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FEATURED Q&A

Is PDVSA's Recent Deal with the DR a Good Swap Model?

Venezuelan state oil firm PDVSA recently gave up its 49 percent stake in the Dominican Republic's Refidomsa refinery as part of a debt swap deal. // File Photo: Dominican Government.

Q Venezuelan state oil firm PDVSA in August gave up the 49 percent stake it had in the Refidomsa refinery in the Dominican Republic as part of a swap deal as the company struggles to restructure billions of dollars in debt it has defaulted on. Under the agreement, PDVSA subsidiary PDV Caribe exchanged its shares in Refidomsa for bonds held by a firm called PATSA, a unit of Grupo Rizek. PATSA then immediately resold the shares to the Dominican government, which already owned the remaining stake. The Venezuelan government sees the agreement as a possible model for future debt-for-equity swap deals, Reuters reported, citing unnamed sources. How significant is PDVSA's most recent debt swap deal? Is it an effective model for the company's future agreements, and will creditors see it as the best-possible option? To what extent are such deals likely to materialize, and what obstacles do they face in Venezuela?

A Asdrúbal Oliveros, director and partner, and Giorgio Cunto Morales, economist and data scientist, both at Ecoanalítica in Caracas: "PDVSA's recent debt swap deal involving Refidomsa is part of the Venezuelan government's renewed strategy to reduce its overall financial debt and attract investors toward the languishing national oil sector. On its own, the deal in the Dominican Republic represents a minuscule amount, less than 1 percent, of the Venezuelan public sector's defaulted obligations, and at the margin it does little to improve its overall financial standing. As it stands, it constitutes a suboptimal mechanism for PDVSA to deal with potential partners, but giv-

Continued on page 3

TOP NEWS

OIL & GAS

Brazil to Auction 55 Million Barrels of Pre-Salt Crude

Brazil's state-owned pre-salt marketing firm, PPSA, will auction 55 million barrels of pre-salt crude on Nov. 26. The tender will offer two-, three- and five-year contracts.

Page 2

POWER SECTOR

Ecuador Seeking Private Investment in Power Sector

The Ecuadorean government will grant concessions for private companies to build and operate power generation plants as well as a new transmission system for the country's oil sector, totaling $1.9 billion in investment.

Page 4

OIL & GAS

Peru Announces New President for State Oil Company

Peru's government announced the appointment of Mario Contreras as the new president of Petroperú. It is the first step in President Pedro Castillo's plan to strengthen the state oil company.

Page 2

Contreras // File Photo: LinkedIn.

OIL AND GAS NEWS

Peru Announces New President of State Oil Company

Peru's government last week announced the appointment of Mario Contreras as the new president of state oil company Petroperú, Gestión reported. The company's shareholders tapped Contreras, who has more than two decades of experience working with the firm. He is to replace Eduardo Guevara, who had served in the post for more than two years. Shareholders also shuffled the company's board members, Petroperú said on its website. The move is the first step in President Pedro Castillo's plan to strengthen the state oil company. During his inauguration speech in July, Castillo vowed that Petroperú would become fully integrated and compete with the private sector under his government. His administration also plans to return the company to the upstream business after nearly three decades, Argus Media reported. "The proposal could be viable if it is carried out efficiently, with suitable personnel and consultations," Carlos Herrera Descalzi, dean of the College of Engineers of Peru, told the Energy Advisor in a **Q&A** published Aug. 27. "The strengthening of Petroperú should not mean risk for its private competitors, neither in the commercialization aspect nor in the upstream sector," he added. In a **Q&A** published July 9, Pedro Francke, now Castillo's economy minister, said the administration would promote "the modernization and strengthening" of Petroperú, outlining specifically its entry into oil exploration and production in Block 192 and Block 64 as well as in the Talara blocks. "This policy will scrupulously respect the environment, as well as the rights of Indigenous groups," Francke and Humberto Campodónico, professor at Universidad Nacional Mayor de San Marcos, told the Energy Advisor.

Peruvian President Pedro Castillo has vowed to modernize and strengthen Petroperú .

Citi Blocked Attempt by PDVSA to Make Debt Payment: Exec

Citigroup blocked an attempt by Venezuelan state oil company PDVSA to make a debt payment to a unit of Germany's Siemens, a Citi executive testified on Wednesday in a U.S. trial over whether PDVSA is liable for the payments, Reuters reported. PDVSA has claimed that U.S. sanctions implemented in August 2017 made it impossible for it to make the payment. The dispute, which is being heard in a bench trial that began on Tuesday in Manhattan federal court, goes back as far as January 2017, when PDVSA issued a promissory note to oilfield equipment provider Dresser-Rand for $120 million, plus interest. PDVSA completed the first two interest payments, which amounted to about $4 million, but defaulted in October 2017 on a $1.9 million payment. In May of this year, U.S. District Judge Louis Stanton of the U.S. District Court for the Southern District of New York entered a $149.5 million judgement in favor of Dresser-Rand. Raymond Romano, the Citi executive testifying in the case and the bank's chief administration officer for Latin America, said Citi had blocked PDVSA's wire attempt because "it did not meet our requirements for processing." The case puts into evidence how U.S. sanctions on Venezuela have squeezed PDVSA's business with other companies, according to the report. In related news, the U.S. administration has signaled a potential shift in its policy toward Venezuela, with a letter dated Sept. 10 suggesting its protection of PDVSA's U.S.-based refiner, Citgo, would end by June 2022, Argus Media reported last week. The United States earlier this month upheld the suspension of a 2018 license for bondholders of PDVSA that have Citgo as collateral. The U.S. administration extended the suspension until January 2022, the latest in a series of successive extensions since October 2019. The move effectively shields Citgo from being

NEWS BRIEFS

ATL Receives One-Year Contract to Market Guyana's Share of Oil

State-controlled oil company Saudi Aramco's London-based trading unit, ATL, will market the Guyanese government's share of Liza crude for one year, Guyanese Natural Resources Minister Vickram Bharrat told Argus Media last week. Guyana recently selected ATL to sell the country's one-million-barrel share of crude from the Liza oil field operated by an ExxonMobil-led consortium off Guyana's coast. ATL was among 15 bidders, which included Royal Dutch Shell and Chevron, in the tender to market Guyana's portion of the oil. The one-year contract will begin Sept. 21-22 and run through August 2022, Bharrat said.

Brazil to Auction 55 Mn Barrels of Pre-Salt Crude in November Tender

Brazil's state-owned pre-salt marketing firm, PPSA, will auction 55 million barrels of pre-salt crude on Nov. 26, Argus Media reported last week. The tender on the São Paulo stock exchange B3 will offer two-, three- and five-year contracts for crude from the Búzios, Tupi, Mero and Sapinhoá fields in the Santos basin off the country's coast. The first round of the auction will cover the longest contracts and will be awarded to the bidder offering the highest premium over reference prices from oil regulator ANP, according to the report.

China Three Gorges Eying Mexico Renewables Unit

State-owned power firm China Three Gorges Corp. is eying the acquisition of X-Elio Energy SL's Mexican renewable energy unit, Bloomberg News reported Tuesday, citing unnamed sources. X-Elio has about 535 megawatts of projects in the North American country. X-Elio's Mexico portfolio reportedly be valued at $400 million in a potential transaction, the sources said.

seized by bondholders and aims to keep Citgo in the hands of the Venezuelan opposition led by Juan Guaidó. However, in the Sept. 10 letter, sent to the Washington attorneys representing one of the leading creditors, Crystallex, the U.S. Treasury Department's Office of Foreign Assets Control recognized that the Venezuelan opposition-controlled National Assembly's mandate ends next January. Guaidó's claim to power as what he says is Venezuela's legitimate interim president was based on his mandate as National Assembly president. The end of the legislature's term would then presumably end Guaidó's authority as Venezuela's interim president. The claim has been controversial from the start and was further complicated in December 2020 when Maduro's party won the country's legislative elections, CNN reported. The main opposition parties boycotted the vote in protest of the election, which they said was not free nor fair. Still, the United States continued to recognize Guaidó as the legitimate interim president. The potentially watershed letter is the first concrete sign that the administration of President Joe Biden might be considering a shift at least with regard to Citgo specifically, Argus Media reported. Citgo is Venezuela's most valuable foreign assets.

Rome Court Rejects Extradition Request for Ex-PDVSA Head

A court in Rome has rejected the Venezuelan government's request to extradite Rafael Ramírez, the former longtime head of state oil company PDVSA, who fled to Italy after a rupture with President Nicolás Maduro and resigning as the country's ambassador to the United Nations in 2017, the Associated Press reported. The court denied Venezuela's request to extradite Ramírez on corruption charges, citing the Andean nation's record of human rights violations, Ramírez's lawyer said Monday. Ramírez has said Venezuela's charges are retaliation for his decision to break with Maduro, whom he accuses of abandoning former President Hugo Chávez's socialist cause and driving the country's oil sector to the ground.

FEATURED Q&A / Continued from page 1

en the company's poor cash flow and short range of options, it may be a moderately viable alternative in the short term; especially if some creditors deem it better than nothing. The extent of these kinds of deals will be constrained by the government's available equity and willingness to offer, as well as potential creditors' exposure within the sanctions regime. Equity over foreign assets, such as Citgo, might be the most attractive, but plenty of it is already in the sights of creditors that have begun legal procedures to seize them. For its part, equity over local assets, such as joint-venture shares, imply a deeper involvement within the Venezuelan oil industry, where sanction restrictions are tighter. Nevertheless, the larger obstacles for these arrangements remain the Venezuelan oil sector's structural deficiencies, mainly that total debts far exceed available assets, and national authorities keep facing large institutional and credibility deficits to attract investments at a larger scale."

A **Antero Alvarado, managing partner and Venezuela director at Gas Energy Latin America:** "PDVSA maintains large debts with bondholders, service providers and partners in oil and gas projects. The company's foreign assets and its participation in foreign assets will be easier to negotiate in debt swap deals. However, PDVSA no longer controls many of these foreign assets. Simply put, those that PDVSA has retained are precisely the ones that are easiest to exchange. Still, inside Venezuela, there are many assets—both in oil and in gas—whose debt swaps PDVSA is currently negotiating.

> **"The company's foreign assets and its participation in foreign assets will be easier to negotiate in debt swap deals."**
> **— Antero Alvarado**

However, these assets are only available to local firms that owe debts to PDVSA or international companies that have a high appetite for risk. Some of these assets are essential for increasing production of propane gas, key for residential use. There are also assets that, due to a lack of maintenance and investment, are causing environmental damage. The most emblematic examples of this are both the burning of gas and the practice of gas venting, which cause large emissions of carbon dioxide. PDVSA does not only exchanges its assets for debt, but also its participation in those assets' business chains. The biggest bet is the swap of debt

Continued on page 6

Mexico Suspends Five Import Permits For Trader Trafigura

Mexico has suspended five fuel import permits for global commodity trader Trafigura AG that would have allowed it to continue to import refined products through 2038, the energy ministry said, Argus Media reported Tuesday. One permit has expired, while four others are in the process of cancellation, according to a document the ministry published late on Monday, Reuters reported. The permits covered refined fuels including some gasoline specifications, jet fuel and diesel, worth as much as 381.5 billion liters from 2018 to 2038, or almost 5 billion U.S. gallons per year, according to Argus estimates. In a statement, a Trafigura spokesperson said that the company sees "no valid basis for the suspension of import permits for Trafigura Mexico. Trafigura complies with applicable laws and regulations in the jurisdictions in which it operates, including Mexico." The country's energy ministry did not detail why it was suspending the permits, and it did not respond to Reuters' request for comment. The government granted Trafigura all five permits under question at the end of 2018, just before

President Andrés Manuel López Obrador took office. Earlier this year, the commercial arm of Mexican state oil firm Pemex temporarily blocked new business with Trafigura, according to a document and a source, but Reuters was unable to determine whether the two actions are related. However, the move came after Energy Minister Rocío Nahle said in recent weeks that Pemex would not do business with any company accused of corruption, though at the time she did not name any firms. Trafigura for years has been involved in a corruption investigation in Brazil.

RENEWABLES NEWS

Chile's Colbún to Install Region's Largest Wind Farm

Chilean utility Colbún will install Latin America's largest wind farm in the Andean nation's Atacama desert, adding to Chile's already large renewable energy base, which the government hopes to tap into for green hydrogen development, Argus Media reported Tuesday. Colbún's 778-megawatt Horizonte project requires a total investment of $850 million. Construction is slated to start at the end of 2021, with operations to begin in mid-2024. Chile's energy ministry said the project will be among the world's top 10 onshore wind farms.

POWER SECTOR NEWS

Ecuador Seeking Private Participation in Electricity Sector

The Ecuadorean government will grant concessions for private companies to build and operate power generation plants as well as a new transmission system for the country's oil sector, totaling $1.9 billion in investment, Energy Minister Juan Carlos Bermeo said Monday, Reuters reported. President Guillermo Lasso aims to revive private sector participation in strategic areas of the economy. Ecuador's GDP contracted 7.5 percent in 2020, according to data from the International Monetary Fund. "We ratify our openness to responsible investors," Bermeo said in presenting the projects. The announcement comes as Ecuadorean state utility CELEC is looking to repair thermal power plants that are currently offline to provide

ADVISOR Q&A

Will Bolsonaro Try to Stay in Power if He Loses Next Year?

Q Brazil's Senate and Supreme Court last week rejected a provisional measure by President Jair Bolsonaro to ban social media companies from deleting some content. Bolsonaro's temporary order would have required congressional approval to become law. Twitter, Facebook and YouTube are among the companies that have previously deleted misinformation that Bolsonaro has posted on topics including the Covid-19 pandemic. Bolsonaro's social media measure came amid his feud with the Supreme Court, which is investigating the president and two of his sons, and with electoral authorities over Bolsonaro's unsubstantiated allegations of fraud in Brazil's voting system. Are there real concerns about the reliability of Brazil's elections, or is Bolsonaro setting up an effort to challenge the results in the event that he loses next year? What will result from his allegations in terms of Brazilians' acceptance of the eventual winner? Will Bolsonaro's failed social media order have any lasting effects?

A Alberto Pfeifer, coordinator of the Group for the Analysis of International Conjuncture (GACInt) at the University of São Paulo: "Brazil's direct electronic recording (DRE) ballot box was first used in 1996. Reliable and effective, it's nevertheless up for improvements and updates: technology has evolved, and new vulnerabilities abound. Redundant layers of verification and safety will strengthen confidence in the handling of around one billion votes in October 2022—every four years, Brazilians mandatorily pick the president, state governors and three to four local and federal legislators in one single visit to the voting station. The whole process is quick and trustworthy, but some recent breakdowns justify extra caution. The Electoral Supreme Court recently installed an Electoral Transparency Commission, composed of high-level public servants and acknowledged experts, entitled to monitor, oversee and audit the whole electoral process. Bolsonaro, a proactive politician, can claim a partial victory on this issue. However, the root cause for the recent massive street demonstrations was a cold calculation about 2022. For a smooth second term, he needs full support from the Senate, a third of whose seats are up for election. Bolsonaro's recent moves aim to counter the left and strengthen state-level alliances, and then reap the most Senate seats possible. Bolsonaro is a master in playing with instincts and rationale. His social media order follows this same pattern and aims at achieving two goals: it caters to his electorate, and it keeps the issue of tech censorship versus freedom of speech at the top of public debate. Again, a balanced combination of guts and brains—Bolsonaro's successful formula, so far."

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

NEWS BRIEFS

Brazilian Central Bank Hikes Key Rate By Full Percentage Point

Brazil's central bank on Wednesday hiked its benchmark interest rate by 100 basis points to 6.25 percent and signaled a third consecutive increase of the same size in October, Reuters reported. The central bank's rate-setting committee, Copom, has raised its key Selic interest rate from a record-low 2 percent at the beginning of the year as the country struggles amid soaring inflation. Copom said it plans "to advance the process of money tightening further into the restrictive territory" with a full percentage point raise next month.

Honduras' Hernández Denies Links to Drug Trafficking in U.N. Speech

Honduran President Juan Orlando Hernández denied ties to drug trafficking in his speech to the U.N. General Assembly in New York on Wednesday, the Associated Press reported. Hernández hinted that convicted drug traffickers testifying against him in U.S. court were doing so to gain favorable treatment. It was the first time Hernández's addressed allegations on a global forum since his brother, former legislator Juan Antonio "Tony" Hernández, was sentenced to life in prison for his role in one of the world's most violent drug conspiracies, the AP reported.

Venezuela's Maduro Demands End to Sanctions in U.N. Address

In a prerecorded speech to the United Nations General Assembly, Venezuelan President Nicolás Maduro called for an end to sanctions against the South American country, according to the U.N. press office. "It is a financial, monetary, commercial, economic, energy persecution," said Maduro, referring to U.S. and E.U. sanctions.

backup electricity supply. The company has earmarked $80 million to revamp the plants as erosion puts the country's Coca Codo Sinclair hydroelectric plant at risk. "The regressive erosion of the Coca River is a latent risk for the water collection works at the Coca Codo Sinclair … taking into account that its annual generation contribution to the electricity matrix is more than a quarter," Eduardo Rosero Rhea, president of the Ecuadorean Association of Renewable Energies and Energy Efficiency (AEEREE), told the Energy Advisor in a **Q&A** published Sept. 17. "The government of President Guillermo Lasso has significant challenges in the energy sector, and it must incorporate disruptive changes in both the state vision and in the planning in the short, medium and long terms, opening the way for regulatory reform that effectively—not just rhetorically—incorporates new private investment in the electricity sector," he added.

POLITICAL NEWS

U.S. Sanctions Seven Central American Officials

The U.S. State Department on Monday announced a new round of sanctions on seven Central American officials it has accused of corruption. "Today we are adding seven perpetrators to the United States' Undemocratic and Corrupt Actors list, under section 353 of the United States-Northern Triangle Enhanced Engagement Act, which generally makes the perpetrators ineligible for visas and admission to the United States," Secretary of State Antony Blinken said in a statement. Among the officials listed are the five magistrates of El Salvador's Constitutional Chamber of the Supreme Court, all of whom were appointed by the ruling party-dominated National Assembly after it ousted the country's previous magistrates and attorney general in May, the Associated Press reported. Salvadoran President Nayib Bukele, whom critics accuse of showing increasingly authoritarian tendencies, responded to the announcement on Twitter, saying, "It's clear the list has NOTHING to do with 'corruption,' it's pure politics and the lowest kind of interference." The list also included Guatemala's current attorney general, María Consuelo Porras, whom the State Department said has "obstructed investigations into acts of corruption by interfering with criminal investigations in order to protect political allies and gain personal political favor." Porras has been accused of removing the lead prosecutor of the country's anti-corruption unit, Juan Francisco Sandoval, for launching an investigation into President Alejandro Giammattei. The other official is Angel Arnoldo Pineda, the current secretary general of Guatemala's Public Ministry, for his alleged involvement in obstructing the investigations. In a statement, Guatemala's Public Ministry called the U.S. accusations "totally false and unfounded."

ECONOMIC NEWS

Lasso Seeking Higher Taxes for Wealthiest 3.5% of Ecuadoreans

Ecuadorean President Guillermo Lasso is preparing to submit an economic reform package to the country's National Assembly on Friday that includes raising taxes on the country's wealthiest, Lasso told Bloomberg News Wednesday in an interview in New York. Among the proposals, the package includes a change in tax rates, capital market rules and labor regulations. The tax increases will be targeted to Ecuadoreans earning more than $25,000 per year, or about 3.5 percent of the working population, a move that Lasso acknowledged might cost him some in terms of popularity. His approval ratings have been at 75 percent since he took office in May. "Those of us who have more will have to pay more," Lasso, a former banker, told the news service. "This reform won't touch the pockets of the majority." One of the president's main goals is setting the Andean nation on an economic path that will help it avoid a 12th default, hoping, he said, that some "nut won't arrive who then again changes everything," Bloomberg News reported.

FEATURED Q&A / Continued from page 3

in exchange for participation in oil and gas blocks. So far, this has been the only way for the company to face its gigantic debt, but it is a process that no one knows when or how it will happen, nor under what legal framework it will be carried out."

A **Luisa Acedo, Manuel Acedo Sucre and Diego Lepervanche, partners at MENPA in Caracas:** "From PDVSA's perspective, the deal seems underwhelming: it received no fresh cash, and the reduction in debt is not significant compared to the total amount it owes. Furthermore, there are some issues as to the specific debt used for the swap, including the reasons for making the choice of bonds, their discount value and who the specific bondholders were before PATSA came in. However, the operation is significant because PDVSA and PDV Caribe are blocked under U.S. sanctions. The Dominican finance minister said OFAC had indicated 'no objection to the complete transaction.' This may well open the door to other debt-for-equity transactions, which may allow PDVSA not only to reduce its debt, but also to remove tempting targets for its creditors. Indeed, the Dominican finance minister explained that the shares might have been targeted by PDVSA's creditors in U.S. courts, and that the Dominican Republic did not wish to find itself, suddenly, with an unknown partner as a result of a court decision. It is difficult to extrapolate to other possible deals, as each case is different. One important feature of this deal is that the other party is the Dominican Republic, which is not only the country under whose territory and laws Refidomsa operates, but also a 51 percent partner. This model may run into problems if on the other side of negotiations there is only a private party operating on foreign soil. There are other obstacles related to the capacity of the Venezuelan government to transfer foreign assets. In some cases, this capacity is under dispute because certain governments (including those of the United States and the United Kingdom) do not recognize Maduro. It seems the government is willing to reach other agreements and has crafted the internal legal structure to do so; however, it may face difficult political challenges even from some of its allies on the extreme left, who previously have opposed privatizations and the sale of the country's strategic assets. Even more relevant is the fact that the internal legal structure seems very weak from a constitutional perspective, and this may give no comfort to international investors seeking to secure any assets acquired from the government.

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

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