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FEATURED Q&A

Is Bureaucracy Holding Back Guyana's Oil Sector?

Guyanese President Irfaan Ali promised his government will "work aggressively" to improve the country's business practices following reported complaints by U.S. companies. // File Photo: Guyanese Government.

Q International oil companies operating in Guyana have expressed concerns over the South American nation's procurement procedures, lengthy timelines for permits and uncertain approval processes, U.S. Ambassador to Guyana Sarah-Ann Lynch said this month at an industry conference, News Room Guyana reported. At the same event, Guyanese President Irfaan Ali responded by reassuring the ambassador that his administration "will work aggressively to address the challenges of doing business in Guyana." What is at the core of foreign companies' reported concerns regarding the business climate in Guyana's oil sector? To what extent is bureaucracy holding back both the country's oil development and further international investment in the South American nation? What is the Guyanese government doing, and what else can it do, to improve the oil sector's business practices?

A Sam Hinds, Guyana's ambassador to the United States: "My experience would suggest that 1.) there may be differences in expectations, interpretations and understandings of the relevant and applicable laws, regulations and incentives, among others, along with 2.) possible overlaps, gaps and inconsistencies and unanticipated situations, and 3.) a need to review arrangements that coped with smaller numbers of transactions each day. I think that these are still relatively early days and that the causes of the delays being encountered will soon be identified, resolved and reconciled, and processes will soon be much faster and meet expectations."

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TOP NEWS

RENEWABLES

Brazil's Petrobras Vows Net-Zero Carbon Emissions

Brazilian state oil company Petrobras has committed to becoming carbon neutral, in line with the 12-member Oil and Gas Climate Initiative, of which it is part. The timeline was not clear.

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RENEWABLES

Mexico Has Green Hydrogen Potential: Study

Mexico has the potential to install 22 terawatts of green hydrogen infrastructure, with key areas for development being public transport, power generation and the petrochemical industry, according to a new study.

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OIL & GAS

Natural Gas Firms in Peru to Face Higher Taxes: PM

Peruvian Prime Minister Guido Bellido on Sunday said firms that exploit natural gas in Peru will be required to pay higher taxes or else face nationalizations.

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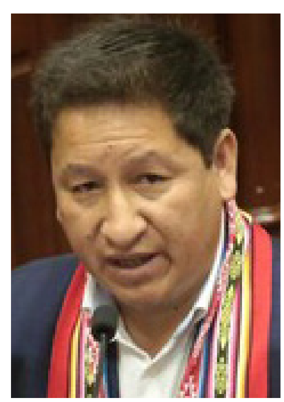

Bellido // File Photo: Peruvian Government.

OIL AND GAS NEWS

Natural Gas Firms in Peru to Face Higher Taxes: Bellido

Peruvian Prime Minister Guido Bellido on Sunday said firms that exploit natural gas in Peru will be required to pay higher taxes or else face nationalizations, Reuters reported. "We summon the Camisea gas operating and trading company to renegotiate the distribution of profits in favor of the state," Bellido wrote on Twitter, referring to the Camisea consortium led by Argentina's Pluspetrol and in which South Korea's SK Group, Hunt Oil and Repsol also have stakes. "Otherwise, we will opt for the recovery or nationalization of our field," Bellido added. Shortly after, Peruvian President Pedro Castillo softened the rhetoric some after Bellido's comments sparked investor concerns about the leftist government's policies in the key natural gas industry. "Any renegotiation will take place with unrestricted respect for the rule of law and to ensure national interests," Castillo said on Twitter. "The state and the private sector working together for a better Peru," he added. "Castillo has said that there will be no nationalizations or expropriations of companies, including in the mining and hydrocarbons sector, during his time in office," Pedro Francke, now Castillo's economy minister, told the Energy Advisor in a **Q&A** published July 9. Among the government's goals in the natural gas sector, Francke said, were renegotiating the gas export contract for Block 56 as well as the mechanisms for the export of this gas, in which the Peruvian state does not currently participate. Bellido, who is considered more far-left within the Castillo cabinet, has at times clashed with Francke, seen as a more moderate voice, over the government's rhetoric regarding private-sector participation in key industries. Bellido told Reuters last month that the government was planning to increase its involvement in the country's main industries, including natural gas and new hydroelectric projects. He also said the government was looking at creating new state companies for those sectors.

Peru's president previously promised no nationalizations in the hydrocarbons industry.

Opposition Eyes Talks With Creditors of Venezuela's Citgo

Venezuelan opposition leaders are considering potential talks with three large creditors whose deals have state oil company PDVSA's U.S.-based refiner, Citgo, as collateral, Bloomberg News reported Tuesday. Citgo is Venezuela's most important foreign asset, and it is currently under the control of the opposition faction led by Juan Guaidó, whom the United States deems the Andean nation's legitimate interim president. Citgo's parent company, PDV Holding, hired JPMorgan Chase earlier this year as an advisor and has since been engaged in an "exploratory process" for potential negotiations with creditors including mining company Crystallex, oil firm ConocoPhillips and holders of a PDVSA bond that matured in 2020, according to a statement from the opposition-controlled PDVSA ad hoc board. "We are trying to explore if some creditors would be willing to talk about possible alternative options to resolving the disputes," said Horacio Medina, president of the PDVSA ad hoc board, Bloomberg News reported. He added that there are not yet any formal proposals. There is a tight schedule for negotiations. A Delaware court has already issued a judgment ordering the sale of PDV Holding's shares to satisfy creditors' claims. For now, Citgo is shielded by the United States' suspension of a 2018 license that effectively blocks bondholders from seizing the refiner as collateral. The Biden administration earlier this month extended the suspension until January 2022. However, in a Sept. 10 letter, the U.S. Treasury Department recognized that

NEWS BRIEFS

Eletrobras Unit Receives $140 Million for Tag-Along Sale of Shares in NBTE

Brazilian state utility Eletrobras, Latin America's largest power company, said last week that its Eletronorte unit received 740.4 million reais ($140 million) for a tag-along sale of shares in Norte Brasil Transmissora Energia (NBTE) to Leovac Participações, which the Ontario Teachers' Pension Plan Board owns, Reuters reported. Leovac had previously bought Evoltz Participaçoes, which had a 51 percent stake in NBTE, Eletrobras said in the securities filing.

Petrobras Commits to Carbon Neutrality

Brazilian state oil company Petrobras has committed to becoming carbon neutral, in line with the 12-member Oil and Gas Climate Initiative, of which it is part, Argus Media reported last week. The net-zero carbon emissions goal applies to the company's scope 1 and 2 operations, which include greenhouse gas emissions from company-owned and controlled operations in addition to indirect emissions from purchases from third parties. Petrobras said it will achieve this goal "in a timeframe compatible with that established by the Paris [climate] Agreement."

Brazil's Legislators Eye Daylight Saving Amid Drought, Power Crisis

Brazilian legislators last week discussed the possibility of bringing back daylight saving time amid the country's worst drought in nearly a century, which has hit electricity supply and raised the specter of power rationing, the Associated Press reported. The operator of the hydropower-reliant grid is evaluating the benefits of daylight saving in the current situation. Associations in the tourism and service industries have expressed their support for the initiative, the AP reported.

the Venezuelan opposition-controlled National Assembly's mandate ends next January, which could put Guaidó's claim to power at risk, Argus Media reported. The potentially watershed letter is the first concrete sign that the Biden administration might be considering a shift at least regarding Citgo specifically, the news service reported.

Petrobras Evaluating Price Hikes Amid Oil Rally: Mastella

Brazilian state oil company Petrobras is evaluating hiking fuel prices as the cost of some products is out of line with the global market, Cláudio Mastella, the logistics and sales director at the company, said on Monday, Reuters reported. CEO Joaquim Silva e Luna was reportedly in Brasília on Sunday to discuss the possible measure with government officials, two sources told the wire service. The former chief executive of Petrobras was ousted earlier this year for carrying out a series of price hikes that President Jair Bolsonaro staunchly opposed. The move sparked controversy over what critics said was political meddling in company policy. Petrobras shareholders remain concerned with price controls, which has forced the government to consider other plans for softening the blow of rising gasoline prices for consumers, Reuters reported. Mastella said the hikes would be made within the company's pricing policy. Oil prices have been steadily rising for weeks, with Brent crude prices reaching their highest point since October 2018, at nearly $80. Still, the price of Brazilian diesel has stayed below the global market at 14 percent, with gasoline 10 percent lower in Brazil based on data from Sept. 24, the Brazilian Association of Fuel Importers said. "We are looking with more care, with caution, at a possible readjustment," Mastella said. He also said Petrobras focuses on structural factors when assessing possible price hikes, such as the recent oil price rally or rising seasonal demand, Argus Media reported. Bolsonaro and some legislators have pushed for an alternative solution, as the government seeks to ease dou-

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A **Jennapher Lunde Seefeldt, assistant professor at Augustana University:** "Much of what is causing concern for foreign companies is policy uncertainty. With hazy policies, or even yet-to-be-determined policies, investors are hesitant to commit to state agreements. Research shows that investor confidence regarding solidified policies yields greater and more secure investments. With Guyana's current processes, investors do not have that reassurance. Additionally, the bureaucracy is not coordinated enough to ensure a streamlined process for approving permits. This creates undue encumbrances and only slows down oil production. The outcome of the slower system is that production does not yield income for the state. And of course, this situation affects the relationship between the state and investors, which could have long-term economic ramifications for both sides. It is in Guyana's best interest to solve this bureaucratic problem immediately. The state should provide clear and stable policies and procedures to help streamline the permitting and approval processes. Investors are likely to adhere to the rules and regulations Guyana creates for the industry, but the state needs to be transparent about what those rules actually are. A positive sign is Ali's recognition of the problem, and his promises to attend to them. The acknowledgment indicates the state knows it needs to make changes to the benefit of all stakeholders."

A **William Walker, Guyana-based journalist:** "The oil industry and Guyana were very new to each other in 2015, and it has been a steep and intense learning curve for both sides. That said, the core exploration and production campaign has developed rapidly, even with 18 months of political uncertainty and paralysis that meant no regulatory legislation could be passed. The industry has been operating in a legislative vacuum and is unclear as to the impact that policies being considered may have on foreign investment and competitiveness, a good example being the complex issue of local content. For its part, the one-year-old PPP/C government has repeatedly stated its position on accelerated production for the purpose of the development of its economy and people within the context of the energy transition. Across all sectors, there have been, and still are, cases of delays in permitting. This is a symptom of generic, bureaucratic inertia and outdated cumbersome laws, which can mean up to eight agencies having to sign off on a project. Upon taking office, the administration made adjustments, including allowing concurrent approvals, that have hastened permitting, and there does seem to be a proactive approach to facilitating investments in the energy sector. The government is moving to a one stop window/website, while G-Invest is available to help companies understand the steps. The EPA is also not requiring impact studies for some energy sector projects in order to cut approval times, although this is generating pushback. Additionally, there will be a need to amend various pieces of legislation to de-bottleneck processes. Going forward, the establishment of legislation and the supporting administrative mechanisms are seen as an imperative for encouraging further investment in the sector."

A **Ivelaw Lloyd Griffith, fellow with the Caribbean Policy Consortium in Washington:** "Guyana's nascent oil industry is exposing significant shortcomings in the country's business climate and culture, prompting lamentations by diplomats and businessmen alike about the potential deleterious impact on the oil business. There is deserved focus on the bureaucracy. Yet, while paying attention to the bureaucracy is necessary, it is not sufficient. Strengthening Guyana's business climate and culture requires coming to terms with other factors. One such factor is the legislative infrastructure. This includes laws

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ble-digit inflation rates in the country. [Editor's note: See related Q&A in the March 5 issue of the Energy Advisor.]

Brazilian Regulator Blocks Comgás Pipeline Project

Brazilian oil and gas regulator ANP has ruled that São Paulo state cannot authorize local gas distribution company Comgás to build the Subida da Serra pipeline, effectively blocking its construction, Argus Media reported last week. ANP's board of directors agreed with a technical ruling that the project, which entails a pipeline that could carry 16 million cubic feet of gas per day from a coastal Santos LNG regasification facility to São Paulo, cannot be considered a distribution pipeline. As a result, it is not subject to authorization by state regulation or state law. The Comgás project is "clearly" a transportation plan, according to ANP documents, which places it under the jurisdiction of federal authorities for approval, Argus Media reported. "By authorizing the construction of the facility, [São Paulo regulatory agency] ARSEP usurped ANP authority," the document added.

Venezuela, Iran Ink Oil Deal Despite Sanctions: Sources

Venezuela has reached a deal with Iran to swap the Andean nation's heavy oil for Iranian condensate that Venezuela can then use to improve the quality of its own crude, with the first cargoes due as soon as this week, Reuters reported Saturday, citing five people with knowledge of the matter. The deal between Venezuelan state oil company PDVSA and the National Iranian Oil Company, or NIOC, snubs U.S. sanctions imposed on both countries. One of the sources said the swap agreement is set to last for six months in the first phase, and then possibly extended. Reuters could immediately determine other details of the deal. Neither the oil ministries of Venezuela and Iran nor PDVSA and NIOC respond to the wire service's request for comment. Any "transactions with NIOC by non-U.S. persons are generally subject to secondary sanctions," the Treasury Department told Reuters in an email about the deal. It added that it "retains authority to impose sanctions on any person that is determined to operate in the oil sector of the Venezuelan economy." However, the department did not specifically address whether the reported deal violates sanctions. Venezuelan

THE DIALOGUE CONTINUES

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

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: Pilar Navarro, Latin America analyst at Medley Global Advisors: "Maduro's emphasis on achieving international recognition for his government aims to regain control of assets in key jurisdictions. If successful, it could open the door for certain asset divestment operations that attempt to replicate the Refidomsa debt-for-equity swap, where negotiations were carried out without any input or say from the opposition. The most significant takeaway from that operation was that it hinted at a loosening of the OFAC protection of Venezuelan assets, at least outside U.S. territory. Dominican Finance Minister Jochi Vicente said in an interview that his government held conversations with OFAC during the whole process and received 'no objection.' Moreover, Vicente highlighted that during the conversations, the finance ministry was informed that 'those shares could be endangered by creditors in U.S. courts,' even if not immediately. On top of that, in a Sept. 10 letter, OFAC acknowledged that the 2015 Venezuelan National Assembly's mandate ends in January 2022, and it may reassess its position on the protection of Venezuelan assets in the first half of 2022, which would also highlight a weaker commitment to asset protection within U.S. territory."

> **"The most significant takeaway ... was that it hinted at a loosening of the OFAC protection of Venezuelan assets..."**
> — Pilar Navarro

EDITOR'S NOTE: More commentary on this topic appears in the Q&A of the Sept. 24 issue of the Energy Advisor.

NEWS BRIEFS

Military Officers Arrest Seven Oil Workers of Venezuelan Refinery

Venezuelan military counterintelligence officers have arrested seven oil workers following an outage at a unit of state oil firm PDVSA's Cardón refinery, Reuters reported Monday, citing eight sources. The arrests occurred last week after employees tried to restart a reformer unit, which damaged one of the plant's compressors, the sources said, adding that those detained may face terrorism charges.

Argentina Ramps Up Money Printing to Finance Government Spending

Argentina's central bank has accelerated the pace of printing money to finance government spending ahead of legislative elections in November, a move that could drive up inflation in the months ahead, the Buenos Aires Times reported, citing data released Tuesday. Central bank funding of the government totaled $2.5 billion in the first 22 days of September, the largest amount of any month this year, according to the central bank data. Argentina's annual inflation rate was 51 percent last month.

Brazil's Ibama OKs Power Line in Amazon Region

Brazilian environmental enforcement agency Ibama has granted an environmental permit to state utility Eletrobras and private energy holding company Alupar Investimento to build a 440-mile power line in the country's Amazon region, the companies said Wednesday, Reuters reported. The power line, which would connect the cities of Manaus and Boa Vista, would also cut across the protected Waimiri-Atroari Indigenous reserve. Federal prosecutors have said the project could violate Indigenous rights and that the companies and government have not taken the obligation to consult the affected Indigenous communities seriously.

President Nicolás Maduro has been looking for alternative buyers of Venezuelan oil since the administration of U.S. President Donald Trump slapped sanctions on the country's oil sector in 2019. PDVSA "has been able to deal with high-cost sanctions and has managed to increase crude production modestly, selling crude to a high-risk offtaker [and] ensuring significant cash flow," Antero Alvarado, managing director of Gas Energy Latin America, told the Energy Advisor in a **Q&A** published Aug 6.

RENEWABLES NEWS

Mexico Has Potential to Install 22 TW of Green Hydrogen

Mexico has the potential to install 22 terawatts (TW) of green hydrogen infrastructure, with key areas for development being public transport, power generation and the petrochemical industry, according to a study published last week, Argus Media reported. The study, commissioned by the Mexico-Germany Alliance and which German foreign development agency GiZ financed, sought to lay out a blueprint for green hydrogen development across Mexico. Among the key areas for opportunity, it lists public transport, long-distance cargo vehicles, heavy industry, state oil firm Pemex's refining and petrochemical businesses, and power generation and electricity storage. According to the study, green hydrogen use in Pemex's downstream business, including refining and ammonia production, could be worth about $1.3 billion per year by 2030. Green hydrogen could also power about 1.5 gigawatts of electricity generation capacity by 2050, the study said. However, President Andrés Manuel López Obrador has not made the development of renewables a focus of his administration. Instead, the president has made strengthening energy self-sufficiency a priority. He has introduced legislation that seeks to bolster the state's role in the fuels market, a move that followed a law that favors CFE over private power generators even though the latter can provide cheaper and cleaner electricity. "The government fully intends to favor energy security over emissions reduction, and that entails using the resources more readily available to [state oil enterprises]: coal and fuel oil. Companies will be prevented, either through direct barring or market tampering, from accessing and investing in clean energies," Christian Wagner, Americas analyst at Verisk Maplecroft, told the Energy Advisor in a **Q&A** published April 16. "This will delay Mexico's energy transition and hinder its compliance with international climate change commitments," Wagner added.

POLITICAL NEWS

Haiti Indefinitely Postpones Elections, Fires Electoral Body

Haiti's government on Monday issued a decree firing the country's entire electoral council, a move that in effect indefinitely postponed the country's long-overdue elections, CNN reported. Prime Minister Ariel Henry, who has been in office for just more than two months, said the electoral council members were dismissed because they "cannot organize elections," adding that the process to replace them was proceeding. "We have made the decision today to stop this electoral council and form another one, one that will be more consensual and one that will be accepted by all of society," said Henry. General elections would occur after a review of the country's constitution, Henry added. "We will review the constitution in the first months of the coming year and the elections will be held immediately after." At the beginning of this year, Haitian elections officials had set presidential and legislative elections for September. However, following the assassination of President Jovenel Moïse in July, elections were postponed until November. "Any effort by Henry or a successor to govern and prepare the country for meaningful elections will be doomed if the international community doesn't get serious," Fulton Armstrong, a senior fellow at American University and a former U.S. National Intelligence Officer, told the daily Latin America Advisor in a **Q&A** published July 29.

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and administrative regulations that provide for predictability, equity and accountability, among other things, and a judicial apparatus that is appropriately trained and impartial and that commands the broad respect of the society. Undoubtedly, the advent of oil necessitates having policymakers and professional staffs in both the legislative and the judicial arenas extend their educational perimeters. For all this, though, there is a factor that is fundamental to the bureaucracy, the legislative infrastructure and the judicial apparatus. That factor is values. Oil booms tend to generate substantial wealth and foster greed, making corruption a corrosive element for individuals and institutions and sometimes entire societies. Therefore, honesty is a value that must be both preached and practiced, and not only by political leaders, but also by the corporate and civic movers and shakers. The media and religious and educational institutions also play key roles here."

A **Jan Mangal, oil and gas consultant and former petroleum advisor to the president of Guyana:** "The statements attributed to the U.S. ambassador are amusing, as the situation described is a direct consequence of the strategy that the United States and its companies in Guyana have pursued. When weak fragile states, such as Guyana, discover large quantities of fossil fuels, local politicians have a strategic and very consequential decision to make. Do they take the 'high road,' the difficult path, which focuses on maximizing the revenue for the country, via fair oil contracts? Or do they instead take the 'low road,' the path of least resistance, which leaves minimal revenue for the country and local officials trying to 'squeeze' the industry by delaying permits, approvals, visas, etc., with the objective of deriving small payoffs? It is unfortunate Guyana's politicians took the 'low road,' like so many other failed oil states, but they were under immense pressure from the United States and ExxonMobil, whose objective was one of profit, and not one of fairness. Many of Guyana's politicians are not known for putting country above party, or above their own race, or above themselves. With the 'high road,' Guyana would have renegotiated its oil contracts to generate a fair share of the revenue, which would then be invested in the country—in first class education, health, infrastructure—to transform Guyana into a well-managed and prosperous nation. And with the 'high road,' local officials would not delay permits and approvals for the industry because wealth for all Guyanese would be material (not an illusion) and derived directly from the oil revenue."

> **"The situation described is a direct consequence of the strategy that the United States and its companies in Guyana have pursued."**
>
> **— Jan Mangal**

[Editor's note: The Energy Advisor requested a commentary from the U.S. Embassy in Guyana and the American Chamber of Commerce & Industry Guyana but received no response.]

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

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