CLYDE&CO

First Quarter Report – Venezuela –

April 2019

I. NEWS

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

"The main oil Terminal and oil improvers of Venezuela has been stopped by power outages"

The main oil Terminal of Venezuela remained inactive during the recent power outages affecting most of the country.

PetroCedeño and PetroSanfelix were not able to operate last week due to the blackouts. Some anonymous sources indicate that PetroMonagas and PetroPiar remain inactive since the first blackout at the beginning of March.

https://lta.reuters.com/articulo/venezuela-apagon-petroleo-idLTAKCN1R82G0

"Shipbroker McQuilling ends tanker contracts with Venezuela's PDVSA"

Several maritime companies have terminated their contracts with PDVSA, following the recent US sanctions. This instance, McQuilling Partners Inc has withdrawn their services from the State owned company. This included about four oil tankers.

Just during January, about 40% of Venezuela´s oil exports were affected and about 6 million barrels of oil were stranded in oil tankers around the world, expecting payment for cargoes.

Bernhard Schulte Shipmanagement has argued that managing PDVSA's became "an impossible task" these days, having worked for over 25 years in Venezuela.

https://www.reuters.com/article/us-venezuela-politics-tankers/shipbroker-mcquilling-ends-tanker-contracts-with-venezuelas-pdvsa-idUSKCN1QW2L6

"World Bank: Venezuela must pay more than 8.000 million Dollars in dispute with ConocoPhillips"

The amount includes a compensation for a dispute before the World Bank. The decision of 27 February determined that Venezuela had to pay 8.000 million Dollars to 3 entities of the company with an annual interest rate of 5.5%.

https://lta.reuters.com/articulo/idLTAL1N20V13P

"Russian Bank, Gazprombank froze PDVSA's accounts "

Gazprombank decided to freeze the accounts of PDVSA to avoid falling into US sanctions. It is believed to be a strange move due to the close link between the Kremlin with the government of Nicolas Maduro.

http://www.bancaynegocios.com/el-banco-ruso-gazprombank-congela-las-cuentas-de-pdvsa/

"PDVSA has 10 vessels stranded in Venezuela due to lack of crewmembers"

The fleet of PDVSA has now 10 vessels stranded due to their financial and operational crisis; other units have been seized abroad.

Reports of incomplete crew due to lack of personnel and labour exodus of the last 3 years. The crewmembers remaining on board highlighted the breach of contracts on behalf of PDVSA, the security issues on board and lack of supplies.

http://www.el-nacional.com/noticias/economia/pdvsa-tiene-varados-venezuela-buques-por-falta-tripulacion_273816

"Venezuelan Central Bank authorized banks and exchange operators to sell foreign currencies"

On 6 February 2019, the Venezuelan Central Bank authorized Banks to sell foreign currency, however with some limitations: up to 1.000 Euros daily per client, 4.000 per month and 8.500 per year or its equivalent, and cash withdrawals up to 500 Euros daily.

http://www.el-nacional.com/noticias/economia/bcv-autorizo-bancos-casas-cambio-venta-divisas-extranjeras_270726

"Owens Illinois sued Venezuela for 500 million Dollars"

Owens-Illinois filed a claim against Venezuela for the nationalization of 2 factories in 2010. In 2015 the company achieved a favourable arbitration award for 372 million Dollars, plus interests.

http://www.el-nacional.com/noticias/economia/owens-illinois-demando-venezuela-por-500-millones-dolares_270602

"PDVSA will redirect its oil sales towards Europe and Asia"

PDVSA's plan after the US sanctions, is to redirect their oil towards new destinations.

The 500.000 barrels destined to the US, will be readdressed to Europe and Asia. National Security Counsel of the White House said Venezuela will be losing about 11.000 million Dollars with this new restrictions. Such redirection will take time due to the type of cargo, carriage and amounts, but Venezuela is trusting that at least Russia and China will not mind the sanctions. Also some increase in oil prices can be expected from such modifications in the market.

http://www.eluniversal.com/economia/32457/pdvsa-reorientara-venta-de-crudo-hacia-europa-y-asia

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"Venezuela reduced their debt with Rosneft in $2.300 MM"

Rosneft declared that Venezuela has been paying their debt and already returned 2.300 million Dollars of the total amount of 4.600 million.

Part of the debt is paid in oil or hydrocarbons. Presently, Rosneft has minor participation in many oil projects and owns several gas facilities, with a total of 2.107 million Dollars invested in projects in Venezuela.

http://www.eluniversal.com/economia/32347/venezuela-redujo-deuda-con-rosneft-en-2300-mm

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"An Award against Venezuela was annulled for almost 1 billion"

The Court of Appeals in Paris partially annulled the award that declared Venezuela responsible of paying 966.500.000 Dollars plus interests to Rusoro Mining Ltd. The decision was issued on 29 January after the Attorney General of Venezuela filed an appeal.

Rusoro worked since 2002 in the mining business with the State of Venezuela. In 2008, it was asked to re-negotiate the conditions and terms of their agreement, having to adapt to the new legislation. Such negotiations were unsuccessful due to the unfair conditions offered. Nonetheless, decision of January recognized the sovereign rights of the State over their mineral resources and recognized them as of national interest.

http://www.eluniversal.com/economia/32258/anulan-laudo-por-casi-1-millardo-contra-venezuela

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"A fleet of vessels with Venezuelan oil are gathered today in the Golf of Mexico"

About 7 million barrels of Venezuelan crude oil are stranded in the Golf of Mexico pending instructions.

After the sanctions imposed over the State Oil Company, whose accounts are controlled by former President Nicolas Maduro, the clients of PDVSA have no idea who they shall pay for their purchase. The sanctions state that the payments should be made to the President of the National Assembly Juan Guaido, who is the legitimate Interim President of Venezuela.

Operators argued that some shipments were just being stored on the vessels to be offered in open market, while others were waiting for a refinery willing to accept the crude oil despite of the sanctions.

https://lta.reuters.com/articulo/petroleo-venezuela-envios-idLTAKCN1PU02U

"Reuters: PetroChina will withdraw PDVSA as partner in a refinery Project"

PetroChina plans to withdraw PDVSA as partner in a project on the South of China. Sources say that the decision is not based on the recent sanctions, but on the significant weakening of the financial situation of the State of Venezuela in the last few years.

http://www.el-nacional.com/noticias/petroleo/reuters-petrochina-retirara-pdvsa-como-socio-proyecto-refineria_268887

"US Banks stopped negotiating with PDVSA bonds"

After the US sanctions against PDVSA, most banks stop trading the its bonds. Forcing their owners to sell to someone abroad or to hold on to them. Certain ambiguity on the terms of the sanctions, has led other markets to hold back on trading with these bonds as well.

http://www.eluniversal.com/economia/31837/bancos-de-eeuu-dejaron-de-negociar-bonos-de-pdvsa

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"The US Department of Treasury imposed sanctions on PDVSA"

Last January the US enforced sanctions on the Venezuelan State-owned company PDVSA. All assets and interests property of PDVSA subject to US Jurisdiction were blocked and all Americans are forbidden to trade with it. The Secretary of State declared that Citgo could continue their operations as long as their income was deposited in an escrow account.

The sanctions were motivated by the constant deviation of assets of Nicolas Maduro and the recent proclamation of Interim President Juan Guaido under the Constitution.

PDVSA is known to be used in devious actions of corruption, involving the embezzlement of thousands of millions of Dollars in benefit of PDVSA's management and other Venezuelan businessmen. Certain former executives of PDVSA have already admitted to have acted in conspiracy to commit money laundry in international schemes for huge amounts of money.

The sanctions are not deemed to be permanent and the OFAC has been issuing general licenses to authorize certain operations or activities.

http://www.eluniversal.com/politica/31680/estados-unidos-anuncio-sanciones-contra-pdvsa

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II. CASE LAW

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

The Courts were in judicial recess from 20 December 2018 to 7 January 2019.

In addition, many non-working days have been decreed due to the recent blackouts and water emergencies all over the country, reducing the Courts working hours to a minimum.

There is no relevant Case Law to report.

III. LEGISLATION

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

Special Provision N° SNAT/2019/00046 by the Tax Authority (SENIAT) dated 7 March 2019.

The Tax Unit was increased from 17 Bs.S. To 50 Bs.S.

National Decree N° 3.755 dated 5 February 2019.

Nicolas Maduro has declared exempt from VAT all services involved in the execution of the Minimum Development Program derived from the general conditions of the License for Exploration and Exploitation of Non-Associated Gas Hydrocarbons of the Camps Patao and Mejillones on the Mariscal Sucre Area.

In order for the exemption to proceed, it requires the prior approval of the Ministry of Oil and the beneficiaries will be subject to periodical evaluations.

Constituent National Assembly Decree dated 30 January 2019.

The Constituent National Assembly enacted a Law on the Integral System of Cryptoactives. The activities developed through this system, will be regulated by the National Superintendence of Cryptoactives and Related Activities.

The Law includes the rules that will govern all commercial activities that involve cryptoactives, with special reference to exchange operators, digital mining and blockchain technology. It sets a number of formalities and penalties for non-compliance with the provisions set forth therein. Finally, this Law supersedes National Decree N° 3.355 and 3.196, which originally created and authorized the Superintendence of Cryptoactives.

Official Announcement from the Venezuelan Central Bank dated 30 January 2019.

The Venezuelan Central Bank has authorized holders of more than one account in foreign currency in Venezuela, to perform wire transfers between their own accounts or even accounts owned by third parties.

Joint Resolution of the Ministry of Planning and the Ministry of Economy and Finance N° 001/2019 and N°004/2019, respectively, dated 18 January 2019.

The Ministry of Planning and the Ministry of Economy and Finance enacted a joint resolution to adjust the value of the Unit of Arithmetic Calculation for the Maximum and Minimum Threshold for public contracting (UCAU for its acronym in Spanish) in the amount of Bs.S. 350. This unit replaces the standard Tax Unit for operations related with public contracts, being originally created to protect the people's fundamental rights and avoid any distortions in the economy.

IV. BILLS

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

Regulations on Search and Rescue (SAR).

The National Institute of Aquatic Spaces has raised for public consultation a project including detailed rules on marine salvage. The rules include the maintenance, operation and organization of all marine search and rescue maneuvers within the Venezuelan Aquatic Spaces.

Venezuela as a Party to the SOLAS Convention, must comply with certain standard international rules in order to be capable of providing proper SAR.

The Rules include among others:

(i) the obligation of the Master of a vessel to provide assistance to other vessels in danger without compromising his own vessel and crew;

(ii) the obligation to have search and rescue procedures available 24 hours a day, with personnel duly trained and capable in the English language;

(iii) the steps and procedures to be followed in the events of a SAR;

(iv) assigns the National Coast Guard as coordinator of any SAR operation; and

(v) insists on the cooperation that must exists between the private and public sectors in such activities.

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