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FEATURED Q&A

How Prepared Is Guyana's Oil Sector for 2020 Production?



Guyana's government, under President David Granger (pictured) is stable, and businesses should not expect sudden rule changes before 2020, Raúl Gallegos says below. // File Photo: Guyanese Government.

Q Guyana has been working to modernize its legal and regulatory environment after recent discoveries of large oil and gas deposits that could dramatically alter its economy. ExxonMobil said this month it expects to begin producing oil off Guyana's coast in 2020. How prepared is the country to become an exporter of oil and gas, and does it need new mechanisms to effectively manage its new oil wealth? What steps should Guyana take to develop infrastructure that will attract long-term investment? With a presidential election scheduled in 2020, how stable is Guyana's political risk profile for outside investors, and how might a longstanding border controversy with Venezuela cloud the outlook for Guyana's oil and gas sector?

A Riyadh Insanally, Guyana's ambassador to the United States and permanent representative to the OAS: "These are exciting and challenging times for Guyana. We currently await the United Nations secretary general's decision on referring the border controversy to the International Court of Justice. Indeed, respect for international law underpins our relations with multinational oil and gas companies, and our government is committed to building stable and sustainable partnerships for long-term development. With each new announcement of world-class oil discoveries, the potential for transforming Guyana's economy increases exponentially. An oil and gas industry of the magnitude being envisioned is, however, uncharted territory for Guyana. We are a small country with well-known technical and financial constraints. In the lead-up to 'first oil' in 2020, efforts are already underway to build capacity, to modernize our legal and regulatory

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Colombia's ELN Attacks Oil Sector Amid Peace Talks

Colombia's ELN resumed attacks on oil infrastructure following the expiration of a cease-fire between the rebel group and the Colombian government.

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OIL & GAS

Venezuela's National Assembly Outlaws 'Petro' Currency

Venezuela's opposition-run National Assembly outlawed the petro, a cryptocurrency that would be backed by oil, gas, gold and diamond reserves.

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More Supplies, Crews Due for Puerto Rico Power Sector Repairs

The U.S. Army Corps of Engineers said it would be acquiring its own barge to ship needed materials that it requested months ago to rebuild infrastructure in Puerto Rico, Col. John Lloyd said.

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Lloyd // File Photo: U.S. Army.

OIL & GAS SECTOR NEWS

Colombia's ELN Attacks Oil Sector, Scuttles Peace Talks

Colombia's National Liberation Army, or ELN, resumed attacks on oil infrastructure and Colombia's military on Wednesday following the expiration of a cease-fire between the Marxist rebel group and the Colombian government, Reuters reported. Peace talks had been scheduled to resume in Quito on

I deplore the decision by the ELN to reactivate its terrorist attacks."

— Juan Manuel Santos

Wednesday, but President Juan Manuel Santos ordered his chief negotiator to return to Bogotá following the attacks in order to reassess the future of peace negotiations between the two sides. The rebel group carried out three bombings early Wednesday on the Caño Limón oil pipeline, forcing the suspension of pumping operations, the government said. The group also carried out a grenade attack on a naval base in Arauca province, injuring two soldiers. State oil company Ecopetrol also reported an attack by the ELN on one of its facilities in the rural Casanare province. "I deplore the decision by the ELN to reactivate its terrorist attacks," Santos said Wednesday in a televised address. "The government was always willing to extend the cease-fire. Inexplicably, the ELN refused. Under the circumstances, I have ordered the return of our chief negotiator to evaluate the future of talks." Santos has said his recall of government negotiators does not constitute a formal suspension of the talks, Al Jazeera reported. In the past, the ELN has said it would not push to extend the cease-fire that began in October, hoping instead to change the terms of the deal. In a statement on its website, the rebel group said the attacks occurred within

the context of the "complex conflict situation" in Colombia, adding that the attacks should not alter the course of the negotiations.

Venezuela's National Assembly Outlaws 'Petro' Currency

Venezuela's opposition-run National Assembly on Tuesday outlawed the petro, a cryptocurrency promoted by President Nicolás Maduro that would be backed by oil, gas, gold and diamond reserves, Reuters reported. While Maduro has said the new currency would be used to circumvent U.S.-led financial sanctions, legislators called the petro an effort to illegally mortgage the country's oil reserves. On Jan. 5, Maduro announced the government would issue some \$6 billion worth of petros in order to raise hard currency for the cash-strapped country. Experts on cryptocurrency have voiced concerns about the likelihood of the petro's success, saying the



Maduro // File Photo: Venezuelan Government.

government has mismanaged its own currency, and that the government has failed to respect property rights, both of which would make it unlikely to attract investors. Legislators warned potential investors against buying petros, saying the currency would be null once Maduro, who is running for re-election this year, leaves office. "This is not a cryptocurrency, this is a forward sale of Venezuelan oil," said legislator Jorge Millan. "It is tailor-made for corruption." Maduro is likely to ignore the National Assembly's ruling. In July, he created a new legislative body called the Constituent Assembly, which declared itself superior to the National Assembly. The Venezuelan Information Ministry did not respond to Reuters' request for comment.

NEWS BRIEFS

Brazilian Solar Power Generation Reaches 1 GW

Brazil is now one of the 30 countries in the world that can generate more than one gigawatt of energy from solar power, Xinhua reported Tuesday, citing Brazilian state-run news agency Agência Brasil. Brazil can meet the energy needs of two million Brazilians through the energy generated by its solar sector, the Brazilian Association of Solar Power (Absolar) said. "We can stay among the main countries of the world in this market, as we are in hydroelectric power, biomass and wind power," Absolar President Rodrigo Savaia said. He added that Brazil's solar power generation is still below its potential, and that the country needs a nationwide program to ramp up development of its solar power generation capacity.

Natural Gas Pipeline to Resume Gulf of Mexico Operations After Fire

A U.S. offshore natural gas pipeline could restart operations for some producers next month, after it was shut down due to a fire on a Royal Dutch Shell platform in the Gulf of Mexico three months ago, Enbridge, the pipeline's operator, said this week, Reuters reported Wednesday. Enbridge's work to separate the 1 billion cubic feet per day Garden Banks pipeline from Shell's fire-damaged Enchilada platform will be completed in early February, the company told customers.

Mexico Oil Production Falls in November

Mexico's oil and gas production fell by 1.4 percent in November from the previous month and fell by 10.6 percent year-over-year, The Wall Street Journal reported Thursday. State oil company Pemex pumped only 1.87 million barrels per day of crude oil in November, as compared to 2.07 million bpd during the same period a year before.

POWER SECTOR NEWS

More Crews, Supplies Headed to Puerto Rico for Repair Effort

Efforts to repair Puerto Rico's energy infrastructure and restore power to the U.S. territory in the wake of Hurricane Maria will be getting a boost in the coming weeks with more work crews and supplies due to arrive on the island, federal officials said, the Associated Press reported Monday. The U.S. Army Corps of Engineers said it would be acquiring its own barge to ship needed materials that it requested months ago to rebuild infrastructure. Col. John Lloyd, who is overseeing the efforts to restore power, said officials over the weekend discovered some needed equipment in a previously

“We’re doing everything we can to increase [PREPA’s] ability to do this as fast as possible for the people of Puerto Rico.”

— John Lloyd

overlooked warehouse owned by the island's public utility, the Puerto Rico Electric Power Authority (PREPA). “We’re doing everything we can to increase [PREPA’s] ability to do this as fast as possible for the people of Puerto Rico,” Lloyd said. Certain materials, including transformers, splices and hundreds of necessary smaller pieces, had delayed the energizing of certain power lines. He said that his agency is still waiting for the shipment of hundreds of thousands of poles, transformers, fuses, towers, insulators, bolts and other pieces, as well. More than 40 percent of PREPA’s customers remain without power nearly four months after the hurricane battered the commonwealth, killing dozens of people and causing an estimated \$95 billion in damages.

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frameworks, to develop our infrastructure and to ensure that there is significant local content in agreements with the multinationals. It is, admittedly, a steep learning curve, but the government is well aware of the need to manage properly the transition to becoming an oil and gas exporter. In October, Guyana’s candidature application to the Extractive Industries Transparency Initiative was approved; a sovereign wealth fund will be established; and income from oil and gas will be invested in developing Guyana as a sustainable, green state. One expects, moreover, to see in the coming months increased investment in human resources, with specialized skills in the oil and gas sector and infrastructure development. There is already a robust conversation taking place in Guyana on what needs to be done and, obviously, there has to be a degree of national consensus involving all stakeholders to pave the way for the future. Equally important will be the recognition by foreign multinationals that their role as responsible partners is also to support the long-term sustainability of the country as the surest guarantee of their investments.”

A Raúl Gallegos, associate director at Control Risks: “We believe the risk is low that the ongoing border dispute will at any point substantially affect the oil sector in Guyana. The International Court of Justice is highly unlikely to side with Venezuela and force Guyana to surrender the majority of its territory to its neighbor. The international community and the United States are also unlikely to back a decision that would mean destroying Guyana’s territorial integrity as we know it to benefit the chavista regime in Venezuela. And the chavista regime is unlikely to begin an armed conflict with Guyana over its border dispute, at least for now. In our view, the political risk of Guyana for business is considered medium, meaning that we see a stable government with limited risk of sudden regime change or abrupt

changes in the rules and laws for companies trying to do business in the new oil sector before 2020. We believe the Granger administration has the intent to conduct a good-will effort to help the oil sector to emerge and flourish, but it is still early. It is important to note that the risk of ethnic strife remains high, and that the left-wing, populist People’s Progressive Party, led by former President Bharrat Jagdeo, is hungry to return to power, especially at a time of economic windfall, when oil production will come online. Unfortunately, this means that

“Sound management of the oil sector beyond 2020 is not assured.”

— Raúl Gallegos

sound management of the oil sector beyond 2020 is not assured. Guyana’s weak institutions and a lack of solid infrastructure mean that the conditions for large-scale graft, oil revenue misspending and mismanagement of the oil industry as a whole are very much present and will be present for the foreseeable future. However, the country does have the opportunity to create a sovereign wealth fund that generates a dividend for its citizens and with enough independence to properly invest that money for the future. If and when Guyana takes steps to make that a reality, such a fund would help ensure that politicians do more with less and that they resist the urge to misspend resources solely to stay in power.”

A Kevin Ramnarine, senior consultant, and David Voght, managing director, at IPD Latin America: “The Guyanese government has a lot of balls in the air. It’s juggling the creation of an oil industry regulatory body, legal and policy framework, a sovereign wealth

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POLITICAL NEWS

Peru's Kuczynski Shuffles Cabinet

Peruvian President Pedro Pablo Kuczynski on Tuesday replaced nearly half of his cabinet, Reuters reported. The move followed political crises last month in which Kuczynski was nearly forced from office and then controversially pardoned imprisoned former President Alberto Fujimori, a decision that led to several resignations, including in his cabinet. Nearly two weeks ago, Kuczynski had vowed to install a "cabinet of reconciliation" following the uproar over his pardon of Fujimori on Christmas Eve. Since Kuczynski took office less than two years ago, at least 19 cabinet ministers have departed, including four whom Congress forced from office. "Despite our differences, I ask you for us to join together to fight the real problems facing our nation: poverty, unequal services and opportunities, the lack of security, corruption," Kuczynski said Tuesday after swearing in nine new cabinet members. Among the changes, Kuczynski tapped Cayetana Aljovín, the outgoing energy and mines minister, as foreign minister. Also, Angela Grossheim, the deputy energy minister, was promoted to lead the ministry, replacing Aljovín. [Editor's note: See [Q&A](#) on Peru in Tuesday's issue of the daily Latin America Advisor.]

U.S. to End TPS for Salvadorans by September 2019

The U.S. Department of Homeland Security said that it will not renew Temporary Protected Status for nearly 200,000 Salvadorans who have been allowed to stay in the United States since at least 2001, The Washington Post reported Monday. Salvadorans who have been living in the country under TPS will have until September 2019 to arrange legal status under another category or leave the United States, the newspaper reported. The Trump administration has been phasing out TPS programs that have

IN PROFILE

Manuel Quevedo, PDVSA President and Venezuela's Oil Minister

Name:

Manuel Quevedo

In the News:

Venezuelan President Nicolás Maduro on Nov. 26 named Manuel Quevedo president of state oil company Petróleos de Venezuela, or PDVSA, as well as the country's new oil minister. The appointment came amid PDVSA's struggles with production levels at 30-year lows and crippling economic sanctions from the United States as well as low global oil prices and an economic crisis. Quevedo has vowed to bring the oil company closer to the ideals of late President Hugo Chávez. Quevedo, who previously served as Venezuela's housing minister, will be replaced in that role by General Ildemaro Villarroel Arismendi.



Quevedo // File Photo: Venezuelan Government.

Background:

Quevedo is a major general in Venezuela's military. Maduro has said Quevedo will still dedicate 20 percent of his time to working on Venezuela's Grand Housing Mission, a Chávez-era project. Before serving in the housing ministry, in 2014, he was the head of the Fifth Regional Command of the Bolivarian National Guard, based in Caracas, and was frequently charged with countering street protests, which left 43 people dead that year.

Of Note:

Quevedo replaces Nelson Martínez and Eulogio Del Pino as PDVSA's president and Venezuela's oil minister, respectively. The stripping of Martínez's and Del Pino's titles by the Maduro administration and their subsequent arrests appeared to some to be an effort to consolidate power within the ruling PSUV party ahead of Maduro's bid for re-election in this year's presidential election. The Maduro administration has arrested some 50 people associated with the state oil company over the past several months in what it says is a crackdown on rampant corruption at PDVSA.

After Maduro appointed Quevedo, critics pointed out that Quevedo had little direct experience in the oil industry. PDVSA has not had an active military official as its leader since 2002. Maduro has slowly named more and more military officials to leadership posts in his government, including another general who was put in charge of the Transportation Ministry on the same day he appointed Quevedo to his new positions. Critics have said appointing military leaders to posts that are typically held by civilians may also be part of a strategy by Maduro to increase satisfaction among the military. Quevedo has named other military officers to his senior management team.

[Editor's note: See related [Q&A](#) in the Dec. 13 issue of the daily Latin America Advisor.]

Sources: *El Universal*; *The New York Times*; *BBC Mundo*; *Reuters*; *Bloomberg News*

NEWS BRIEFS

Ecuadorian Lawmakers Tap Vicuña as New VP

Ecuadorian lawmakers in a vote Saturday selected María Alejandra Vicuña to replace Jorge Glas as the vice president of the South American nation, the Associated Press reported. In December, Glas was sentenced to six years in prison for his role in a bribery scheme involving Brazilian construction conglomerate Odebrecht. Vicuña is a psychologist who previously served as interim vice president and as the minister of urban development and planning.

Brazilian Police Seek to Question Temer Over Port Regulation Decree

Brazilian police have requested that President Michel Temer respond to 50 questions posed as part of an investigation into whether he took bribes in exchange for influencing a decree that regulates the country's ports, a government spokesperson said, MercoPress reported Tuesday. Police are investigating a scheme in which Temer allegedly accepted bribes in exchange for guiding the creation of a decree that would have favorable terms for logistics firm Rodrimar. The allegations are the latest to come out against Temer, who has so far managed to avoid a trial over corruption allegations. Temer has denied any involvement in corruption.

Retired U.S. Ambassador to Lead Board Examining Health Incidents in Cuba

Peter Bodde, who retired last year after serving as a U.S. ambassador to countries including Libya, Nepal and Malawi, has been named to lead the State Department's Accountability Review Board to examine the mysterious health problems that affected diplomats in Cuba, who reported hearing high-pitched sounds, CNN reported Wednesday. Cuba's government has denied carrying out any attacks on diplomats.

given groups of people refuge from insecure conditions in their homeland, arguing that situations in some of their home countries have improved since they were first granted TPS, USA Today reported. In November, Homeland Security said it was ending the program for the nearly 59,000 Haitians who have been living in the United States since 2010, when a powerful earthquake flattened the country. They must return home by July of next year, or else remain in the United States illegally. Homeland Security has also rescinded the status for 5,300 Nicaraguans who had been granted TPS in 1999 following Hurricane Mitch. They must return home by January of next year. The department extended the program by six months for the 86,000 Hondurans affected by Mitch, but said it may ultimately phase out the program for that group, as well. The Salvadoran Embassy in Washington says that an estimated 97 percent of Salvadorans living in the United States under TPS who are over the age of 24 are employed and paying taxes. Salvadorans in the TPS program have given birth to 192,000 children, all of whom are U.S. citizens. Still, some believe the time has come to roll back the program. "The 'T' in TPS stands for temporary," said Ira Mehlman, a spokesman for the Federation for American Immigration Reform. "Salvadorans have been allowed to remain for almost 17 years, which stretches the boundaries of any reasonable definition of temporary."

U.S. Sanctions Four Venezuelan Officials

The U.S. government on Jan. 5 imposed sanctions on four current or former Venezuelan officials, freezing any assets they may have in the United States and prohibiting U.S. citizens from dealing with them, Reuters reported. Among the sanctioned officials is Rodolfo Marco, the current governor of Aragua State and a former food minister, who is accused of corruption and mismanagement of the country's food supply. Also on the list of sanctioned officials are Francisco Rangel, a former Bolívar State governor; Fabio Zavarse Pabón, a national armed forces commander; and Gerardo Izquierdo Torres, a state minister.

ECONOMIC NEWS

Canadian Officials Tamp Down NAFTA Withdrawal Concern

Canadian officials on Wednesday distanced themselves from a report that the country's government is concerned that the United States will soon pull out of the North American Free Trade Agreement, or NAFTA, The Hill reported. A Canadian government official pushed back on a report by Reuters earlier Wednesday, which cited two government sources, that Canadian officials were becoming convinced that U.S. President Donald Trump would withdraw from the agreement, calling the report "inaccurate." "Progress on NAFTA was made during previous rounds and the December intersessional, and we expect more progress to be made in January," the official said. The sixth round of talks in the NAFTA negotiations is set to begin Jan. 23 in Montreal. Trade officials from the United States, Canada and Mexico have imposed a March deadline on completing negotiations. Soon after the Reuters report was published, the Toronto Star reported that while Canada is "actively preparing" for the United States' possible withdrawal, officials are not "convinced" that the United States will do so.

Mexico's Vehicle Exports to U.S. Reach Record High

Mexico's vehicle exports to the United States reached a record high in 2017, CNBC reported Monday, citing data from the country's auto industry. Mexico exported 2.33 million vehicles to its northern neighbor over the past year, a 9.4 percent increase over 2016. Also, 75 percent of the vehicles that were exported from Mexico in 2017 were then sold in the United States, far ahead of the total in Canada, which received just over 8 percent of Mexico's vehicle exports. The increase came amid renegotiations of NAFTA. The next round of negotiations is set to take place in Montreal this month.

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fund and significant infrastructure build-out. The commencement of oil production in 2020 means that Guyana's revenue will surge by more than 31 percent in the first full year of production. The strengthening of the Guyanese Revenue Authority must be expedited. Effective management of the country's economy will be necessary to prompt investment sustainability. Such massive and rapid growth would challenge even the most experienced governments. But Guyana has help from the world's most qualified upstream

“There are no winners if the country collapses under the burden of opportunity.”

— Sally Yearwood

operators and service companies; they are organizations that have mastered the vertical learning curve and will help the fledgling oil giant along. Local content will be critical here. Guyana is responsibly looking to learn from its predecessors, like Ghana, Norway, Trinidad and Tobago and Uganda. It is investing in human resources. Immediate challenges include the creation of a petroleum commission. While legislation requires this authority to be government dependent, some autonomy must be preserved. The Venezuela-Guyana border dispute is also crucial. It will be difficult to award new acreage for exploration without successful resolution. Finally, legal framework continuity is always a challenge following a massive discovery. Existing petroleum regulations have come under scrutiny by the media and civil society. We expect reforms. To attract long-term investment, the government will need to develop a firm, yet equitable negotiating position. Along the way, it's natural to expect that some of the balls may eventually be dropped. Investors must predict which and mitigate accordingly.”

A Sally Yearwood, executive director of Caribbean-Central American Action in Washington:

“This past September, CCAA held a forum in Guyana on the country's private sector. There were some areas of consensus, and the first was that there is absolutely no doubt that the country will have some substantial hurdles to overcome when the oil and gas begins to flow. ‘Capacity’ is a word that has applicability to many of the challenges. Guyana has a long history of brain drain, which has left it with a limited pool of workers who can manage the transition. Perhaps the key variables in how successful Guyana will be in transitioning to its future will be whether the government can attract committed professionals to help with macroeconomic and resource planning, whether the academic sector will generate graduates with the skills that can supply the growing industry (and who will stay in the country after graduating), and whether the private sector can create the downstream industries that will allow the country to prosper more broadly. A second area of consensus was that there is the commitment and will domestically and internationally to see Guyana succeed. There are no winners if the country collapses under the burden of opportunity—not the international investors, not the government, not the donor community and not the people of Guyana. Failure cannot be an acceptable option. As a final note, elections and border politics are important, but we shouldn't pretend that international investors are holding back because of uncertainty on these issues. Globally, the democratic process has rarely been a disincentive when the stakes are high, and the border controversy hasn't slowed down exploration and investment thus far. The focus must be on building a strong and sustainable future for Guyana.”

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

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