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FEATURED Q&A

Will Iran-Venezuela Energy Deals Lead To More Oil Output?

Iran has promised to help the Maduro government repair PDVSA's oil refineries as part of a package of energy agreements between the two U.S.-sanctioned countries. Venezuela's Amuay refinery complex, located on the Paraguaná Peninsula, is pictured. // File Photo: PDVSA.

Q **An Iranian delegation led by Oil Minister Javad Owji recently met with President Nicolás Maduro and other high-ranking Venezuelan officials in Caracas to discuss closer energy cooperation and measures to get around sanctions the United States has imposed on both countries. The meeting came just ahead of reports that Venezuela's oil exports dropped 8 percent in April as compared to March. What were the most important agreements to come out of the talks, and what do the discussions mean for Venezuela's oil sector? How much will Venezuela be able to increase production and take advantage of relatively high global prices for oil, and will more countries be willing to buy Venezuela's oil in the period ahead as a result? Is Venezuela finding new ways to skirt U.S. economic sanctions?**

A **Gustavo Coronel, a founding board member of PDVSA:** "In Venezuela, there is a popular saying: 'Los mochos se juntan para rascarse.' That is, 'The one-armed get together to scratch each other.' This is the case with the Iran-Venezuela connection, since both countries are under sanctions and restricted from getting their oil to market. Since both countries have authoritarian governments and share a deep anti-U.S. sentiment, their cooperation is logical. Iran has been providing Venezuela with assistance in the refining process, so far with only modest success, and it has been delivering light oil to Venezuela to mix with its heavy Orinoco oil. Maduro pays for this support with illegally exploited gold, with a heavy cost in terms of environmental degradation and human rights violations. While Iranian support helps

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TOP NEWS

OIL & GAS

U.S. Reportedly to Ease Sanctions on Venezuela

The Biden administration will ease some sanctions on Venezuela, in part as a move to encourage negotiations between the government of President Nicolás Maduro and the country's opposition, unnamed U.S. officials said.

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OIL & GAS

Petrobras Sells $1 Bn Worth of Onshore Assets

Brazilian state-owned oil company Petrobras has finalized the sale of $1 billion worth of onshore oil and gas assets and on Monday canceled the sale of four of its offshore concessions.

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OIL & GAS

Peru Sues Repsol for $4.5 Bn Over January Oil Spill

Peru filed a $4.5 billion lawsuit against Spanish firm Repsol for an oil spill in January that damaged coastal areas, INDECOPI executive director Julián Fernando Palacín said.

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Palacín // File Photo: Peruvian Government.

OIL & GAS NEWS

U.S. Reportedly to Ease Some Sanctions on Venezuela

The administration of U.S. President Joe Biden will ease some sanctions on Venezuela in a gesture intended to encourage negotiations between the government of President Nicolás Maduro and the country's opposition, the Associated Press reported Tuesday, citing two senior U.S. government officials who were unnamed because a formal announcement had not yet been made. The changes, which have a limited scope, will allow U.S. oil major Chevron to negotiate its license with Venezuelan state oil company PDVSA, though Chevron will still be barred from drilling for crude in Venezuela or exporting any petroleum that originates in the South American country, the AP reported. The last major U.S. oil company with business in Venezuela, Chevron is prohibited under U.S. sanctions from doing business with Venezuela's government and is only allowed to perform essential maintenance tasks in Venezuela, The New York Times reported. The U.S. Treasury Department on Tuesday issued Chevron a "narrow" license that will allow the California-based company to engage in talks with Venezuela's government about potentially restarting production, The Washington Post reported, citing U.S. officials who were unnamed due to conditions that the White House had imposed. Chevron reportedly did not immediately respond to requests for comment by the Associated Press, The Washington Post and The Wall Street Journal. The Biden administration is also removing Carlos Erik Malpica-Flores, a former high-ranking PDVSA official and a nephew of Venezuela's first lady, from a list of sanctioned Venezuelan officials, the AP reported, citing the unnamed U.S. officials. Later on Tuesday, the Venezuelan government and the country's opposition announced they had started conversations on potentially restarting negotiations, the wire service reported. The reported easing of some sanctions and the possible restart of negotiations between Maduro's government and the opposition followed a visit to Caracas in March by a U.S. delegation that met with Maduro. The meeting came as the Biden administration has sought to increase global oil supplies following Russia's invasion of Ukraine and a U.S. ban on Russian oil imports. [Editor's note: See related **Q&A** in the March 21 issue of the daily Latin America Advisor.]

Peru Files $4.5 Billion Suit Against Repsol Over January Oil Spill

Peru's government last Friday filed a $4.5 billion lawsuit against Spain-based Repsol and other companies over an oil spill in January that damaged coastal areas, Agence France-Presse reported. Julián Fernando Palacín Gutiérrez, executive director of the National Institute for the Defense of Competition and Protection of Intellectual Property, or INDECOPI, said in a statement that $3 billion of the total amount would be aimed at repairing environmental damage, while $1.5 billion would be used to compensate consumers and third parties. "These suits could create precedents for oil spills that cause damage and collective nonmaterial damages due to environmental pollution of coastal areas," Palacín said, Barron's reported. The spill affected more than 700,000 residents, in addition to leading to the closure of multiple beaches and businesses in the areas, including fisheries. Other companies named in the suit are insurer Mapfre, the La Pampilla Refinery, the Transtotal Maritime Agency and Fratelli d'amico Armatori of Italy, the owner of the tanker involved in the spill. On a website dedicated to its response to the spill, Repsol says more than 5,000 people have collected advance compensation related to the incident and that more than 10,000 first response aid vouchers have been delivered. The company said in March that it had made "94 percent progress in cleaning the sea and beaches" in the area. Repsol last month reported profit of $1.45 billion in the first quarter of 2022. [Editor's note: See related **Q&A** on Peru's energy sector in the Feb. 18 issue of the Energy Advisor.]

NEWS BRIEFS

Brazil's Eletrobras Reports 69% Increase in Net Profit for Q1

Brazil's state-owned electricity generator Eletrobras on Monday reported a net profit of 2.7 billion reais ($537.8 million) in the first quarter, a 69 percent increase year-on-year, Investing.com reported Monday. The profits were driven by better financial performance and increased billing, Eletrobras said. The company also reduced its debt by 7 percent as compared with the end of the first quarter of 2021, according to the report. The electricity provider is in the midst of a privatization process as part of plans to sell off state assets to reduce the government's fiscal deficit.

High Prices Lead Brazilian Sugar Cane Mills to Shift to Ethanol Production

High global prices for fuel have led sugar cane mills in Brazil to switch from producing sugar to ethanol, raising concerns about a shortage of sugar, Reuters reported Tuesday. Brazil, the world's largest sugar exporter, typically ships around 2.2 million metric tons of sugar abroad per month during the peak of the crop, but one trader estimated that, this year, total raw sugar contract cancellations are at 200,000 to 400,000 metric tons, according to the report.

Colombia to Become a Net Exporter of Green Hydrogen, Duque Says

Colombia aims to become a major producer of green hydrogen by 2030, President Iván Duque told Barron's magazine in an interview published last Thursday. Currently, the country is benefiting from the spike in the price of oil and coal, which combined make up more than half of the country's exports, but Duque said that could change in eight years. "One of our goals is to make Colombia the number-one green hydrogen exporter," Duque said.

Petrobras Sells Onshore Assets, Calls Off Concession Sales

Brazil's state-owned oil company Petrobras on May 11 finalized the sale of $1 billion worth of onshore oil and gas assets, and on Monday, the firm decided to cancel the sale of four of its offshore oil wells, according to media reports. Petrobras sold its controlling interest in the BT-POT-55A onshore oil field in the state of Rio Grande do Norte, as well as stakes in 14 other oil fields known as the Recôncavo Cluster, located in Bahia, for $256 million, Offshore Technology magazine reported on May 11. The divestment is part of Petrobras' decision to shift its focus away from onshore production in favor of offshore oil extraction from its deepwater assets, the report added. On Monday, Petrobras halted the sale of stakes in four of its offshore oil concessions located in the waters off the coast of northern Brazil, Reuters reported. The state-owned company was considering the partial sale of assets in what is known as the Sergipe-Alagoas deepwater basin, and the competitive process had made it to the bidding stage before the firm pulled the plug. Petrobras said the deepwater concessions now align with its new focus on offshore oil production.

POWER SECTOR NEWS

Brazil's Audit Court Paves the Way for Privatizing Eletrobras

Brazil's audit court on Wednesday in a 7-1 vote authorized the government to privatize Centrais Elétricas Brasileiras, or Eletrobras, Bloomberg News reported. To gain a majority stake in the country's largest electricity generation company, President Jair Bolsonaro's government must raise about 67 billion reais ($13.5 billion). Audit court member Vital do Rego cast

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to keep the Venezuelan oil industry from imploding, the fundamental problems remain unresolved: Corrupt and incompetent management, a lack of capital investment for new equipment, poor maintenance of existing equipment, a demoralized workforce and a ruined international reputation. In recent months, some in the pro-Maduro press have attempted to paint the Venezuelan oil industry as on its way to recovery, but the facts tell a different story. The visit by the Iranian delegation to Caracas was probably equal parts energy cooperation and propaganda effort. Nothing less than a change in government that results in the attraction of a massive and sustained influx of private capital and efficient operational activity will allow Venezuela's oil industry to get on a path to becoming a major energy industry player."

A **Luis Vicente León, political analyst and president of Datanalisis in Caracas:** "The war in Ukraine has had a significant impact on Venezuelan economic activity. If we were talking about a conventional oil country, the destabilization of the market would be an opportunity for growth through volumes and prices. But in the Venezuelan case, production and sales restrictions mean that these opportunities are diminished. The government has partially evaded U.S. sanctions and increased production and exports between 2020 and 2022 in a process that has been supported by several of the Maduro government's allies—among which Russia stands out. For Maduro, the Russian situation affects the productive capacity and complicates his financial flows. Without clear expectations about negotiations with the United States, Maduro has decided to look for alternative mechanisms to continue his sanctions-evasion strategy. The visit of the Iranian oil minister goes in this direction. In the past, Maduro has received support from Iran in the supply of fuel and equipment for its refineries. What seems evident now is the deepening of that relationship to improve Venezuela's refining capacity, with Iran participating in a project to help revitalize the El Palito Refinery, deliver refined oil to world markets and probably design new collection mechanisms for these exports, in which Iran has years of experience. The Maduro government will further move to 'de-westernize' its oil sector—an incredible geopolitical error that should be stopped immediately."

A **José R. Cárdenas, consultant at the Cormac Group and former member of the U.S. National Security Council under former President George W. Bush:** "Neither Venezuela nor Iran will get rich dealing with the other, but beggars can't be choosers. Despite increased shipments of oil to Venezuela to blend with its heavy crude to improve marketability, Tehran's own limitations mean that its assistance to Maduro will never succeed in helping Venezuela return to its role as a major oil producer. The damage done to Venezuela's oil sector over the past two decades, through incompetence, corruption and lack of investment, has been so complete that it will take at least that long—plus billions of dollars the regime does not have—to return to some semblance of its past glory. All this, however, should bring no comfort to U.S. policymakers. Maduro uses any additional revenue for one aim: maintaining power. That means maintaining the flow of Venezuelans leaving the country, and partnerships with transnational organized crime and other maligned actors, to the detriment of peace and security in our neighborhood. The Biden administration has been conspicuous in its reluctance to impose further sanctions on the Maduro regime. Some argue that course has been tapped out. But perhaps not—especially if Maduro and the Iranians have developed sanctions workarounds to alleviate their full impact. Every Iranian tanker calling to a Venezuelan port devalues the U.S. sanctions strategy to concentrate Maduro's mind on

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the lone vote against the privatization, saying the price was too low. Rodrigo Limp, the chief executive of Eletrobras, said Tuesday that the company could be privatized as soon as next month, Reuters reported. Brazil's Mining and Energy ministry will work to sell the government's stake in the electricity company by July or August, Bloomberg News reported. However, Brazilian state development bank BNDES, which owns 11 percent of Eletrobras, has expressed concerns about that timing, saying it tends to be a period of low liquidity. Prior to the audit court's decision, Diogo Mac Cord, the special secretary for privatization in Brazil's Economy Ministry, said that there might be a reduction in interest in Eletrobras shares during the summer months in the Northern Hemisphere, Reuters reported. "The most worrying thing is this rising curve in American interest rates," Mac Cord told Reuters. "Every half a percentage point they increase drains a lot of money, squeezes liquidity," he added. Additionally, market volatility may be on the rise nearing October's presidential elections, Bloomberg News reported. [Editor's note: See Q&A in the April 23, 2021 issue of the Energy Advisor on proposals to privatize Eletrobras.]

POLITICAL NEWS

Biden Administration Eases Trump-Era Restrictions on Cuba

The administration of U.S. President Joe Biden on Monday said it has revised its Cuba policy, easing some restrictions put in place under former President Donald Trump, and increasing the processing of U.S. visas for Cubans, Reuters reported. The changes "further support the Cuban people, providing them additional tools to pursue a life free from Cuban government oppression and to seek greater economic opportunities," the State Department said in a statement. It would also lift the limit on family remittances to Cuba, which had previously been set at $1,000 per quarter. In addition, remittances to nonfamily members are now permitted, Reuters reported. The changes will also allow chartered and scheduled flights to locations on the island beyond Havana, the Associated Press reported. The Biden administration also said it would reinstate a family reunification program, which currently has a backlog of 20,000 applications, and added that it would increase visa processing and consular services. However, rules against U.S. citizens doing business with companies aligned with Cuba's government will remain in place.

ADVISOR Q&A

What Might Changes at Twitter Mean for Latin Americans?

Q While political discourse takes place on all forms of social media, it is extremely prevalent in Latin America over Twitter, where heads of state and politicians take to the platform to connect with people and argue with one another. Billionaire Elon Musk's plan to take over Twitter could shake up the composition of the region's digital town hall, author James Bosworth said recently in his Latin America Risk Report. Musk said last Friday that his deal to buy Twitter is "temporarily on hold," but if the deal proceeds, what changes could Musk make to the platform, and how would they affect Latin America's digital political discourse? Would Musk be able to do away with rules against threatening language, as well as software that identifies and takes down disinformation-spreading botnets, as he has suggested? What sorts of changes need to happen in order for social media to offer both a freer and fairer platform for the exchange of ideas?

A Doug Cassel, emeritus professor of law at Notre Dame Law School and U.S. nominee to the Inter-American Commission on Human Rights (IACHR) in 2017: "After Elon Musk's expected takeover of Twitter, the prospects for political dialogue healthy for democracy in the region, already troubling, may become even worse. Money matters. Musk's wealth—estimated at $265 billion—is nearly 10 times the gross domestic product of El Salvador, and about the same as the GDPs of Chile or Colombia. According to the World Bank, three quarters of the region's residents have access to the Internet. Nearly all of those use social media, of which Twitter's 100 million or so users account for more than 10 percent of all digital interactions. True, the region's most followed tweeters tend to be athletes and artists. They typically tweet more about sports scores and songs than about social policy. But many political provocateurs tweet, and their falsehoods generate echo effects. Enter Musk. He criticizes 'content moderation' policies. Twitter used them, for example, to cancel 2,700 fake Russian accounts that disrupted the 2016 U.S. election and later suspended Donald Trump's account after he repeated lies that the 2020 election was 'stolen.' Musk invokes free speech to argue that canceling Trump was morally wrong and ineffective. If regional tweeters were constructive contributors to democratic debate, perhaps the free speech obligations of governments should be extended to private companies such as Twitter. But many tweeters undermine democracy. In Guatemala, for example, smears and threats posted on social media drove honest judges and prosecutors into exile. Reasonable content moderation, within bounds, is healthy for democracy. Musk's Twitter, one fears, will not be."

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

NEWS BRIEFS

Nicaraguan Opposition Leader Suazo Arrested

Yubrank Suazo, a Nicaraguan opposition leader, was "kidnapped with violence" on Wednesday according to the Nicaraguan Human Rights Center (CENIDH), Agence France-Presse reported. Suazo, who is the director of the Civic Alliance for Justice and Democracy opposition coalition, will be held for at least 48 hours in El Chipote jail in Managua, the human rights center said. His lawyer, Yonarqui Martínez, called Suazo "one of the most persecuted" people in Nicaragua, AFP reported. [Editor's note: See related **Q&A** in the Feb. 22 issue of the daily Latin America Advisor.]

Peru's Economy Grows 3.79% in March

Peru's economy grew 3.79 percent in March as compared to the same month last year, Peru's statistics agency said Sunday, Reuters reported. Most economic sectors have been improving, but the mining sector contracted following months of social protests from Indigenous communities, which affected production, the statistics agency added. Economic growth in March fell short of the central bank's 4 percent growth prediction. The Peruvian finance ministry estimates that the Andean country's economy will grow 3.6 percent this year.

U.S. Authorities Discover Drug Smuggling Tunnel From Mexico to California

U.S. authorities said Monday that they had discovered a major drug-smuggling tunnel running for a third of a mile from Tijuana to an industrial area in San Diego, the Associated Press reported. The tunnel, about six stories deep, has reinforced walls, a ventilation system and electricity, the AP reported. It was found near the Otay Mesa border crossing in an area where more than a dozen other such tunnels have been found over the past 20 years.

Hackers Threaten to Overthrow Costa Rican Government

The hacker gang that brought down some Costa Rican government computer systems threatened on Monday to attempt to overthrow the Central American country's government, the Associated Press reported. The Russian-speaking Conti ransomware gang last month attacked government computer systems, including machines at the Finance Ministry. The country's new president, Rodrigo Chaves, declared a state of emergency soon after he was sworn in last week. The gang responded by writing, "We are determined to overthrow the government by means of a cyberattack, we have already shown you all the strength and power, you have introduced an emergency," the AP reported. The gang also increased the ransom it is demanding to $20 million and encouraged Costa Ricans to push the government to pay it. Last week, the U.S. State Department said Conti is responsible for hundreds of ransomware attacks over the past two years.

ECONOMIC NEWS

Colombia's Mining Industry Eyes Record Level of Income

Colombia's mining sector could generate a record level of income this year, up to 8.8 trillion pesos ($2.2 billion) in taxes and royalties, the Colombian Mining Association said Wednesday, Reuters reported. The forecast would mean a jump of 69 percent in mining income this year, said the association, which added that record prices for minerals is driving the increase. Colombia's exports of minerals in the first quarter of the year rose to their highest level in a decade, rising to 44 percent year-on-year to $3.75 billion, the mining association said in a presentation. Exports of coal and ferronickel drove the increase, said the mining association, or ACM. It added that the value of gold exports dipped slightly in the first quarter as compared to the same quarter last year. "Colombia and the world cannot live without mining," ACM President Juan Camilo Nariño told reporters. While coal is considered a significant polluter, its advocates say technology can help to reduce emissions, and that mining is a needed part of the country's transition to more renewable energy, Reuters reported. "There is no chance that the greener world we all want to see will happen without more mining," said Nariño. He added that materials such as copper are important for renewable energy infrastructure. Diego Mesa, Colombia's minister of mines and energy, told the Dialogue's weekly Energy Advisor that the country is advancing "by leaps and bounds" in its transition to using more renewable energy. "We have already multiplied by almost 30 times the 28 megawatts of nonconventional renewable capacity that came online in 2018," Mesa told the Energy Advisor in a **Q&A** published March 25.

Privacy Advocates Slam Mexican Court Ruling on Bank Data

Privacy advocates last Thursday criticized a Mexican Supreme Court ruling that allows tax and finance authorities sweeping access to citizens' bank information, eliminating the need for a warrant, Reuters reported. The high court's ruling stemmed from a case in which a businessman accused Mexico's Finance Ministry of violating his constitutional right to privacy for seeking bank documents over suspicions of tax fraud, the wire service reported. Jesús Zambrano, a prominent politician and president of the leftist Party of the Democratic Revolution, said in a tweet that the party was concerned that the ruling was a "possible violation and transgression of millions of Mexicans." The decision amounts to "fiscal terrorism" and an attempt to "squeeze taxpayers," he added. Mexican billionaire Ricardo Salinas labeled the ruling "madness" and said the court should reconsider. The court said anti-money laundering efforts and attempts to fight tax fraud outweighed individuals' rights to privacy.

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his predicament and force him into actions he would rather not take."

A **Ray Walser, professor of practice at Seton Hall University and retired U.S. Foreign Service officer:** "The Iranian delegation raises fresh interest in ties between two U.S. adversaries. Recent interactions appeared to have focused on a swap agreement between the parties: Venezuelan heavy crude in exchange for condensates that enable Venezuela to refine viscous Orinoco crude for domestic consumption and export. A two-million-barrel shipment of Iranian condensate reportedly arrived in Venezuela in late January. Venezuela also appears to have received shipments of heavy Iranian crude for refinement. Since January, three developments have potentially altered the global energy landscape: first, the impact of Russian President Vladimir Putin's war of aggression against Ukraine; second, the continuing but inconclusive nuclear negotiations with Iran; and third, the secretive U.S.-Venezuela meeting on the potential U.S. purchase of Venezuelan oil. With oil at $110 a barrel, the world is scrambling to stimulate production from anywhere but Russia. Clearly, actions between the holders of approximately 40 percent of the world's proven petroleum reserves is of keen interest. The Iranians apparently promised cooperation in engineering and to supply spare parts for Venezuela's long-neglected oil infrastructure. Any interaction between the two anti-U.S. allies, in force since the start of the Hugo Chávez-Mahmoud Ahmadinejad bromance, is a source of discomfort among U.S. officials. But the collapse of Venezuela's economy, the steady outflow of migrants and the establishment of a kleptocratic mafia state remain far greater headaches. Iranian-Venezuelan cooperation could mean a marginal increase in production and additional scheming as to ways to skirt U.S. sanctions. But outcomes will be limited, and given Washington's current geopolitical worries, closer energy relations between two distant, perennially pariah producers are a challenge of second or even tertiary order."

A **R. Evan Ellis, Latin America research professor at the U.S. Army War College's Strategic Studies Institute:** "The visit to Caracas by an Iranian delegation expanded bilateral cooperation, with the signing of four memorandums of understanding and two oil sector deals. Iran has played a key role in keeping Venezuela's petroleum industry alive. The country's production fell to as low as 360,000 barrels per day in September 2020. Iran stepped up its role in rescuing Venezuela's oil industry, and the current agreement broadens the arrangement, providing Iranian heavy crude to Venezuelan refineries, which Iran is helping to repair and modernize, as well as collaborate to sell their oil despite international sanctions. Venezuela is paying dearly for Iran's help, with at least $500 million in gold. These actions come in the wake of the Maduro government's negotiations with the Biden administration to partially remove sanctions and license limited oil production (likely for Chevron). Production has already doubled to 900,000 bpd and could realistically reach 1.2 million bpd. Further expansion will require investment in Venezuela's oil infrastructure, but the state-owned oil company PDVSA is broke, Russia is hobbled by sanctions, and Chinese companies are cautious because of their work with Western companies elsewhere. An easing of U.S. sanctions would make it easier for Maduro to launder sanctioned oil and embolden China to resume its own support. The Maduro regime will be empowered to purchase Russian and Iranian arms and expand its anti-democratic activities in the region."

[Editor's note: The commentaries above were submitted to the Energy Advisor before reports this week that the United States will ease some sanctions on Venezuela.]

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