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FEATURED Q&A

Are Sanctions on the Table in Venezuela's Upcoming Dialogue?

Venezuelan President Nicolás Maduro's government is set to begin talks with the opposition this month. The United States has said it will not change its sanctions policy unless there's real political change in the Andean nation. // File Photo: Venezuelan Government.

Q **The U.S. Treasury Department in July announced it would authorize Venezuela to import liquefied petroleum gas, or LPG, from the United States and other sources. However, U.S. product traders and Venezuelan state oil company PDVSA's U.S.-based refiner, Citgo, have said they have no plans to resume LPG exports to the Andean nation. What is the reason behind the Biden administration's move to lift sanctions on LPG in Venezuela, and will the action have any tangible consequences? What is President Nicolás Maduro's administration doing to circumvent existing U.S. sanctions on the country's oil sector, and will it be able to boost oil production by the end of the year? To what extent is the removal of these sanctions on the table in upcoming talks between Maduro's government and the Venezuelan opposition, which the United States backs?**

A **Antero Alvarado, managing partner and Venezuela director at Gas Energy Latin America:** "General License 40 (GL40) is a first step in the Biden administration's adoption of a smart sanctions policy. We believe that more complex sanctions, including on PDVSA, will remain in place for a long time, and will be removed only when there are real and tangible changes in Venezuelan politics. With this license, the Biden administration recognizes the importance of LPG in residential use. In Venezuela, 90 percent of families use LPG to cook food. Furthermore, LPG today has a deficit of approximately 75 percent in the country. That means there are more than four million families cooking with firewood. This general license seeks to open a

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TOP NEWS

RENEWABLES

Enel Americas Shareholders OK Four-Way Merger

Shareholders of the electric utilities group approved a four-way merger of Enel Americas' subsidiaries in Colombia and Central America.

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OIL & GAS

Castillo Vows to Expand Peru's State Oil Firm

New Peruvian President Pedro Castillo said during his inaugural address last week that, under his government, Petroperú will become a fully integrated firm that can compete with the private sector.

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OIL & GAS

Argentina's Gas Output Grows for First Time in 2021

For the first time this year, Argentina in June posted an annual increase in natural gas production as President Alberto Fernández's upstream subsidies program appears to begin to pay off.

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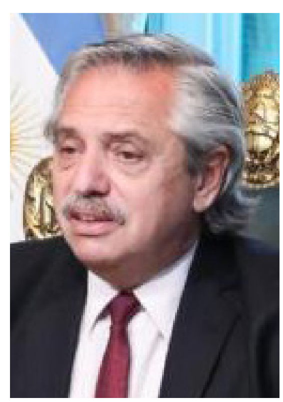

Fernández // File Photo: Argentine Government.

OIL AND GAS NEWS

Argentina Natural Gas Output Increases For First Time in 2021

For the first time this year, Argentina in June posted an annual increase in natural gas production as an upstream subsidy program appears to begin to pay off, Argus Media reported last week. Production averaged about 127 million cubic meters per day in June, up slightly from the previous year, according to energy secretariat figures. Natural gas output had struggled to recover this year, declining by 6 percent year-on-year in the first six months of 2021 to about 118 million cubic meters per day. Production had already declined 5.7 percent on the year in the January-June period last year, in part due to pandemic-related restrictions. The government of President Alberto Fernández last October enacted the so-called Gas Plan, a subsidy program aimed at boosting natural gas production in a bid to cut back imports of liquefied natural gas, or LNG. Analysts largely praised the plan, though they warned it had likely come too late to significantly increase production ahead of the Southern Hemisphere's winter months. "Gas production ramped up during June and July … based on a mix of new conventional, tight and shale gas wells drilled by producers entering the Gas Plan scheme," Tomás Lanardonne, partner and manager of the Neuquén office of Martínez de Hoz & Rueda, told the Energy Advisor in a **Q&A** published July 23. "Unfortunately, this is insufficient to save importing costly LNG," Lanardonne added.

> **Analysts largely praised the government's so-called Gas Plan but warned it likely came too late to avoid LNG imports.**

ConocoPhillips Seeks $115 Mn That Jamaica Owes Venezuela

U.S.-based oil firm ConocoPhillips is seeking to collect about $115 million that Jamaica's government owes Venezuela as part of a $2 billion arbitral award, Reuters reported Wednesday, citing Jamaican court records. The company wants to enforce an award from the International Chamber of Commerce in connection with Venezuela's 2007 expropriation of its assets. Conoco is one of several companies looking to seize shares of Venezuelan state oil company PDVSA's U.S.-based refiner, Citgo, as well as PDVSA funds currently held by Portuguese lender Novo Banco, according to the report. The funds that Conoco is aiming to collect in Jamaica are debts that the Caribbean nation's government has not yet repaid Venezuela for loans under the Petrocaribe program. Under the now largely defunct initiative, PDVSA supplied oil to Caribbean countries on favorable credit terms. A court in Jamaica earlier this year granted Conoco's request that a receiver be named to collect and take control of the funds and distribute them to the company, The Jamaica Gleaner reported. It was unclear when the funds, totaling approximately $115 million, would be transferred to Conoco, Reuters reported. Jamaica has said that it is willing to pay the Andean nation but has not been able to follow through due to U.S. sanctions on PDVSA, the court records show.

RENEWABLES NEWS

Shareholders of Enel Americas Approve Four-Way Merger

Shareholders of electric utilities group Enel Americas have approved a four-way merger of the company's subsidiaries in Colombia and Central America into one entity, the Santiago-based firm announced last week, Renew-

NEWS BRIEFS

Petrobras Pushes Back Refinery Sale Deadlines

Brazilian state oil company Petrobras has again delayed the deadline for the sale of its refineries, prompting questions as to whether its ambitious divestment plans will be met amid political and commercial challenges, Argus Media reported Sunday. Petrobras in April had agreed with antitrust agency Cade to sign sale agreements by July 31 for the Alberto Pasqualini, Isaac Sabba and Lubnor refineries, a timeframe which has now been pushed back to Aug. 31 for the Isaac Sabba refinery and to Oct. 30 for the other two facilities. [Editor's note: See related **Q&A** in the July 16 issue of the Energy Advisor.]

Peruvian President Vows Expansion of Petroperú

In his first move as Peru's mines and energy minister, Iván Merino last week met with state oil company Petroperú's unions and vowed to aggressively expand the firm, Argus Media reported Monday. New Peruvian President Pedro Castillo, who was sworn in July 28, mentioned Petroperú in his inauguration address, saying it would be a fully integrated firm competing with the private sector. Castillo did not indicate how his government would pay for the expansion. Petroperú lost its oil fields, retail business and most transportation units in a selloff under former President Alberto Fujimori in the 1990s. [Editor's note: See related **Q&A** in the July 9 issue of the Energy Advisor.]

Petrobras Will Pay for LPG for Some Brazilians: Pres.

Brazilian President Jair Bolsonaro said last Friday that state oil firm Petrobras had $575 million to fund liquefied petroleum gas, or LPG, supply for low-income Brazilians, Reuters reported. Brazil's poorer families use LPG for cooking. Bolsonaro's government has been facing criticism due to recent price increases.

ables Now reported. Colombian power and gas company Grupo Energía Bogotá, or GEB, which owns significant minority holdings in Enel Americas' power generation and distribution subsidiaries in the Andean nation, had previously agreed to the merger proposal. Under the deal, the generation business, Emgesa, would absorb power distributor Codensa and two other subsidiaries, renewables business Enel Green Power Colombia and Chile-based Essa2, which holds Enel Green Power's clean energy assets in Panama, Costa Rica and Guatemala. Once merged, Emgesa would be renamed Enel Colombia and would have more than 4,100 megawatts of installed generation capacity in thermal, hydroelectric and solar projects in four countries. Enel Americas said it would control the company with a 57 percent stake, with GEB retaining about 42.5 percent, Renewables Now reported.

Chile to Make Public Land Available for Renewable Projects

Chile's ministry of national assets announced last week that it plans to make available more than 20,300 hectares of public land in the northern Antofagasta region for renewable energy projects, Renewables Now reported. The move could help boost the development of 2,037 megawatts of renewables projects and bring investments of about $1.77 billion, the ministry said. The land will be awarded in a tender that usually includes 40-year concessions. Antofagasta's climate is ideal for solar and wind power generation. In related news, Chile's nonconventional renewable sources generated 1,480 gigawatt-hours in gross terms in June, an increase of 26.8 percent from the same month last year, Renewables Now reported, citing the latest figures released last week by Chilean energy commission CNE. Renewable sources generated 21.8 percent of Chile's total gross production, up slightly from 21.7 percent in May. Between May and June, gross power generation from renewable sources was down 0.8 percent, according to the report. Moreover, production from conventional sources and

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humanitarian channel. Within the license, the exchange of crude oil for LPG is explicitly prohibited. This situation forces PDVSA or any importer to pay for the fuel with money. With GL40, Citgo could sell LPG to PDVSA. However, historically, Citgo has traded refined products for crude. We do not see PDVSA paying cash to Citgo in exchange for LPG, and we do not see PDVSA buying LPG from any other importer in the short term. The company's priority is to import diesel and gasoline for the domestic market. Gasoline deficits after sanctions on Russian state oil company Rosneft in February 2019—the sole importer of gasoline into Venezuela—is of around 60 percent. PDVSA does not cover domestic demand for gasoline. The company has been able to deal with high-cost sanctions and has managed to increase crude production modestly, selling FOB crude to a high-risk offtaker, ensuring significant cash flow. However, there is concern among international partners, particularly Europeans, who continue to be tied up without being able to collect debts or make new investments in their assets. The recent departure of two important partners from a large project in the Orinoco Belt, without requesting compensation from PDVSA, has set off alarms about the future of international oil companies in the country. The maintenance of sanctions until political change is achieved, which can take several years, raises uncertainty for these companies regarding the continuation of existing and future projects in Venezuela."

A **Francisco Monaldi, fellow in Latin America energy policy at Rice University's Baker Institute:** "In Venezuela, there is a severe scarcity of LPG, which most families use for cooking. This has created health and environmental concerns, as poor households have turned to burning timber. As with other fuels, the country's crumbling oil industry has been unable to supply the domestic market and has relied on imports. Although LPG imports were never sanctioned, OFAC wanted to make that clear, in case overcompliance was deterring imports. However, since swaps of oil for LPG were not authorized, Maduro is unlikely to use his scarce cash to fully solve the problem. The Treasury's 'good will' signal coincided with a hardening of repression in Venezuela, making further flexibilization moves less likely for now. Venezuela has been able to increase oil exports by more than 50 percent from the bottoms reached last summer. Financial and shipping schemes for sanctions avoidance, set up with the help of Iran and Russia to sell oil in China, have made this possible. Significantly higher oil prices, which provide incentives for intermediaries to take risks, have also encouraged this. The restriction had mainly been the ability to sell oil, but there is not much additional spare capacity to increase production further. Thus, to significantly increase output, substantial investments are required. For more than a year, there have been zero oil rigs drilling new wells. Maduro's drive to attract foreign investment in oil would produce modest results, without institutional changes and sanctions flexibilization. This might be one of his few motives for negotiating. However, so far, he has been unwilling to give up power to obtain sanctions relief and seems unlikely to do so soon."

A **Vanessa Neumann, former Juan Guaidó-appointed Venezuelan ambassador to the United Kingdom:** "The issue is thorny and multifarious, with both ethical and pragmatic considerations and a heaping of nationalist sentiment. The primary ethical consideration is funding a brutal and kleptocratic dictatorship. In May 2017, I helped organize the protest in front of Goldman Sachs' global headquarters, for its primary market purchase of $2.8 billion of sovereign bonds for 30 cents on face value, handing Maduro hundreds of millions in cash, at a time when he was shooting teenagers at point-blank

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the overall gross power production was down 1.6 percent and 1.4 percent month-on-month, respectively, the CNE said.

POWER SECTOR NEWS

Brazil Seeks to Revive Offline Power Plants as Demand Grows

Brazil wants to launch a program to pay offline power plants to come online in a bid to avoid power shortages as demand recovers from the Covid-19 pandemic and the country faces one of the worst droughts in almost a century, which has hit hydropower generation, Argus Media reported last week. Under the authorization of a committee headed by the Energy and Mines Ministry, the program would pay for electricity from plants that do not have strict long-term contracts under the traditional auction system. Through the program, the government aims to boost dispatch from natural gas-fired power plants, especially those that are part of cogeneration projects, Argus Media reported. The South American nation has 3.15 gigawatts of installed gas-fired cogeneration capacity, but most plants are not operating because of higher natural gas costs. Newton Duarte, the president of the Brazilian association of power generation, Cogen, has said the sector has more than 90 cogeneration plants that could go online, though he declined to forecast how much electricity they could offer, the news service reported. “This additional power generation offer can be the least expensive resource to match the national power demand at times of water scarcity,” the country’s National Power operator said. Power consumption in Brazil has been picking up in recent months, surpassing pre-pandemic levels and prompting concerns of power shortages amid a steep decline in hydropower production due to a severe drought, Argus Media reported last week. Power consumption in the first 15 days of July was 1.5 percent higher than in the same period last year and 1.2 percent higher than in 2019, according to preliminary figures

ADVISOR Q&A

Are Mercenaries Destabilizing Latin American Nations?

Q Several Colombian mercenaries are accused in connection with the July 7 assassination of Haitian President Jovenel Moïse. A group of mercenaries was also blamed for an unsuccessful attempt to overthrow Venezuelan President Nicolás Maduro last year. And in 2015, The New York Times reported that the United Arab Emirates had recruited hundreds of Colombian mercenaries to fight in Yemen. How widespread is the use of mercenaries from and in Latin America, and are they proliferating in significantly higher numbers than before? What types of groups are behind the recruitment of mercenaries in Latin America, and what are their objectives? What does the use of mercenaries mean for the rule of law and constitutional order in Latin American and Caribbean countries?

A Silvana Amaya, senior analyst at Control Risks in Bogotá: “Colombia is considered common ground for those interested in recruiting former members of highly specialized military units with firsthand knowledge and experience in counterinsurgency and counternarcotics operations. However, Colombia is not the only country in the region that can supply highly demanded, well-trained special forces units. Former members of the Mexican Special Forces Corps (Gafes) and the Guatemalan special forces Kaibiles have been recruited by drug trafficking cartels in Mexico, such as Los Zetas, to wage war against rival factions and external competitors. These commandos’ skills in jungle warfare, intelligence operations and survival in hostile environments are generously compensated and rewarded among Mexican criminal organizations. Most of these special forces units across Latin America have been trained and financed by special military cooperation programs that the U.S. military and other countries (Britain and Israel) funded to fight insurgencies and drug trafficking organizations over the last three decades. A common feature among these trained soldiers is that most of them are decommissioned without adequate support and follow-up from

> **“A commont feature among these trained soldiers is that most of them are decommissioned without adequate support...”**
> **— Silvana Amaya**

government veterans’ or special assistance programs. Most of them find legal opportunities in the private sector and in security companies, and others are hired as advisors by companies that operate in highly hostile areas around the world. Veterans from Colombia, Mexico and Guatemala have been recruited by established and not as established private military companies outside Latin America, mainly from the United States with business across Arab countries that are looking for this type of manpower. The compensation for joining external advisory roles or mercenary outfits ranges between $2,000 and $5,000, exceeding in most of the cases the compensation or wages they receive as veterans in their home countries.”

EDITOR’S NOTE: More commentary on this topic appears in the Q&A of Tuesday’s daily Latin America Advisor.

NEWS BRIEFS

Venezuelan Government, Opposition Expected to Begin Talks on Aug. 13

The government of Venezuelan President Nicolás Maduro and representatives of the opposition are expected to begin talks about the country's political crisis on Aug. 13, two sources with knowledge of the situation told Reuters on Wednesday. Norway is among the international actors expected to mediate the dialogue, which is to take place in Mexico. Norway had served as a mediator during previous talks in 2019, which failed to bring any political agreement in Venezuela.

Costa Rican Lawmakers to Consider Banning Fossil Fuel Exploration

Costa Rican legislators this week are set to discuss a bill that seeks to permanently ban fossil fuel exploration and extraction as part of the country's strategy to reach full decarbonization by 2050, Reuters reported. Costa Rica first adopted a ban on fossil fuel exploration in 2002, which was initially scheduled to expire in 2014 but was later extended until 2050. The bill currently under discussion, which the administration of President Carlos Alvarado supports, seeks to ban the practice permanently.

Mastermind Behind Moïse's Assassination Likely at Large: Henry

New Haitian Prime Minister Ariel Henry believes the mastermind behind the July 7 murder of President Jovenel Moïse is likely still at large, he told The New York Times in an interview on Tuesday. "The people they have accused up until now, I don't see that they have the capacity, the web, to do it," Henry said. In a separate interview with The New York Times last week, Moïse's widow, Martine, expressed similar concerns.

from the Brazilian Power Trading Chamber. Hydropower production, which accounts for the majority of Brazil's electricity generation, declined by 24.2 percent over the same period. However, Brazil has been diversifying its matrix in recent years, and experts have warned that electricity shortages are unlikely in the coming months. "Shortage of energy is unlikely to happen in the near future, but higher prices are expected," Renato C. Zambon told the Energy Advisor in a **Q&A** published May 28. "Measures to manage the drought include the transfer of energy between regions, the increase of thermal dispatch ... [and] intensifying campaigns for energy savings," Zambon added.

POLITICAL NEWS

Nicaraguan Agents Place VP Candidate on House Arrest

Nicaraguan authorities late Tuesday arrested and then placed on house arrest opposition vice presidential candidate Berenice Quezada as the government continued its crackdown on candidates seeking to challenge President Daniel Ortega in his attempt for a fourth consecutive term, the Associated Press reported. Quezada, a former beauty pageant winner, was at least the eighth candidate to be arrested in the past two months. She is the running mate of former Contra commander Óscar Sobalvarro. Most of the opposition members are reportedly detained in undisclosed locations and are not being given access to lawyers.

ECONOMIC NEWS

Peruvian President Confirms Francke as Finance Minister

New Peruvian President Pedro Castillo last Friday confirmed moderate leftist Pedro Francke, a former economist at the World Bank, as his finance minister, the Financial Times reported. Castillo had widely been expected to tap Francke as finance minister until last Thursday when the new president named far-leftist Guido Bellido as his prime minister. While Castillo confirmed most of his cabinet on Thursday, Francke left the ceremony shortly before the new ministers were sworn in, leading to questions as to whether he had refused the job or was not offered it. Markets reacted to the development, with Peru's stock exchange plunging as much as 6 percent and the country's currency, the sol, experiencing its sharpest drop in seven years. After the markets closed on Friday, Castillo said Francke had "our complete backing" to implement his promised economic plan, the Financial Times reported. In a **Q&A** published Feb. 17 in the daily Latin America Advisor, Francke said Peru's pension system would be among the reforms debated after the transition to a new government. "Peru's pension system, which Alberto Fujimori privatized after the 1992 self-coup, is quite deficient," Francke told the Advisor. During his campaign, Castillo vowed to increase taxes on mining companies in order to pay for health and education reforms, Reuters reported.

Mexico's Economy Rebounds in Q2 With 19.7 Percent Growth

Mexico's economy rebounded in the second quarter, driven by services and manufacturing for export to the United States, according to a preliminary estimate the national statistics agency released Friday, Reuters reported. Economic growth was up by 19.7 percent as compared to the same quarter in 2020, when much of the formal and informal economies were shut down due to pandemic-related restrictions. It was the first time since before the pandemic began that Mexico posted year-on-year quarterly growth. The Mexican economy contracted 8.5 percent last year, its worst performance since 1932. Demand in the United States for cars and electronics prompted much of the annual growth in the second quarter, while remittances sent home by Mexicans living abroad helped to boost consumption.

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range and running over protesters with armored APVs. The global media agreed with us that this was profit funding murder, 'hunger bonds' became a household term for bankers, and Venezuela sanctions kicked into high gear. The reputational risk for anyone doing business with the Maduro dictatorship remains high. There are pragmatic considerations, too. PDVSA was collapsed by a kleptocracy that stole more than $300 billion and turned PDVSA into a money laundering machine for cartels, Iran and Russia. Producing oil ceased to be its main business. Meanwhile, PDVSA continues to evade sanctions with ship-to-ship transfers with a panoply of nefarious actors, while using the sanctions Cuba-style: as a rallying cry against the 'Evil Empire' of the United States. Net-net, oil sanctions relief should be negotiated pegged to the following conditions: the oil money goes to food and medicine, and the fuel for their distribution, but only after the liberation of political prisoners and real international electoral observation. Furthermore, as I have also been arguing since May 2017: stolen money should be captured into an internationally supervised fund for the people, pending those free and fair elections."

A **Daniel Hellinger, professor emeritus of international relations at Webster University:** "Lifting sanctions on imports of diesel would help Venezuelans even more, but easing those on natural gas is a positive step. Gas generates about 30 percent of Venezuela's electricity; gas goes as propane to homes and communities. The gesture does encourage political dialogue, but other motives may be at work. Cracks have appeared in Washington's blockade. Mexico has already tested it, and countries such as Iran are helping PDVSA recover and distribute some lost oil production. Maduro is unlikely to reach his stated goal of one million barrels per day (bpd) by year's end, but 700,000 bpd might be attainable. The new policy may throw a lifeline to Trinidad and Tobago (T&T), which faces rapid depletion of its territorial reserves and needs access to Caribbean fields shared with Venezuela. It has processing infrastructure that Venezuela lacks. Because of sanctions, T&T backed away from a 2018 joint project with Caracas to tap offshore reserves and maintain exports, including re-export of LNG to Venezuela. BP, Shell and other transnationals in T&T would benefit from renewal of the deal. Back on land, Venezuela is now wide open to foreign investment, as Maduro earlier this year implemented a new 'apertura' similar to that of the 1990s, tempting even to companies upset by Chávez's nationalization. Russia's Gazprom since 2008 has eyed Venezuela's gas fields, and China is already deeply entrenched in its oil fields. Facing potential geopolitical and commercial competitors, Guaidó's unpopularity rivaling Maduro's and with the government's white flag on oil policy, perhaps Washington feels a 'humanitarian' gesture is in order."

A **Gustavo Coronel, a founding board member of PDVSA:** "The reasons for the Biden administration's move are largely humanitarian and also partly political to minimize criticism of the sanctions. The move will not be significant as Maduro has little cash and no concern for the people. The regime has been trying to sell oil through small, obscure third parties, but the United States has sanctioned them, reaffirming its commitment to the sanctions. A significant oil production boost by the Venezuelan regime is unlikely. The Venezuelan oil industry is essentially dismantled, and management is useless. The posture of the United States regarding easing of personal sanctions in future negotiations could become undesirably pragmatic—remember what happened after Chávez's pardon in the 1990s."

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

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