bill, The Hill reported. "I will send an immigration bill to the United States Senate with a pathway to citizenship for over 11 million undocumented people in America," Biden said. However, analysts say that if the U.S. Senate remains under Republican Party control after two run-off elections scheduled for January, that legislation is unlikely to pass Congress, according to the report. Biden's predecessor, Republican U.S. President Donald Trump, who continues to dispute the Nov. 3 election result despite fading legal options, took a hard line on immigration, especially from Central America and Mexico, making the issue a centerpiece of his 2016 campaign and the first several years of his administration. Hundreds of children from the region seeking entry to the United States have been rendered effective orphans as a consequence of Trump's directive to split up families apprehended at the U.S. border. Recent hurricanes hitting Central America are likely to spur more migration northward, the Associated Press reported Tuesday. On Monday, Biden picked Alejandro Mayorkas, the first Latino named to his Cabinet, to head the U.S. Department of Homeland Security, where he is expected to push to reverse Trump's immigration policies, NBC News reported Monday. Mayorkas, a Cuban American, still needs confirmation from the Senate to run the department, which is the nation's third-largest in terms of employees. Sen. Bob Menendez (D-N.J.), who is also Cuban American, called Mayorkas a "smart and natural pick" to lead DHS.

ECONOMIC NEWS

Chile's Piñera to Seek Court's Intervention on Pensions Measure

Chilean President Sebastián Piñera said Sunday that his government will seek the Constitutional Court's intervention to halt an attempt by the opposition to allow Chileans to withdraw a second installment of money from their private pension funds, Reuters reported. The opposition measure presents a "grave risk" to Chileans' future pensions, offers a tax-free windfall to people with relatively high incomes and involves costs that only the country's executive branch can determine, said Piñera. "All authorities, and especially the president of the republic, have to be sensitive to the needs of citizens, and also responsible over the decisions they take and their future consequences," the president's office said in a statement, Reuters reported. Lawmakers in July approved a measure to allow pension holders to withdraw as much as 10 percent of their accounts, saying the move was needed to help Chileans weather the economic fallout of the Covid-19 pandemic. Piñera opposed the legislation, but ultimately signed it into law. The move led to approximately $17 billion in withdrawals, the Financial Times reported.

Peru's Government Launches Sale of $4 Billion in Debt

Peru has launched the sale of $4 billion worth of debt, including a rare century bond, the government said Monday, even as the Andean nation has been rocked by political turmoil over the past two weeks, the Financial Times reported. Peru launched the sale of $1 billion of century bonds, as well as $2 billion of notes set to mature in 2060 and another $1 billion of 12-year bonds. The century bond, which expires in 2121, was placed at a coupon rate of approximately 3.23 percent, according to an official with the economy ministry, Reuters reported.

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framework. And executing policies will be a challenge given a significant deficit of key administrative personnel. There is also a need for supporting infrastructure and suitable land for shorebase operations. Despite that, the government appears keen to keep pace in developing the basin, talking of a 'narrow window' before what it sees as peak oil demand. Generally, the signs are positive for the industry and the country.

A **Jan Mangal, oil and gas consultant and former petroleum advisor to the president of Guyana:** "Only Liza 1 has reached production, yet ExxonMobil's operations made Guyana one of the top five countries in the world for flaring gas (per capita). This is sad to witness, as I was successful in getting ExxonMobil to create a gas-to-power project in 2017, but which probably stopped after my involvement ended in 2018. Oil from Guyana's approved projects is high quality and relatively cheap for deepwater production, which insulates it from near-term market conditions. Guyanese oil production is critical to the continued existence of a number of large multinationals, such as ExxonMobil and Hess. So, there are artificial variables affecting production. The recent change in the U.S. administration has the potential to improve the negotiating strength of Guyana versus the oil companies, and this could affect production if Guyana leverages this strength. For Guyana to succeed, it has to maximize its share of the oil revenue, and then not squander it. The People's Progressive Party (PPP) has not maximized the country's share of revenue. Payara project approval was rushed instead of renegotiating the contract for the Stabroek block. The PPP has a bad track record with state projects from its time in power (zero transparency and white elephant projects, among others), and unfortunately there are no signs that the same politicians will behave any differently now. The PPP will attract investment, but the question will be whether it is good for the country. In 2015, the PPP awarded the Canje and Kaieteur blocks to unqualified contractors only days before ExxonMobil publicly announced that there was oil in the adjacent Stabroek block. This bizarre decision forfeited millions or even billions of U.S. dollars for the country. And one should ask why the PPP did not wait a couple days instead."

A **Thomas Singh, senior lecturer in the Department of Economics at the University of Guyana:** "Due to technical problems with gas compression that led to excessive flaring, oil production in Guyana has been kept below the 120,000 bpd expected of Liza 1. Production was 100,000 bpd in July, 27,000 bpd in June and 42,307 bpd in May, with the target 120,000 bpd projected for December. Delays have been attributed to the pandemic, though the early occurrence of technical problems might themselves have been caused by the record turnaround of the FPSO's completion, in which case the need to reduce production reflects the risks of short-term thinking in the industry. On Nov. 17, ExxonMobil announced that its latest discovery in the Kaieteur Block 'does not appear to be economic on a standalone basis,' an unusual conclusion so soon after the discovery has been made, but an indication that marginal considerations are significant now. The company has benefited from lower rental and mobilization costs because of the lower prices, but lower expected upstream returns even in the low-cost, high-quality plays in Guyana have to be considered. After expressing initial concerns about the Natural Resources Fund, the government seems less interested in reviewing it, given the lower oil prices and the realities of now being the fiscal authority. While the U.S. International Development Finance Corporation and other agencies have announced $200 billion in financing to U.S. companies wanting to invest in Guyana, investors will be more calculating about risks and the fundamentals that determine expected returns."

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