

Second Quarter 2021 Report

–Venezuela–

July 2021

I. NEWS

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

"Citgo will have to pay over \$19 million on Louisiana oil spill"

Citgo Petroleum Corporation agreed to pay \$19.69 million to settle federal and state claims under the Oil Pollution Act and the Louisiana Oil Spill Prevention and Response Act. Nearly 150 miles of coastline were polluted during Citgo's 2006 oil spill, including residential and marsh areas.

<https://www.eluniversal.com/economia/99769/citgo-pagaramas-de-19-millones-por-derrame-de-petroleo-en-luisiana>

"OFAC authorizes Venezuela to execute Covid-19 related transactions"

The Office of Foreign Assets Control of the U.S. Department of the Treasury (OFAC) issued General License No. 39, allowing transactions related to the delivery of masks, ventilators, oxygen tanks, tests, vaccines and other COVID-19 related items.

<https://www.eluniversal.com/economia/99703/ofac-autoriza-a-venezuela-para-realizar-transacciones-relacionadas-al-covid19>

"The United States has now extended until December, the deadline to cease operations with PDVSA"

According to General License 8H issued by the Department of Treasury, companies such as Chevron Corp, Halliburton, Schlumberger Limited, Baker Hughes and Weatherford International will be allowed to preserve their commercial relations with PDVSA until 1 December 2021.

<https://www.eluniversal.com/economia/98439/eeuu-extendio-hasta-diciembre-el-plazo-para-cesar-operaciones-con-pdvsa>

"Venezuela is the sixth country with the highest natural gas flaring"

The World Economic Forum and the World Bank declared Venezuela as one of the countries that burns more natural gas.

The country appears in the 111th position out of a total of 115 nations, only above Lebanon, Mongolia, Haiti and Zimbabwe. The reports indicate that between 2012 and 2020 Venezuela showed a 44% drop in the index created by the World Economic Forum.

<https://www.elnacional.com/economia/venezuela-es-el-sexto-pais-con-mas-quema-de-gas-natural/>

"Venezuela negotiates to avoid China's oil tax effects"

The Venezuelan government is negotiating with China to alleviate the effects of the oil tax that the country is planning to implement, which would have a major impact on Venezuelan crude oil exports. The new tax would be in the amount of US\$30 per barrel on diluted bitumen, the product category under which Venezuela's 16° API Merey blend is imported.

<https://www.elnacional.com/economia/regimen-negocia-para-que-impuesto-petrolero-de-china-no-tenga-efecto-en-venezuela/>

"Private oil companies claim a \$25 billion payment from PDVSA"

The Venezuelan Oil Association (which represents most of the foreign oil companies operating in the country), the Venezuelan Oil Chamber and the Venezuelan Gas Manufacturers Association, urged the Venezuelan government and PDVSA to pay the accumulated debt and overdue dividends that reach the amount of US\$25 billion.

The Venezuelan Oil Association includes members such as Chevron, China's State-owned CNPC, Russia's Rosneft, Europe's ENI, Shell, Total, Equinor, Galp and Perenco, India's ONGC Videsh and Argentina's Pluspetrol.

<https://www.elnacional.com/economia/petroleras-privadas-demandan-a-pdvsa-pago-de-deuda-de-25-000-millones-de-dolares/>

"In a desperate move, Venezuela intends to make fuel in oil upgraders"

In an attempt to alleviate fuel shortage, the government is trying to use oil upgraders to convert them into naphtha, a main ingredient in the gasoline production.

The plants in this experiment are Petropiar with Chevron Corp., as well as PetroCedeño with Total SE and Equinor ASA.

These will initially provide PDVSA's Cardon and Puerto La Cruz refineries with 30.000 barrels per day of heavy naphtha.

<https://www.bloomberg.com/news/articles/2021-05-26/in-desperate-move-venezuela-tries-to-make-fuel-in-oil-upgraders>

"Maduro's regime seeks to achieve foreign investment for PDVSA to raise their oil production"

The government plans to resume the system of private concessions and foreign investment to recover oil production levels. Under the system being discussed, investors will provide 100% of the funds for the operations and commercialization, while the ownership will remain in the hands of the State, as provided under the Constitution.

<https://www.elnacional.com/economia/petroleo/regimen-de-maduro-busca-inversion-extranjera-para-que-pdvsa-levante-su-produccion-petrolera/>

"PDVSA plans to resume the projects for the development of 14 natural gas fields across the country"

PDVSA plans to resume the projects for the development of 14 natural gas fields throughout the country, both onshore and offshore. The plan is to grant licenses to private companies to be able to export natural gas. The project includes investments in the Mejillones and Río Caribe fields, in Lake Maracaibo and in the Nipa Nardo field in the State of Anzoátegui.

<https://www.elnacional.com/economia/pdvsa-planea-retomar-el-desarrollo-de-14-campos-de-gas-natural-en-todo-el-pais/>

II. CASE LAW

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

Judgment by the Cassation Civil Chamber of the Supreme Court of Justice dated 29 April 2021 in re *Gabriela Coromoto Infante Gravina and Solvet Sánchez Briceño vs. Alexander Santa María Ávila and Rosa Mara Nuti*

This Highest Civil Court made a distinction between currency used as "currency of account" in contracts and currency stated as the "exclusive currency of payment".

If payment in foreign currency is stated as the "currency of account" the debtor may be released by delivering the equivalent in Bolívares. On the other hand, if the parties have agreed on foreign currency as "exclusive currency of payment", the debtor will only be released when paying the amount exclusively in foreign currency.

Consequently, an agreement stipulated in foreign currency is not illegal, as long as the contract complies with the exchange agreement in force, as well as with the legal restrictions.

III. LEGISLATION

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

National Decree N° 4.525 dated 9 June 2021

The National Executive issued a Decree which will be valid for six months, to optimize export procedures by improving the process for certificates, permits and licenses.

Such benefits can be used once the exporter has been registered before the Single Registry of Exporters for Foreign Trade.

The Decree provides for an exemption to the legal export rules No. 14 and No. 18 of the Ministry of Food and the Ministry of Fisheries and Aquaculture, respectively.

In addition, the authorizations for the export of cocoa beans and its byproducts, as well as coffee beans, have been waived.

National Decree N° 4.477 dated 4 June 2021

All rent payments for commercial real estate and for main residences (declared as such) are suspended for a period of six months, to alleviate the effects of the pandemic. Businesses operating despite the Decree of Alarm are not subject to this suspension.

Past due payments and future rent payments cannot be enforced during this time.

The parties must reach an agreement to reorganize the payment of the pending rent. However, the lessee cannot be requested to pay the full amount owed at the end of the six months suspension.

Provision N° SAA-8-004-2021 by the Superintendence of Insurance Activity

The Superintendence of Insurance Activity issued a set of Rules on the Management Risks of Money Laundering, Financing of Terrorism and Financing the Proliferation of Weapons of Mass Destruction within the Insurance business. Its aim is to push entities to design and implement a manual including protocols, rules and procedures to manage any risks related to these crimes.

The parties subject to these regulations include: all insurance and reinsurance brokers and companies, representative offices or even branches of foreign reinsurance companies and reinsurance brokerage companies domiciled abroad.

National Assembly Agreement dated 31 May 2021

The National Assembly issued an Agreement to support the implementation of the Constitutional Anti-Blockade Law.

This agreement aims to favour national and foreign investments, improve the flow of foreign currency into the economy and increase the productivity of State-owned companies.

Provision N° 044-2021 of the National Superintendence of Crypto-assets and Related Activities

The Provision provides the rules, actions and controls that must be adopted and enforced by every person or entity in order to prevent and mitigate the risks that their activities and operations are used as mechanisms to legitimize capital from illicit activities, to finance terrorism or to proliferate weapons of mass destruction, considering any level of risk based on their corresponding evaluations.

These Regulations apply to anyone that provides goods and services to third parties through activities involving virtual assets or crypto-assets, into or from the territory of Venezuela, to the providers of virtual assets accounts and wallets, as well as to those who have third party wallets, keep custody or control of virtual assets and the owners, operators and administrators of virtual ATMs. Manuals including protocols will have to be adopted as well.

Provision N° SNAT/2021/000023 of the National Customs and Tax Administration Service

The value of the Tax Unit was readjusted from Bs. 1,500.00 to Bs. 20,000.00.

Joint Resolution N° MPPST-174 and N° MINPET-009 of the Ministry of Labour and Ministry of Oil

Industria Venezolana de Gas INVEGAS, S.C.A., formerly known as Praxair Venezuela, C.A., will be temporarily occupied for a period of 180 continuous days, including all its operational assets, branches and administrative offices, located anywhere in the national territory.

IV. BILLS

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

Electronic Commerce Bill to be discussed by the National Assembly

The President of the Permanent Commission of Economy, Finance and Development, informed that a new Electronic Commerce Bill will be submitted to the National Assembly for discussion in order to address and regulate the flourishing technological activity that has developed in Venezuela as a result of the pandemic.

National Assembly approved an Agreement for the Review and Evaluation of Conventions signed with ILO

The agreement that allows the review and evaluation of the Conventions signed by Venezuela and the International Labor Organization was unanimously approved by the National Assembly. The Parliament will study these International Conventions and decide whether to ratify or not.

<https://www.eluniversal.com/economia/96616/proyecto-de-ley-de-comercio-electronico-sera-debatido-en-la-an>

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