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FEATURED Q&A

Is Venezuela's Fuel Shortage Reaching a Tipping Point?

Venezuela's Paraguaná refining complex has been operating below capacity. // File Photo: Venezuelan Government.

Q **Venezuelan state oil company PDVSA has begun rationing diesel fuel due to low domestic refining output and a lack of access to diesel imports, prompting truck drivers to block highways in protest over the unprecedented shortages. The issue was among those discussed in a March hearing of the U.S. House Foreign Affairs Committee on U.S. policy toward the Andean nation, when one witness recommended that the sanctions exemption on diesel imports, which was eliminated in November, be reinstated. What are the major economic and humanitarian implications of Venezuela's widespread fuel shortages, and could they bring significant social unrest? What immediate or short-term alternatives does Venezuela have to address the scarcity problems? How likely is the administration of U.S. President Joe Biden to eliminate or modify U.S. sanctions on Venezuela's oil sector, including reinstating the diesel exemption?**

A **Carlos Vecchio, Juan Guaidó-appointed Venezuelan ambassador to the United States:** "Maduro and 21st-century socialism have destroyed our industry. The main problem is poor transparency and corruption at PDVSA. It's untrue that diesel supply is swap-dependent. Despite Maduro's destruction, Venezuela's diesel production is approximately 30,000 barrels per day (bpd). Maduro's improvised quarantines have decreased consumption, causing an actual gap of 10,000 bpd. PDVSA has diesel reserves amounting to three million barrels; at current consumption levels, the deficit would be covered for 2021. We don't deny the precarious situation, but with these inventories,

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U.S. Reportedly Looking to Boost EV Production

The U.S. government is working with Canada to boost regional production of electric vehicles, or EVs, in an effort to counter Chinese competitors, sources said.

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OIL & GAS

YPF to Invest $300 Million in Santa Cruz Province

The Argentine state-owned oil company is planning to invest $300 million in the Patagonian province as part of its recently announced investment program.

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OIL & GAS

Exxon Submits Fracking Proposal to Colombia's ANH

ExxonMobil has submitted a proposal to operate a fracking pilot project in the Andean nation. Exxon has "extensive experience" in this type of project, said Armando Zamora, the head of Colombia's national hydrocarbons agency, or ANH.

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Zamora // File Photo: Colombian Government.

OIL AND GAS NEWS

ExxonMobil Submits Proposal for Fracking Project in Colombia

ExxonMobil has submitted a proposal to operate a pilot project for hydraulic fracturing, or fracking, in Colombia, the country's national hydrocarbons agency, ANH, and the major oil firm announced last week, Reuters reported. Exxon has applied to carry out fracking investigations in the Andean nation's Valle Medio de la Magdalena basin, the ANH said. If approved, Exxon would become the second company in Colombia to begin a fracking pilot project, following Colombian state-owned oil firm Ecopetrol. The ANH is expected to decide on the project by March 29. "Colombia continues progressing in making the possibilities of extracting gas and oil from nonconventional fields viable with this proposal from ExxonMobil, which has extensive experience in this type of project," ANH President Armando Zamora said in a statement. Exxon confirmed the news to Reuters, but it did not give further details. Fracking could be key in helping Colombia boost its dwindling oil reserves and secure energy self-sufficiency. However, the technique has been widely criticized, with activists and civil society groups warning of damage to the environment. [Editor's note: See related **Q&A** in the Feb. 5 issue of the Energy Advisor.]

Pipeline Explodes in Venezuela, Minister Blames 'Attack'

Part of a gas pipeline in eastern Venezuela exploded on Saturday afternoon, according to a report from state oil company PDVSA, with the country's oil minister blaming the incident on an attack, Reuters reported. The explosion occurred at the 36-inch pipeline that transports natural gas to the Pigap II gas reinjection plant in northern Monagas state. PDVSA had to temporarily shutter the plan in order to control the fire and evaluate damages to the pipeline, according to the company report. In a state television address on Saturday, Oil Minister Tareck El Aissami called the explosion a "terrorist attack," without providing details about who was responsible or about the explosion's effects on the plant and pipeline, the wire service reported.

Mexican Gov't to Absorb Regular Debt Payments for Pemex

Mexico's government will absorb regular debt payments this year for state oil company Pemex as President Andrés Manuel López Obrador intensifies his efforts to prop up the heavily indebted company, Reuters reported. According to Chief Executive Officer Octavio Romero Oropeza, these debt payments will total more than $6 billion in 2021. "The president of the republic has offered, since the campaign, to rescue Pemex, and he is demonstrating that with actions," Romero Oropeza said, Reuters reported. Pemex's financial debt, which has in part accumulated due to a combination of declining output, tax obligations and a payroll burden, stood at $113.2 billion at the end of 2020 despite several capital injections from the government. Moody's Investors Service, which last April downgraded Pemex to junk status, estimated that the company will need $14.7 billion in government support this year alone as Mexico's fiscal deficit is set to increase to 4.1 percent of its gross domestic product, Reuters reported. Romero Oropeza said Pemex recently discovered between 500 million and 600 million barrels of oil and that the company hopes to close out this year producing nearly two million barrels of oil per day, a level that will be the company's maximum oil output goal going forward. "With this moderate production we'll fulfill the commitment to replace … 100 percent of the proven reserves," López Obrador said, Reuters reported. Pemex remains dependent on the government's help as the company's oil output continues to decline. In related news, Romero Oropeza told Reuters that Pemex could consider allowing a consortium

NEWS BRIEFS

Argentina's YPF to Invest More than $300 Million in Santa Cruz Province

Argentine state-owned oil company YPF said last week that it will invest more than $300 million in the province of Santa Cruz as part of a recently announced $2.7 billion annual investment plan, Reuters reported. The investment program represents a 73 percent increase on last year's plan. The company struggled last year as oil prices plunged, as did demand amid coronavirus-related lockdowns. Earlier this year, YPF reached a deal with bondholders to restructure billions of dollars of debt.

Brazil's Lower House Passes Bill Expanding Natural Gas Market

Brazil's lower house of Congress last week approved legislation designed to expand competition in the natural gas market as state oil company Petrobras rolls back its long-held monopoly, Argus Media reported. The legislation, which President Jair Bolsonaro is expected to soon sign into law, does not alter states' control over gas distribution and prohibits gas producers and resellers from owning gas transport infrastructure. If passed, the government projects investment in the sector will reach 60 billion reais ($10.6 billion) over the next five years.

Qatar Petroleum Joins Guyana's Offshore Project

Qatar Petroleum formally joined Guyana's offshore oil projects with the Guyanese government's approval of the company's farm-in to two blocks, Natural Resources Minister Vickram Bharrat told Argus Media last week. Qatar Petroleum and France's Total have formed a joint venture called Toqap that gives them a 25 percent working interest in Guyana's Orinduik block, but they have no drilling plans yet, Argus Media reported.

led by U.S. company Talos Energy to operate a shared oil field in southern Mexico known as Zama. The shallow-water oil field in the Gulf of Mexico was discovered in 2017 and is estimated to contain about 700 million barrels of oil, which would make it Mexico's largest find by a private company in decades. There has been controversy over which company should have the rights to operate the field, as the discovery also extends into Pemex's neighboring block. Romero Oropeza said Pemex had the wherewithal to operate the field but that he was not against Talos doing so, provided the company met certain conditions. "It's not a case of 'I want [to be the operator] because I'm the biggest, or I'm the best-looking,' it's because it suits them and it suits us," he said during an interview with Reuters. "We're talking about it, we're analyzing it technically," he added.

POWER SECTOR NEWS

AMLO Threatens Constitutional Action on Electricity Law

Mexican President Andrés Manuel López Obrador said last week that he would send an initiative to Congress to reform the constitution if a new law to increase state influence over the electricity market is deemed unconstitutional, Reuters reported. Earlier this month, a Mexican judge suspended the electricity law, which lawmakers had recently passed. The law seeks to strengthen state power utility CFE at the expense of private operators. López Obrador, who has said that the law will help Mexico become more energy independent, has insisted that it is not unconstitutional. "But if judges, magistrates, justices determine that it is unconstitutional and that it can't continue, I would send an initiative to reform the constitution," he said, Reuters reported. The legislation, which was initially approved with 68 votes in favor and 58 against in the lower house, has been controversial, drawing strong criticism from private and international investors as well as energy analysts. "For [López Obrador], this

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the country shouldn't be in such a crisis. Could it be partly fabricated by the regime to deceptively pressure the international community? Could it be that, again, Maduro is making the population suffer for his political objectives? If the crisis is so serious, why is PDVSA exporting to Cuba? We know of legitimate humanitarian actors raising concerned voices, as we are, of the deteriorating situation. We are collaborating on solutions. But there are actors with alternate motives, seeking to dubiously make money for a privileged few, achieve political objectives and feed internal mafias. A first and simpler alternative is for PDVSA to buy and import diesel as it has done with Iranian gasoline. Previous figures on Venezuela's exports to Cuba amount to 26 million barrels of crude oil and derivatives, translating to about $800 million. Why doesn't Maduro use that money to buy necessary diesel? It could buy 20 years' worth of diesel supply. If the solution is swap mechanisms, there should be clear conditions—granting access into Venezuela to humanitarian programs that the regime is currently blocking, ceasing Cuban shipments and setting limits on imports to restrict Maduro's fraudulent behavior. Ultimately, it's a U.S. government decision, but the regime's poor transparency and corruption make viable alternatives difficult."

A **Antero Alvarado, managing partner and Venezuela director at Gas Energy Latin America:** "PDVSA already had a diesel deficit in 2020, which is why it had to import it. PDVSA relied on swap mechanisms to compensate for the deficit, which during some months, such as in July, surpassed 30,000 bpd. Ending diesel swaps put PDVSA in a position in which it could run into a deficit by consuming its inventories for the first quarter of 2021, as was previously warned. Given this reality, and in addition to the unreliability of local diesel production, PDVSA has already started rationing fuel. Venezuela uses diesel for electricity generation as its main fuel in the western and Andean regions, where there is no access to the gas pipeline network. It also uses diesel for the industrial sector and the transportation of both cargo and passengers. PDVSA has chosen to sacrifice cargo transportations to the electricity sector. In fact, blackouts have decreased in the Andean area, as compared to November. Protests by transportation workers did not take long to begin, as well as protests by agricultural producers. Many crops will be lost this year due to a lack of diesel, which is also expected to affect the transportation of medicines, food, cooking gas and gasoline. This could make daily life much more complex for those of us living in Venezuela. There are no quick fixes to the problem. Everything indicates that the reinsertion of diesel swaps could come as a result of a political negotiation. Such talks could take time; the diesel shortage needs an urgent solution."

A **Francisco Monaldi, fellow in Latin America energy policy at Rice University's Baker Institute:** "Venezuela's refineries produce at less than 10 percent of their capacity. Before the 2019 oil sanctions, Venezuela imported around 33,000 bpd of low-sulfur diesel. Consumption of diesel today is an estimated 43,000 bpd (it was 65,000 bpd before the pandemic). PDVSA produces around 32,000 bpd, so there is a deficit of around 11,000 bpd. The problem is that PDVSA produces mostly high-sulfur diesel, not suitable for transportation (it is used for industry and power generation). In fact, it exports some 4,000 bpd of high-sulfur diesel to Cuba. When the diesel swaps were stopped, PDVSA had accumulated significant inventories of low-sulfur diesel (close to six million barrels), but they have dwindled (to around 3.4 million barrels). Given that PDVSA is unlikely to increase production, if there were no new imports, it would face a critical supply shortage in the next few months (particularly if consumption

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is about Mexico's sovereignty," Jeremy Martin, vice president of energy and sustainability at the Institute of the Americas, told The San Diego Union-Tribune. "He's a 1960s and '70s guy who says [state oil company] Pemex should be doing everything, and what they're not doing, CFE should be doing … It's energy nationalism, it's resource nationalism," he added. Other critics argue that the bill violates the United States-Mexico-Canada Agreement, or USMCA, and also affects independent energy producers in Mexico that use renewable sources, as the CFE will be able to reverse contracts signed under previous administrations. "This will put renewables at the bottom of the totem pole," John Padilla, managing director at IPD Latin America, told The San Diego Union-Tribune.

RENEWABLES NEWS

U.S. Looking to Boost Regional Production of EVs: Sources

The U.S. government is working with Canada to boost regional production of minerals that are used to make electric vehicles, or EVs, in an effort to counter Chinese competitors, Reuters reported last week, citing a document and unnamed sources who participated in a recent official meeting. Representatives of the U.S. Department of Commerce met with miners and battery manufacturers to discuss ways to increase Canadian production of minerals used to power electric vehicles, with one source who attended the meeting telling Reuters that there was no sign that the United States would offer financial incentives for new mines or other supply chain components in Canada. However, during the meeting, officials emphasized the urgency of building a U.S.-Canada electric-vehicle supply chain, following similar moves by Europe and Asia, a second source told Reuters. The meeting came amid anticipation of a surge in demand for electrified transportation over the next decade. "The future of car manufacturing lies in alternative propulsion technologies for vehicles, those that reduce greenhouse gas emissions and contribute to good jobs in the economy," Jerry Dias, national president of Unifor, Canada's largest private-sector union, told the Energy Advisor in a Q&A published on March 12. "Recent investments by U.S.-based automakers in North American electric vehicle assembly capacity … signal an important starting point toward a necessary industry transition that pivots on building more and greener vehicles and parts," Dias added.

ADVISOR Q&A

Will Jamaica's Economy Soon Be Able to Recover?

Q **The Covid-19 pandemic has devastated Jamaica's economy, which is expected to contract 12 percent for the 2020-2021 fiscal year, Finance and Public Service Minister Nigel Clarke told lawmakers March 9. The Caribbean nation's foreign exchange inflows from tourism are expected to plunge 74 percent for the fiscal year, setting the country back 30 years, he said. How long will Jamaica's economy suffer the effects of the pandemic, and can it bounce back soon? What factors will most influence the speed and robustness of Jamaica's economic recovery? Is the country's government doing enough to economically support citizens and businesses amid the crisis, and what more should it do?**

A **Anthony T. Bryan, senior associate in the Americas Program at the Center for Strategic and International Studies and fellow at the Caribbean Policy Consortium:** "Jamaica successfully emerged from two successive IMF adjustment programs between 2013 and 2019. The country received universal kudos for its efforts. The country's implementation of its new monetary framework saw inflation fall to single digits. The Bank of Jamaica was able to build up its international reserves to levels regarded as appropriate for the purpose of risk mitigation. The public debt burden has been reduced by approximately 40 percentage points of GDP through fiscal prudence, transparency and improvement of fiscal policy implementation. However, the Covid-19 pandemic has taken an economic toll and has reduced growth for Jamaica and many other countries in the Caribbean. But institutional reforms on policies since 2013 have put Jamaica in a very strong position to face the crisis. The country still faces specific challenges with respect to the structure and performance of the economy. Its economic output is heavily weighted toward the services sector, which accounts for 72 percent of total GDP. This includes activities such as financial insurance services, telecommunications and tourism. Tourism will bounce back, but reliance on tourism is one of Jamaica's weak points, making it susceptible to external shocks and amplifying the need for economic diversification away from that sector. What remains to be done? Strengthen tax collection, reduce tax evasion, increase the efficiency of public expenditure and accelerate investment in diversifying the economy in order to accelerate long-term growth. Concurrently, there must be improvements in economic management that fall directly under the government's control. In sum, the government has done well, and one expects that in the post-pandemic era, public investment will have a significant multiplier and resilient effect on the economy."

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

NEWS BRIEFS

Chile's Piñera Announces $6 Billion in Emergency Spending Measures

Chilean President Sebastián Piñera on Monday announced new emergency spending measures worth $6 billion, or about 2 percent of GDP, as the government expands lockdowns in an effort to stop the country's most severe virus wave since the pandemic began, Bloomberg News reported. The emergency plan includes additional aid for families under quarantine, new job subsidies, unemployment insurance and increased spending on virus testing. Despite a successful vaccination program, Chile has recently registered record numbers of daily Covid-19 cases.

Brazil's Supreme Court Rules Judge Was Biased in Lula's Corruption Trial

Brazil's Supreme Court on Tuesday ruled that former Judge Sérgio Moro was biased in connection with the corruption trial against former President Luiz Inácio Lula da Silva, who has long claimed his conviction on graft charges was based on political persecution, the Associated Press reported. Moro's investigations led to the jailing of hundreds of business and political leaders. A Supreme Court judge recently annulled the criminal convictions against Lula. [Editor's note: See related **Q&A** in the March 17 issue of the daily Latin America Advisor.]

CAF Leader Stepping Down a Year Early

The executive president of CAF—Development Bank of Latin America, Luis Carranza, is stepping down in April, a year ahead of the official end of his term "due to political and internal issues," CAF said in a statement Tuesday. The announcement comes amid allegations of workplace harassment, abuses of power and massive layoffs across the organization's offices in Latin America, El País reported.

POLITICAL NEWS

Honduran Allegedly Tied to President Convicted in U.S.

A Honduran man whose trial included bribery allegations against the Central American country's president was convicted Monday in New York on drug trafficking charges, the Associated Press reported. A federal jury convicted Geovanny Fuentes Ramírez on all counts he faced, including conspiracy to traffic cocaine, illegal weapons possession and arms conspiracy. During the two-week trial, witnesses testified that Honduran President Juan Orlando Hernández accepted bribes from Fuentes Ramírez. The bribery allegedly took place when Hernández, who took office in 2014, was running for president and as recently as 2019. Hernández has not been charged with any crime, and he has repeatedly denied any involvement with drug trafficking. In a **Q&A** published in the daily Latin America Advisor on March 5, Honduras' ambassador to the United States, Luis Suazo, questioned the credibility of those who have raised the allegations about Hernández. "The accusations against President Hernández are based on testimonies of confessed drug traffickers severely hit by the president's policies and actions against drug trafficking," he said. U.S. prosecutors listed the president as a "co-conspirator" in the Fuentes Ramírez case. Additionally, one of the president's brothers, Tony Hernández, was convicted of drug trafficking in 2019 and is to be sentenced next week. During Fuentes Ramírez's trial, Devis Leonel Rivera Maradiaga, a former leader of the Cachiros cartel, testified that he gave Juan Orlando Hernández $250,000, using the now-president's sister as an intermediary. Rivera Maradiaga testified that he gave the money as a bribe in exchange for protection for drug smuggling and to avoid extradition. Also during the trial, an accountant testified that he witnessed Hernández receiving bribes twice from Fuentes Ramírez in 2013. U.S. District Judge Kevin Castel, who presided over the case, is also scheduled to sentence the president's brother, the AP reported.

ECONOMIC NEWS

Colombia Eyes Tax Reform to Raise $7.15 Billion: Report

Colombia's government will seek to raise 25.4 trillion pesos ($7.15 billion) through a tax reform that President Iván Duque's administration plans to send lawmakers over the next several days, Reuters reported Tuesday, citing unnamed sources and documents. The Finance Ministry previously said the reform, which the government is considering in order to help the country maintain its investment-grade credit rating, would raise approximately 15 trillion pesos, or about 1.5 percent of gross domestic product. However, the documents that Reuters reviewed showed that the government hopes to raise significantly more through the reform, an amount equivalent to 2.2 percent of GDP. A press officer at the Finance Ministry told the wire service that ministry officials met with Colombian business groups and political parties. The reported reform would raise 16 trillion pesos for spending needs and 7.6 trillion pesos for welfare programs. Additional money raised would be used for efforts to reactivate the economy, which has been damaged amid the Covid-19 pandemic. The reform would not subject additional foodstuffs to value-added taxes, but VAT exemptions on some products would be cut, Reuters reported. The changes would bring the percentage of tax revenue that VAT raises from 39 percent to 46 percent. The reform would also expand Colombia's tax base, make a wealth tax permanent and increase taxes of dividends from 10 percent to 15 percent, the wire service reported. Tax reform in Colombia to cover spending associated with fighting the pandemic and bolster government revenues could negatively affect corporate credit, Fitch Ratings said Tuesday. "Weakness in Colombia's fiscal metrics after the sharp decline in oil prices and efforts to combat the pandemic increase the likelihood of passage [of a tax reform] before Congress enters recess on June 20," the ratings agency said. Colombia's economy shrank 6.8 percent last year amid the pandemic.

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recovers). PDVSA could import diesel from Iran, but given that it significantly subsidizes domestic diesel sales, that would require significant cash outlays (around $85/barrel). The government's rationing could be a precautionary measure or a way to pressure the Biden administration to authorize new diesel swaps. Venezuelan private freight transporters and NGOs have been sounding the alarm. Politics plays a big role. Maduro is betting that he can get sanctions relief without any meaningful concessions. The Biden team does not want to be perceived as softening the pressure, but it appears to have concerns about the humanitarian impact that diesel scarcity would have. Maduro could raise diesel prices to market levels and allow private imports, but that would be politically challenging and is unlikely to significantly solve the supply problems."

A **Pilar Navarro, Latin America analyst at Medley Global Advisors:** "Venezuela currently produces 45,000 bpd of diesel. Domestic demand before the pandemic stood at 100,000 bpd. The Biden administration argues that the destruction of PDVSA's refining capacity by the last two governments is the only factor to blame for the diesel shortages, and as such, there is no justification for lifting the diesel swap restriction. It also argues that, when the exemptions were allowed, Venezuela exported diesel to Cuba, proving that the situation is not so desperate. However, shipments to Cuba are negligible (4,000 bpd in the fourth quarter). According to energy consultants, PDVSA has enough diesel inventories to last until April. It began to ration heavily in February, which may indicate three things: inventories are actually lower, it does not expect a resumption of swaps any time soon or it is trying to pressure for their resumption by generating humanitarian impact in advance. Either way, the humanitarian consequences of a diesel shortage would be significant, and the country could suffer an even worse crisis than the three-month gasoline shortage of last year, given that diesel is mainly employed for food distribution, public transport and electricity generation. This would pile on an already critical humanitarian situation. It could even affect, albeit marginally, oil production, due to logistic reasons and electricity generation in some drilling pads. As the pieces of the political board position themselves, Venezuela will continue with a diesel shortage for the next few months as the United States pushes for some concessions from Maduro."

A **Antonio de la Cruz, nonresident senior associate in the Americas program at CSIS:** "The rationing of diesel fuel in Venezuela is happening because national production of diesel is not sufficient to satisfy the Cuban, Asian and domestic markets. In Venezuela, 138,000 vehicles run on diesel fuel, which consume 30 liters per day, according to data from engineer Nelson Hernández. This means that the demand for diesel is in the order of 26,000 barrels per day. Currently, Venezuela's refining complex is operating at 13 percent of its capacity. Given that the average production yield of derivatives for each barrel of oil feed is 20.1 percent for diesel, that gives us a diesel production equivalent to 34,000 barrels per day. It covers the domestic demand for diesel, leaving 8,000 barrels per day for storage, which at the end of the month represents 240,000 barrels for export. Now, suppose that Nicolás Maduro's regime decides to first satisfy the Cuban and Asian diesel markets, as he is doing right now, before supplying the domestic market. He is causing a domestic deficit that is fulfilled by the current rationing. The Maduro regime created the need for current diesel rationing in Venezuela in order to pressure the new U.S. administration to lift the ban on the oil-for-diesel swap that the previous U.S. government had imposed. Maduro is supporting Cuba's regime with the supply of electricity, giving it diesel, as well as those who have businesses related to exports from PDVSA to the Asian market."

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