

## Energy Forum: Shifting Dynamics in Latin America

### Update on Venezuela

March 5 | Houston

Vera de Gyrfas



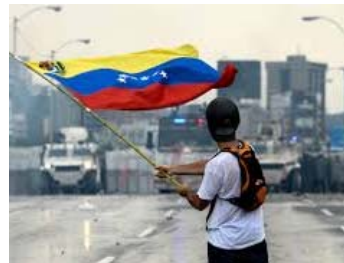
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## What Is Happening in Venezuela?

### Humanitarian Crisis

“The humanitarian crisis is now the worst in the Western Hemisphere, with [more than 3 million people displaced](#) in the region.

[More people may flee in the coming months](#) as conditions in the country worsen.

The UN estimates there will be [5.3 million Venezuelan refugees and migrants](#) by the end of 2019.”

— MERCY CORPS ORG



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## Lack of Basic Products and Medicine

Food shortages in 2018 increased and official information from the Ministry of Nutrition indicates that the average shortage per product during the first semester of 2018 was milk – 84.9%, chicken – 83%, coffee – 78.5%, eggs – 59%, beef – 57%, pasta – 56.7% and rice 33.3%.

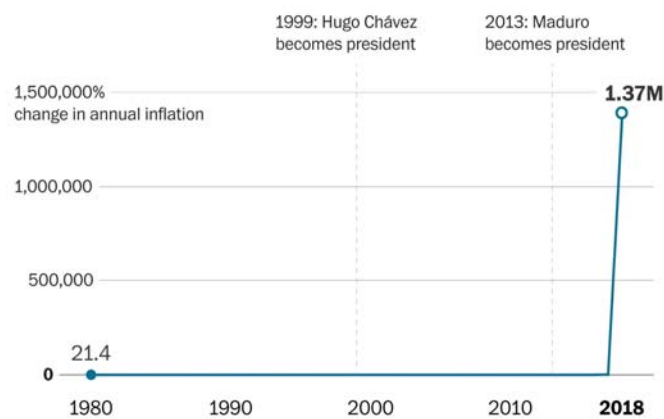
In October 2018, the President of the Venezuelan Pharmaceutical Federation (Fefarven) announced that there was an average of 85% shortage in medicines.



[www.efectocuyo.com](http://www.efectocuyo.com)

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## Inflation in Venezuela Remains at Record Highs



Average consumer prices

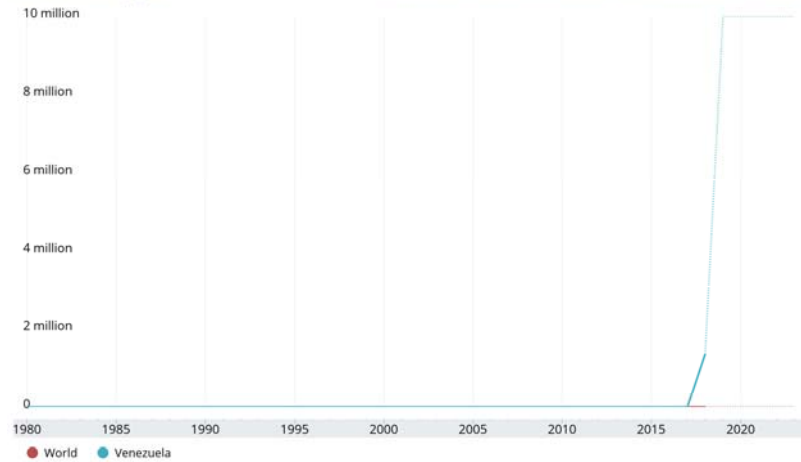
Source: International Monetary Fund

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## Inflation 2019 IMF Projection

IMF DataMapper

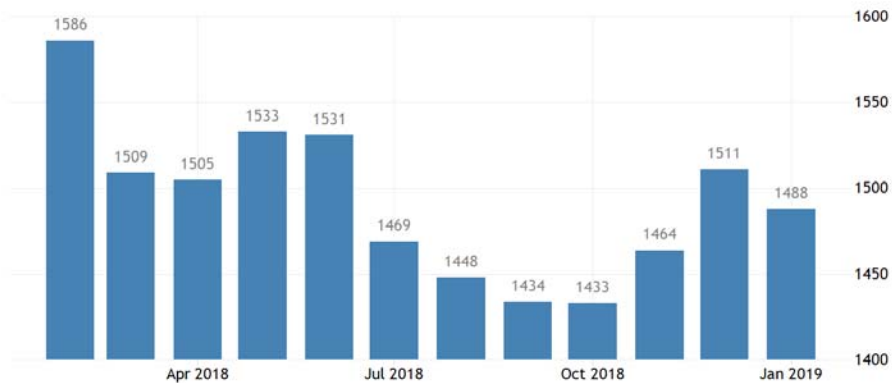
Inflation rate, average consumer prices (Annual percent change)



©IMF, 2018, Source: World Economic Outlook (October 2018)

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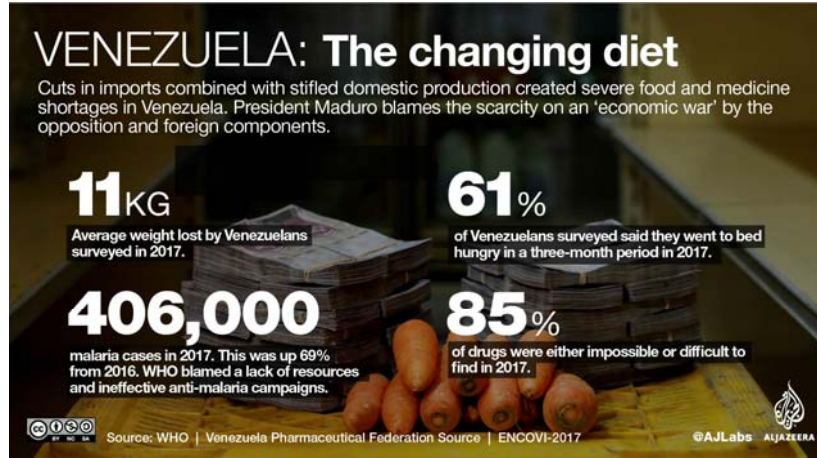
## Decrease in Oil Production



SOURCE: TRADINGECONOMICS.COM | ORGANIZATION OF THE PETROLEUM EXPORTING COUNTRIES

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## Impact on the People



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## Malnutrition – Children



[Press release](#)

**In Venezuela, prevalence of malnutrition among children grows as economic crisis deepens**

*UNICEF urges coordinated national action to reach children most in need*

**NEW YORK, 26 January 2018** – A growing number of children in Venezuela are suffering from malnutrition as a consequence of the protracted economic crisis affecting the country, UNICEF warned today. While precise figures are unavailable because of very limited official health or nutrition data, there are clear signs that the crisis is limiting children's access to quality health services, medicines and food. The children's agency went on to call for the rapid implementation of a short-term response to counter malnutrition, based on disaggregated data and coordinated between the Government and partners.

— UNICEF

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## Why?

1

### EXPROPRIATIONS

Oil and gas  
Power  
Telecom  
Steel  
Banks  
Cement  
Gold  
Food producers  
Land  
Supermarkets  
Hotels  
Agrarian products  
Glass manufacturers

2

### EXCHANGE CONTROL

Centralized control of foreign currency

Depends on availability and award by the State

CADIVI  
SITME  
SICAD 1  
SICAD 2  
CENCOEX  
SIMADI  
DICOM

3

### PRICE CONTROLS

Basic goods

Law for the Protection of the Consumer/User

Law of Fair Prices and Costs

Organic Law of Fair Prices

Control of production/distribution/retail

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## Why?

4

### CORRUPTION

Mismanagement and corruption in expropriated companies

Contraband of gasoline

Exchange control corruption

5

### DESTRUCTION OF THE PRODUCTION CAPACITY

Destruction of expropriated companies

Destruction of PDVSA and oil industry

Incurrence in debt to finance inefficiencies, corruption and excessive spending

6

### TOTALITARIAN REGIME

Imprisonment of opposition members

No free press

Violation of human rights

Paramilitary armed to attack protesters

Control of the State over basic needs of citizens

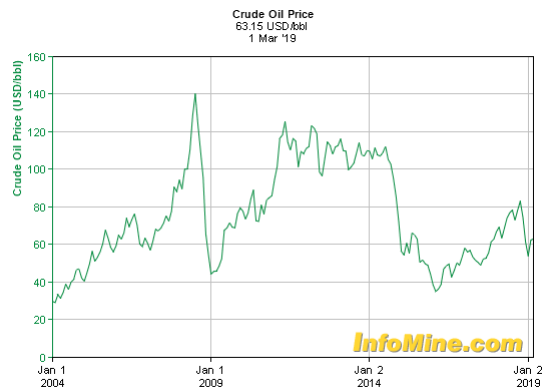
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## Dependence on Imports

Venezuela's oil revenues account for about **98 percent of export earnings**.

Apart from petroleum, the country's natural resources include natural gas, iron ore, gold, bauxite, diamonds and other minerals.

— OPEC



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## Interim President Guaidó



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## U.S. Sanctions

### PdVSA Sanctions

On Jan. 28, 2019, OFAC designated PdVSA on the Specially Designated Nationals ("SDN") List under [EO 13850](#) (Nov. 1, 2018), which authorizes the imposition of sanctions on any person or entity that operates in the Venezuelan oil sector, which Treasury Secretary Steven Mnuchin determined today is a sanctionable Venezuelan economic sector. *What does this mean?*

**Blocking:** Unless otherwise authorized, PdVSA property or interests in property that is or comes into the United States or the possession of a US person is "blocked" (i.e., "frozen") and cannot be transferred, paid, withdrawn, exported, or otherwise dealt in.

**Prohibitions:** "U.S. persons" cannot undertake most transactions with PdVSA. "U.S. persons" include U.S. citizens and permanent residents, entities organized under the laws of the United States and their foreign branches, and persons or entities present in the United States. Unless otherwise authorized, US persons are prohibited from providing funds, goods, or services by, to, or for the benefit of PdVSA, or receiving funds, goods, or services from PdVSA.

**50 Percent Rule:** These prohibitions extends to entities owned 50% or more (whether directly or indirectly, individually or in aggregate) by one or more SDNs ("50% Subsidiaries"). This includes PdVSA subsidiaries and entities in which PdVSA and another SDN (e.g., a sanctioned Russian energy company) own 50% or more.

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## Appointment of CITGO Board

WORLD NEWS FEBRUARY 21, 2019 / 11:11 AM / 10 DAYS AGO

### Citgo's new board arrives in Houston, to hold first meeting: sources

Marianna Parraga

3 MIN READ



(Reuters) - A board of directors appointed this month by Venezuela's opposition-controlled congress to run state-owned oil firm PDVSA's U.S. unit Citgo Petroleum on Thursday was arranging its first meeting at the company's headquarters, according with two people familiar with the matter.

Venezuela's National Assembly, led by opposition leader and self-proclaimed president Juan Guaido, last week appointed new boards for PDVSA and subsidiaries PDV Holding, Citgo Holding and Citgo Petroleum amid a political battle to control the country's foreign assets.

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## Recovery of Venezuela – Plan País



## Recovery of Venezuela



Plan País:  
**La Venezuela  
que Viene**

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## Short-term Goals

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- Stabilize the economy
- Attend to the humanitarian crisis
- Reactivate the oil industry
- Ensure universal access to quality public services
- Guarantee citizen safety
- Generate trust and legal certainty

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## Reactivate the Oil Industry

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### 1. Approve a new Hydrocarbons Law

- a. State ownership of hydrocarbons reservoirs
- b. Private participation in all oil and gas projects
- c. Competitive fiscal regime
- d. Maximize oil and gas production
- e. Create a special agency – AVH – to manage reserves and regulate and supervise the oil and gas sector

### 2. Attract foreign and local private capital

### 3. Guarantee compliance of contracts and obtain greatest benefit to the State from royalties and taxes

### 4. Restructure PDVSA – public competitive company

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## Ensure Access to Public Services

1. Infrastructure/assets to be operated by private investors – awarded via public tenders
2. State maintains ownership of infrastructure/assets - regulation
3. Differentiated prices initially – some subsidies
4. Mechanisms of citizen control of public services

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## Generate Trust and Legal Certainty

1

Revise  
legislation

Priority is to  
enact  
appropriate  
legislation

2

Reform the  
judicial power

Ensure  
separation of  
powers

3

Focus on anti-  
corruption

Create special  
anti-corruption  
jurisdiction

Enact laws for  
protection of  
whistle blowers

4

Federal country

Grant certain  
clear powers to  
the states

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## Venezuela



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