

First Quarter 2020 Report –Venezuela –

April 2020

I. NEWS

This section highlights excerpts of relevant press releases and brief comments on our views regarding such.

“Rosneft sells its assets in Venezuela to the Government of Russia”

Russian oil company, Rosneft, announced it was to cease operations in Venezuela and the sale of all their assets to a company 100% owned by the Russian government. All their assets and business operations in Venezuela will be liquidated or sold.

This decision arose as a consequence to the sanctions imposed by the United States Treasury Department on their subsidiary, Rosneft Trading and its President Didier Casimiro, after being accused of negotiating the sale and transportation of Venezuelan crude.

After the announcement on sanctions, PDVSA shifted several shipments that were previously assigned to Rosneft Trading, which will now be carried by TNK Trading International, a company owned by the former.

Moreover, Mercantile & Maritime a tanker shipping company, said they will stop conveying Venezuelan crude for Rosneft after the announcement of the sanctions by the United States. The maritime company is based in Singapore and owns a fleet of nine oil tankers, one of the largest shipping companies that Rosneft uses to transport Venezuelan crude.

The cease of their operations also includes those Venezuelan joint ventures in Petromonagas, Petroperija, Boqueron, Petromiranda, Petrovictoria, among others.

The Venezuelan National Assembly declared all contracts with Rosneft void, since these were executed without their authorization. These had as guarantee 49.9% of the shares of Citgo.

To this date, Rosneft had been the main carrier of Venezuelan oil destined to China and India, and carrier of gasoline and diesel supplies for Venezuela.

<https://www.bbc.com/mundo/noticias-america-latina-51552541>

<https://itl.reuters.com/articulo/petroleo-venezuela-rosneft-idLTAKBN20P1KP>

<https://elestimulo.com/elinteres/asamblea-nacional-declara-nulas-garantias-entre-pdvsa-y-rosneft/>

“PDVSA intends to resume gasoline production at El Palito refinery”

PDVSA proposed to carry out repairs at El Palito refinery, in order to resume production. The company seeks to restore the capacity to produce 91 octane gasoline using national light crude oil.

<https://www.eluniversal.com/economia/65643/pdvsa-propone-reanudar-la-produccion-de-gasolina-en-la-refineria-el-palito>

“The Venezuelan Central Bank authorized banks to sell foreign currency in cash”

Public and private banks, together with authorized currency exchange intermediaries, may now sell foreign currency in cash. The purpose of this measure is to decrease the accumulation of small operations in foreign currency.

<https://www.elnacional.com/economia/bcv-autorizo-a-los-bancos-vender-divisas-en-efectivo/>

“The National Institute of Aquatic Spaces suspended the boarding and disembarking of all crewmembers throughout the national territory”

The National Institute of Aquatic Spaces [Venezuela's Maritime Authority] – following the Decree of State of Alarm that declared a nationwide quarantine – announced that from March 17 and until further notice, crew changes in every port of the country were suspended. The measure seeks to reduce the spread of COVID-19.

<http://www.inea.gob.ve/action/noticia?id=290>

“Second small Mexican Firm emerges as recipient of Venezuelan oil”

Schlager Business Group, a Mexican company will receive Venezuelan crude under a food-for-oil exchange agreement. On March, Schlager will receive 2.4 million barrels of Venezuelan heavy crude which will head to Singapore on board tanker vessels Euroforce, Afra Laurel and Icaria.

This is the second Mexican company to execute this type of business with the Venezuelan State. To date, the Mexican company, Libre Abordo, had also received about 7.2 million barrels of Venezuelan crude oil since December which were destined for Asia.

<https://itl.reuters.com/articulo/petroleo-mexico-venezuela-idLTAKBN20Y2O1-OUJLT>

“Venezuela offers big discounts amid oil price collapse”

In March, PDVSA offered discounts of up to \$23 per barrel. The company set the price of its Merrey crude oil between 16 and 18 dollars below the value of Brent crude.

Brent which was priced at approximately \$37 dollars per barrel, with the above discounts the company was willing to receive about \$14/ \$18 dollars for the same.

All this in the midst of, inter alia, the decrease in demand due to Coronavirus and the US Sanctions, which have led to additional increases in their inventories.

<https://www.elnacional.com/economia/empresa-mexicana-intercambio-alimentos-por-millones-de-barriles-de-petroleo-venezolano/>

“PDVSA plans to reactivate two crude upgraders to boost production”

PDVSA's plans to resume operations in Petrocedeño, after a year of inactivity. The plan is to turn this upgrader operated by PDVSA, France's Total and Norway's Equinor, into a mixing station to produce Merrey 16 heavy crude by May. Petromonagas, also operated by PDVSA, would follow the same strategy for July.

On October 28th the payment of 913 million Dollars of interest from the 2020 PDVSA bond expired. The guarantee was 50.1% of the shares of Citgo.

<https://itl.reuters.com/articulo/venezuela-petroleo-mejoradores-idLTAKBN20R2D2>

“London Fund offers to buy Venezuela's debt at low prices”

The private Fund MCAHoldCo Ltd has contracted with a German Bank to manage the offer to acquire Venezuelan and PDVSA bonds at bargained prices. The proposal is to pay 10.5% of the value of the bonds issued by the Republic and 6.5% for the PDVSA bonds to holders who, since 2017, have not been able to collect the interests and capital of the securities from the government.

<https://itl.reuters.com/articulo/venezuela-deuda-fondo-idLTAKBN20S26V>

“Citgo and Aruba agreed to transfer control of the San Nicolas refinery”

Citgo agreed with Aruba to transfer control of the San Nicolas refinery to the Island's government, after they suspended a contract to renew and operate the facility. The government of Aruba planned to take full control of the refinery before March 16, with prior authorization from the Island's parliament.

However, Citgo Petroleum Corporation a separate entity, will continue to supply fuel to the airport and service stations of the Island.

<https://itl.reuters.com/articulo/venezuela-petroleo-citgo-idLTAKBN20O1XM>

“Oil tanker stranded by the dispute between Citgo and PDVSA leaves Venezuelan coasts”

M/T Gerd Knutsen detained in Venezuela, unloaded a cargo of oil valued at approximately 57 million dollars.

The vessel, had been detained for over a year since January 2019, in relation to a dispute between PDVSA and Citgo and as a result of the sanctions imposed by the US. Citgo had previously requested an order from a United States Court to prevent the cargo from being released, after the government of Nicolas Maduro sent a letter to the vessel's Master ordering the cargo to be returned.

Citgo confirmed that it was the Venezuelan government that redirected the vessel to the Jose Terminal to unload 960.000 barrels of oil, over which Citgo had legal ownership. This decision was ordered by a Caracas Criminal Court and had the support of the military force. The company will now seek compensation for losses related to the event.

The vessel and its crew reached international waters in late February.

<https://www.elnacional.com/economia/citgo-aseguro-que-el-buque-gerd-knutsen-descargo-casi-1-millon-de-barriles-de-petroleo-en-el-pais-obligado-por-militares/>

“The US is unwilling to renew Chevron's operating license in Venezuela”

The United States is unlikely to further extend Chevron's General License, which is an exemption to the US Sanctions program to access Venezuelan oil reserves. The license allowed the US Company to operate given its assets in Venezuela. The license was issued on January and is in force until April 22. This was the last of four licenses that were granted.

Chevron has a large participation in the Venezuelan oil industry, with 30% in Petropiar and 40% in Petroboscan, both joint ventures with the State company PDVSA.

<https://www.elnacional.com/economia/bloomberg-ee-uu-no-esta-dispuesto-a-renovar-la-licencia-de-operacion-de-chevron-en-venezuela/>

“Indian refineries will cut purchases from PDVSA due to US sanctions”

Reliance Industries and Nayara Energy will stop shipments of Venezuelan crude on April. The companies seek to avoid being sanctioned by the United States for negotiating with PDVSA. Since January, India represents a third of the oil exports in Venezuela.

This decision arose after Rosneft Trading S.A, was sanctioned by the American government.

<https://talcualdigital.com/reuters-refinadores-de-la-india-reduciran-compras-a-pdvsa-por-sanciones-de-eeuu/>

“Trinidad and Tobago and Venezuela cancel their cross-border gas agreement”

The government of Trinidad and Tobago decided to cancel their agreement with Venezuela for the development of a natural gas field along its maritime border, specifically in the Loran-Manatee area.

Trinidad and Tobago took the decision after the sanctions imposed by the United States against Venezuela, which prevented any further development of the project.

The decision affected Chevron, since it has about 60% participation in the Loran field, the remaining belonging to PDVSA.

The countries will continue to explore separately within their border limits, in a field of 10.2 billion cubic feet of gas, 74% of which belongs to Venezuela and 26% to Trinidad and Tobago.

<https://www.efe.com/efe/america/economia/trinidad-y-tobago-venezuela-cancelan-su-acuerdo-de-gas-transfronterizo/20000011-4165291>

“Amuay and Cardón paralyzed, a reflection of the destruction of PDVSA”

The Amuay and Cardon refineries, two of which remained operation in Venezuela, were paralyzed due to the conditions of their distillation processes. Cardon had to be paralyzed to carry out imminent maintenance on one of their distillers, while Amuay shut down completely, since its processes of distillation are inoperative.

These two refineries belong to the Paraguana Refining Center, located in the State of Falcon, the second largest oil complex in the world. The other two PDVSA refineries, Puerto La Cruz and El Palito, are also paralyzed due to the gradual deterioration of their units, the lack of light crude to process and constant power failures.

<https://www.elnacional.com/economia/amuay-y-cardon-paralizadas-un-reflejo-de-la-destruccion-de-pdvsa/>

“The Department of Treasury amended an authorization involving the BCV”

The United States Department of Treasury modified a license which allows international organizations to carry out transactions with the Venezuelan Central Bank. Amongst the organizations that were authorized, are the International Monetary Fund, the Inter-American Development Bank, the Development Bank of Latin America, the Inter-American Reserve Fund and the World Bank. The institutions also included were the International Committee of the Red Cross, agencies attached to the Organization of American States and agencies of the United Nations.

<https://www.elnacional.com/economia/departamento-del-tesoro-modifico-autorizaciones-previas-del-bcv/>

II. CASE LAW

This section comments on relevant case law during the corresponding quarter and our brief comments to it.

The Plenary Chamber of the Venezuelan Supreme Court announced that all Court activities will be suspended from 13 March 2020 until 13 April. Later this week the Court extended the resolution until 13 May. [Please see our newsletter attached for further information.]

III. LEGISLATION

This section expands on National and International Legislation adopted in the country and relevant to the industry.

National Decree N° 4.169 dated 23 March 2020.

The National Executive as part of economic measures imposed to mitigate the effects of COVID-19 in Venezuela agreed to suspend the payment of rent in properties for commercial use and those used as main residence from March 23 until September 1, 2020. [Please see our newsletter attached for further information.]

National Decree N° 4.166 dated 17 March 2020.

The importation of goods for prevention and mitigation of the effects of COVID-19 such as masks and other medical and related supplies will be exempted from paying Value Added Tax, Import Tax and any other Custom obligations. These will be also exempt of VAT in their commercialization within the national territory. This Exception will be in force for one year.

National Decree N° 4.160 dated 13 March 2020.

The National Executive declared a State of Alarm throughout the national territory to deal with the health emergency generated by COVID-19. Consequently, Nicolas Maduro announced transit restrictions in certain areas, as well as the prohibition to transit within regions. The Decree only allows the public to circulate for obtaining essential goods, such as food and medicine. Moreover, people may leave their homes to attend any healthcare facilities. Health professionals are exempted from the measure to perform their duties.

Any work activities that cannot be performed remotely from home are suspended. Nonetheless, some essential services may continue with their daily operations, such as: (i) power industries, phone services, telecommunications, waste disposal and any other that can be qualified as a public residential service; (ii) gas and fuel providers; (iii) public and private health services; (iv) pharmacies and medicine retail in general; (v) food distributors; and inter alia (vi) activities related to the National Port System.

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In addition, all schools and academic activities both public and private are suspended, as well as all public shows, concerts, conferences, exhibitions, gatherings and any other activity which involves crowds of people.

The Executive may also suspend any flights to or from Venezuela for as long as he deems appropriate.

The Decree was promoted for 30 days, but later extended for an additional 30 days, ending on May 13, 2020.

National Decree N° 4.160 dated 13 March 2020.

Mr. Antonio José Salvuchi Marchan was appointed as President of the Port Authority, Bolivariana de Puertos (BOLIPUERTOS).

National Decree N° 4.138 dated 28 February 2020.

The State-owned company Petroleos de Venezuela S.A. (PDVSA) made the following appointments: Mr. Erwin Enrique Hernandez Hernandez as President of Exploration and Production, Mr. Gabriel Rafael Oliveros as Vicepresident of Refining, Mr. Antonio Perez Suarez as Vicepresident of Trade and Supply, Mr. Oswaldo Javier Perez Cuevas as Vicepresident of Finance and Mr. Victor Ramon Zamora Cardenas as Manager of Human Resources.

National Decree N° 4.130 dated 28 February 2020.

Mr. Jose Marquez Gil was appointed as acting President of Corporacion Venezolana de Petroleo, S.A.

National Decree N° 4.131 dated 19 February 2020.

Under the State of Alarm and Economic Emergency by the National Executive, the oil industry was specifically declared in emergency. Therefore, a temporary team named the "Presidential Commission for the Defense, Restructuration and Reorganization of the National Oil Industry Ali Rodriguez Araque" was appointed to address this situation. The Commission will promote, supervise and coordinate all areas of the national oil business and related activities, including those involving Petroleos de Venezuela, S.A (PDVSA) and the Corporacion Venezolana de Petroleo (CVP). This Decree will be in force for 6 months and may be extended for similar periods.

Constitutional Decree dated 29 January 2020.

The Constituent National Assembly approved a reform to the Tax Code, which established for all fines to be indexed to the currency with the highest exchange rate among those daily published by the Venezuelan Central Bank and not based on the set Tax Unit, as had been done in the past pursuant to the law.

Most sanctions were increased to up to 500% and many procedures were shortened for the execution of tax related faults.

The Code provides for payments to be expressed and paid in Bolivares, however, in certain cases the Venezuelan Central Bank and the Ministry of Finance may determine otherwise.

Constitutional Decree dated 29 January 2020.

The Constituent National Assembly modified the Law on Value Added Tax (VAT), which allows the government to receive an supplementary percentage to the general rate of 16%. This additional rate may be set between a minimum of 5% and a maximum of 25% depending if the purchase of goods or services is carried out in foreign currency or in any cryptocurrency other than Petro.

Real estate is part of the transactions which enforce the payment of Value Added Tax (VAT), which will also be subject to the aforementioned additional rate.

A different rate was also established, at a minimum of 15% and a maximum of 25%, in cases of luxury goods and services, such as luxury vehicles, aircrafts, jewelry, watches, weapons, among others.

Constitutional Decree dated 29 January 2020.

The Constituent National Assembly modified the Customs Law. Formerly, the President could only exercise the powers stated in article 3 of the Law within Council of Ministers. Now, with the modification, the President may carry out custom duties without the Council of Ministers. In this sense, new functions were incorporated to the President, under which he may, inter alia: (i) approve any policies and strategies regarding foreign trade and promote import and export operations; (ii) approve Customs Tariffs; (iii) regulate, facilitate or restrict the export, import, circulation and transit of non-national or nationalized goods; (iv) issue regulations on registrations, authorizations, prior control documents, licenses, regimes and import and export procedures; and (v) implement and regulate a Special Customs Regime for land and river exchanges within border States.

Following the modifications above, the members of the Constituent Assembly also altered the limits of the rates and amounts to be paid for the services provided by the Customs Administration. Accordingly, the Tax Unit will no longer be used for calculations, since payments will be quantified taking as a reference the official exchange rate of the highest value currency exchange rate provided by the Venezuelan Central Bank. Which will also apply to the sanctions provided in the Code.

Constitutional Decree dated 29 January 2020.

A new Portfolio was created to finance agriculture, manufacturing, tourism, health and the mortgage sectors, in order to stimulate, promote and support the production and commercialization of goods and services. All financing will be granted by public and private financial institutions.

This organization will be assembled by the Ministries of Economics and Finance, National Commerce, Industries and National Production, Agriculture and Land, and the President of the Venezuelan Central Bank.

National Decree N° 4.106 dated 28 January 2020.

The National Executive released Petroleos de Venezuela (PDVSA) from the payment of Income Tax, including all its subsidiary and mixed companies domiciled or not within the Venezuelan territory.

The exemption will be valid for one year and will be applied for the fiscal year starting 01/01/2019 to 01/31/2019.

National Decree N° 4.103 dated 22 January 2020.

The National Executive authorized the creation of the State company CVG Naviera del Orinoco, C.A, which will be under Corporacion Venezolana de Guayana (CVG). The purpose of this new company is to provide aquatic services to CVG, and its subsidiaries or affiliates. The company will provide transport services by sea, lake and river, port services, dock cleaning, maintenance and repair of shipping equipment, tool workshop and machinery and the lease of docks and buildings.

National Decree N° 4.090 dated 5 January 2020.

The National Executive once again extended the State of Exception and Economic Emergency, throughout the national territory, given the extraordinary circumstances that still affect the social, economic and political field and the security of the Nation.

Provision N° SNAT/2020/00006 by SENIAT dated 13 March 2020.

The Tax Unit was readjusted from fifty Bolivares (Bs. 50.00) to one thousand five hundred Bolivares (Bs. 1.500.00).

Resolution N° 011/2020 by the Ministry Economy and Finance dated 24 March 2020.

The Ministry of Economics and Finance included in Appendix I - which is part of Decree No. 4.080 dated 26 December 2019 - a series of tariff codes to which the exemption will also be applied.

The referred Decree exempts until 30 June 2020, the payment of Value Added Tax, Import Tax and determines the Customs Regime for the definitive imports of new or used personal movable goods, carried out by the Public Administration, as well such as those carried out by individuals and entities.

Resolution N° 006 by the Ministry of Industries and National Production dated 18 February 2020.

Tarek El Aissami, Minister of Industries and National Production, appointed Digrian Jose Romero Zabala as President of CVG Naviera del Orinoco, C.A

Resolution N° 007 by the Ministry of Industries and National Production dated 10 February 2020.

Tarek El Aissami, Minister of Industries and National Production, appointed Jorge Luis Gomez Pimentel as President of CVG Logistica, C.A

Resolution N° 007 by the Ministry of Oil dated 20 January 2020.

The Ministry of Oil limited the geographical area in which the joint venture of Petrosur, S.A. will carry out the primary activities established under the Hydrocarbons Law. This is within the Junin 10 field area, located in the Junin division, State of Anzoategui. The oil deposits that are part of this area belong to the Republic and are of public domain.

Assignment N° CJ-001-19 by the Ministry of Transport dated 16 January 2020.

An assignment was agreed between the Instituto Nacional de Canalizaciones (National Channels Institute) and Corporacion Venezolana de Guayana for exercising powers inherent to the navigation channels in the Orinoco River. The Institute will carry out activities related to the development, conservation, survey, administration and maintenance of the navigation channels of the Orinoco River. It will handle any pending obligations from the shipping companies that arose from the transit of ships throughout the navigation channels.

This assignment will be valid for 5 years and may be extended for equal periods.

Order N° 005 by the National Institute of Aquatic Spaces dated 4 February 2020.

The Maritime Authority informed that the sampling of ballast water was suspended. The suspension will be valid from 4 February 2020 until the procedure to comply with the provisions in the International Convention for the Control and Management of Ballast Water and Ship Sediments, 2004 (BWM) is developed.

Order N° 006 by the National Institute of Aquatic Spaces dated 13 March 2020.

In relation to the sanitary emergency measures by the Venezuelan government to prevent the spread of the COVID-19 virus, the entire national aquatic sector was ordered to implement "Protection Level 1" in all port facilities, maritime terminals, passenger terminals, shipping agencies, and amongst other, sports marinas.

The use of Protection Level 1 does not imply militarization or delay in port activities, so the rules established in the Facilitation on International Maritime Traffic (FAL-65) remain in force.

The following preventive measures must be taken: (i) once Notice of Arrival is rendered, the Master of the vessel will be asked for the last 3 ports called; (ii) a sanitary visit will be made to all national and international flagged vessels, either in transit or that are undergoing cabotage/coastwise navigation upon arrival in port; (iii) if any member of the crew shows symptoms of COVID-19, the entire vessel will be sent to a quarantine area designated by each aquatic zone and the health authorities will carry out all necessary medical evaluations to the crew; (iv) measures will be taken in order to restrict or control the crews of the vessels that arrive at all Venezuelan ports, so that they do not come to shore; (v) measures regarding the use of face masks, antiseptic gel, sanitizers and hand washing by all members of the crew and authorities must also be observed.

Order N° 007 by the National Institute of Aquatic Spaces dated 15 March 2020.

The Harbormaster Offices are informed that as of 15 March 2020, the visits pursuant to article 37 of the Law of Marine and Related Activities are suspended.

Similarly, all documents and exchange information will be carried out electronically. Only sanitary visit and drug surveys will be performed at the arrival and departure of the vessel as it may correspond. There will be no physical approach by the rest of the authorities with the vessels crew and personnel.

Order N° 008 by the National Institute of Aquatic Spaces dated 15 March 2020.

It is prohibited from 15 March 2020, the sailing of any sports or recreational boats and the gathering of people in sports marinas, as well as in establishments located in the coastal and river marine areas.

Order N° 010 by the National Institute of Aquatic Spaces dated 17 March 2020.

Crew changes are suspended in all Venezuelan ports until further notice in an attempt to reduce the spread of COVID-19.

IV. BILLS

This section lists draft regulations/bills being proposed to and/or discussed in Congress or relevant institutions.

There are no bills to report in this Quarter.

V. COVID-19

In response to the national and international emergency caused by the worldwide spread of Covid-19, our team has drafted a compendium on several topics which will be attached to our quarterly reports for ease and reference on the effects on each area.

Please see attached:

(i) Q&A on the Effects of COVID-19 in the Venezuelan Labor Sector

(ii) The Suspension of the payment of rent of properties for Commercial Use and of those used as Main Residence.

(iii) Venezuelan Supreme Court Suspends Court Hours.

(iv) Consequences of COVID-19 in the Venezuelan Legal System.

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