Guyana and Suriname: The Next Five Years

Webinar Recap

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After two years of unprecedented excitement over new oil discoveries in Guyana and Suriname, these Caribbean countries recently held elections and are now setting a course for the next five years against a backdrop of extreme uncertainty. On 4 June, Sarah Keeling, a former senior British government official and StoneTurn Senior Adviser, led a panel of experts to outline emerging risks and opportunities for those with interests in Guyana and Suriname.

Panelists included:

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Geopolitical and Economical Concerns *(Sarah Keeling)*

Although the outcomes of recent elections in Guyana and Suriname are still unclear, the nascent governments will come to power facing the reality of a depressed oil price, the economic impact of the COVID-19 crisis, environmental challenges, as well as some controversy over the elections themselves. The future success of both countries will depend upon using oil and mining revenues to fund infrastructure and environmental projects, attract further foreign investment, and support enhancements to many of the institutions in both Guyana and Suriname.

Despite these domestic challenges, there are significant opportunities in the region, making this a very exciting time, both in the context of the elections and potential new governments, as well as recent extraordinary oil finds.

Elections Update and the Impact of Oil Discoveries *(Greg Quinn)*

While voting in Guyana took place on 2 March 2020, an extended and highly scrutinized recount process has delayed final results from this hotly contested and controversial election. Regardless of the outcome, the incoming government must demonstrate that it rules for every Guyanese citizen and is willing to support constitutional reform and reconciliation in order to overcome some of the issues that led to such a significant delay in the election results.

On the economic front, oil and gas will change Guyana beyond all recognition. So far, 21 exploration wells have been drilled—19 of which have been deemed commercially recoverable reserves, totaling some 8 billion barrels of oil. Guyana is currently classified as a low middle-income country. GDP per capita was U.S. $5,250 as of last year, but that is expected to double by 2021. For business, that means a hugely expanded market, more affluent consumers and new opportunities across a range of areas. The hope is oil can also provide the government with the money needed to build new infrastructure, hospitals, and schools, and generally put in place a better social support network across the country.

Clearly, the people of Guyana expect benefits from outside investment to remain in-country and anticipate a visible increase in jobs and local investment. So, any company that will be successful here must build business-to-business links in the form of a local distributor, form a local joint venture or set-up a local office. The desire for partnership and local content is absolutely key.

While Guyana is rich with opportunity, it also has its challenges. The country is geographically large (about the size of mainland U.K.) and populated by about 750,000 people. Over 80% of the land mass is covered by forest, creating capacity issues in terms of managing and regulating the emerging oil industry and the wealth that comes from it. Work is already underway to improve capacity through education and training so the Guyanese people can take on the jobs created by the oil and gas industry.

On the environmental front, Guyana is home to a huge carbon sink and massive parts of the forest are protected. While Guyana receives significant international credit for what it does on environmental front—climate change is a huge risk for the country. Most people live within a 10-mile wide strip along the coast, much of which is below sea level. Sea walls, along with a series of canals put in place by the Dutch, help control rising sea levels today. Any government must balance the benefits from the oil and gas industry with environmental risks to ensure Guyana stays viable.

Similar to Guyana, Suriname is in the midst of a somewhat controversial election. It seems from initial results that the ruling party lost the election, but a final resolution is not expected until later this summer.

Suriname's economy has been hit hard in recent years. Bauxite is not as lucrative as it once was, but gold opportunities have grown. The hope is that recent offshore oil discoveries can help the country overcome its economic problems. However, Suriname is still several years off from a true economic upswing, as they are not yet in the production phase of oil.

Any incoming government will have to focus on resolving the current economic issues, given little progress has been made thus far on implementing "urgently needed" fiscal reform. In addition to mining, ecotourism is a strong opportunity for the country, which is 91% forest. Like Guyana, future success for Suriname will largely be dependent on oil and how its government handles recent discoveries.

Political Infrastructure and Economic Outlook *(Chris Bennett)*

Both Guyana and Suriname are home to an amazing mix of cultures, ethnicities, architecture, food and religions, making it a region unlike any other in the Caribbean. Guyana, which translates to "land of rivers," became independent from British control in 1966, while Suriname gained its independence in 1975. These origins have left the countries with the English and Dutch languages, respectively, as well as a distinct new language in Suriname, Sranan Tongo. Guyana applies English common law and Suriname follows a version of the Dutch civil code, which has been infrequently updated since independence presenting challenges at times for businesses operating there. Both countries have significant populations (300,000-500,000) living overseas and, as a result, have a global outlook and are well-connected internationally. Given the history of both countries and foreign involvement through colonisation, they are cautious of foreign investors and sovereignty is always a key consideration.

Guyana's economy was originally structured around sugar, timber and rice, and subsequently has moved into alumina and gold, with gold becoming the primary source of revenue in recent years. Both countries are fundamentally gold-mining economies, with about 60% of their exports attributed to gold. In 2018, Suriname gold exports totaled about $1.6 billion and in Guyana, about $830 million. In addition to gold mining, Suriname does have an existing oil and gas industry. Staatsolie has been producing oil from onshore deposits in Suriname for about the last 25 years and, in 2016, moved into refining capacity, which has reduced imports. Today, crude brings in about $5.6 million in revenues annually.

The scale of oil discoveries by Exxon in Guyana is staggering by anyone's reckoning. So far, 13.5 billion barrels of recoverable oil have been identified in the Guyana-Suriname Basin (8.5 billion de-risked by Exxon to date), along with substantial gas reserves, estimated at around 32 trillion cubic feet of gas in the entire Basin. This will mean a dramatic economic change to both countries as a huge influx of new revenues enable their governments to better deliver services to the population.

In turn, the price of real estate in Guyana is going up along with demand for commercial premises. New hotels and restaurants are opening, shipping yards are popping up, new air routes are being developed with airport expansions; there has also been an increase in supporting service activity such as legal firms, accounting practices, etc. In all, there is a lot of activity, excitement and growth, and the same is expected to follow in Suriname.

In terms of the public sector, health statistics in Guyana are troubling compared to other Caribbean nations such as Trinidad and Barbados with stronger economies. So, public health will be a top priority for any government in Guyana. Construction plans were just announced for a new hospital, with two or three others planned. The country has great room for improvement in medicine and its citizens all too often choose to leave the country for treatment at present. Fortunately, the Suriname and Guyanese people have not been impacted heavily by the COVID-19 pandemic, but there could be very serious issues if that is to change. Coronavirus-related economic disruption has been quite minor here compared to the U.K., but we have recently seen a spike in cases which hopefully is not the beginning of a trend.

Looking at infrastructure, better communication between the two countries will also be a public sector priority as there is currently no bridge or easy way to travel between Guyana and Suriname. There are also a few long-standing bridge, road and port projects that are much needed in the region and would further improve the economy. The most significant of these are the expansion of the port of Paramaribo into a regional supply hub; and the construction of an all-weather road from the port into Guyana and then up to Brazil via Lethem.

In terms of power supply, a large-scale hydro power project at Amaila Falls which could provide 165 megawatts, enough to supply the entire grid, could feasibly be resurrected upon the election of a new government. There are also discussions as to whether gas could be brought onshore from the Exxon finds and power electricity in Guyana or other downstream activities. Costs for that pipeline approach are quite high (around $1 billion) and, as a result, may not get off the ground. In Suriname, discussions around reforms needed for the electricity sector are well underway.

These transformational plans for power plants and solar plants will likely be accelerated with increased revenues flowing from new gas and oil discoveries.

Conducting Business and Navigating Risk *(Ted Greeno)*

As a disputes lawyer, I can say that dispute regimes are not generally a popular topic at the beginning of a new venture or when important resources begin to be developed in a country. But a well-running disputes regime is critical to continued investment in any natural resources-based industry. The regime helps to clearly define rights and obligations and puts them in place for the long-term, ensuring success for both the government and investors.

By way of background, the potential in the region to develop resources was widely promoted by The World Bank in 1984. As a result, two offshore licenses were granted in 1988 and 1991, but the maritime territorial dispute between Suriname and Guyana held exploration and development back. In June 1999, Exxon was granted its license, but development didn't really accelerate until late 2007, when the maritime dispute was resolved under the United Nations Convention on the Law of the Sea done under the auspices of arbitration in the Hague. International corporations came into the region soon after that.

In 2008, Exxon explored the area with 3-D seismic and drilled its first well in 2015. Discovery then ignited the oil industry's interest, bringing more operations into the oil rush. The Basin is now arguably the hottest deepwater region in the world. There has been a great deal of investment, which comes with advantages and perils, particularly when there is little infrastructure—legal or otherwise—in place to deal with rapid change.

My fellow panelists have already discussed the advantages that foreign investment brings: employment opportunities, an influx of knowledge around building businesses and links to international markets that strengthen trade opportunities beyond oil. This globalisation, if you will, provides access to goods and services that wouldn't otherwise have been possible and raises public revenues.

Foreign investors increasingly come under pressure to promote economic empowerment, foster knowledge transfer, protect the local environment and preserve culture—and this is certainly the case in Guyana and Suriname. Foreign investors are putting forth a great deal of effort because the potential rewards are significant.

Like all foreign investors, oil companies want to maximise returns and minimise risks. Before pursuing development in an area, investors look at mitigating factors such as transparency and red tape. Guyana has published several of its oil concessions online, undertaking to make all oil concessions public, which has helped level the playing field. Investors also look at political risk, which is factored into their economic calculations as to whether to develop a find. Available tax advantages, double taxation treaties and, most importantly, investment and free trade agreements—in particular, bilateral investment treaties—all help to protect their investment.

Investors also must assess geopolitical risk. For example, Exxon's recent dispute with the Venezuelan government escalated to gun boats disrupting the company's operations in the west, while development has continued in the eastern portion of the Stabroek Block.

Guyana's Stabroek Concession is available publicly and contains a stability clause. This is a contractual undertaking by the host government that states it will maintain the laws that relate to the economic benefits of the investment. The host government agrees it will not modify, terminate, or seek to alter laws which may have an adverse economic effect on the investor's rights without prior written consent. If a law or regulation is changed in a detrimental way for the investor (e.g., tax increases), the clause obliges the government promptly to take steps to restore the economic balance of the Concession. This stability clause provides considerable assurance for any foreign investor and the method for resolution is typically arbitration.

The Stabroek Concession provides for arbitration at the International Centre for Settlement of Investment Disputes (ICSID), based in Washington D.C. ICSID awards can only be set aside by ICSID itself, and cannot be set aside in national courts, offering further protection for investors. Going to arbitration is a big step for any investor to take against a host government. At this point, the working relationship, which is essential to the success of any project, has likely been undermined. Thus, arbitration is definitely a last resort. But it is also a possibility which the host state should not dismiss as too risky for an investor, as can be seen from the multi-billion-dollar awards secured by Conoco-Phillips and Mobil against Venezuela.

In addition to contractual protections, investors should also take advantage of applicable treaties to maximise protection of their investment. Suriname has only one existing treaty with the Netherlands, while Guyana has treaties with China, Germany, Korea, Switzerland and the U.K. Both the U.K.-Guyana and Netherlands-Suriname treaties extend to other nearby jurisdictions. Further, both these treaties, along with the Guyana-Switzerland treaty, protect local entities under foreign control to ensure that property is not expropriated. Any wise investor will take advantage of these arrangements and structure their organisation or investments through subsidiaries in countries that have signed bilateral investment treaties with Guyana and Suriname.

Question and Answer Session

Q. The fiscal deficit in Suriname is now quite large and debt levels have risen rapidly in the country. If the opposition wins the election in Suriname—which now seems likely —will the country be better able to undertake fiscal consolidation and debt repayment issues? In addition, how might any consolidation efforts impact political stability?

Greg Quinn: There is no barrier to any Surinamese government undertaking the necessary fiscal reforms, it's more a question of political will. The reality is that whichever government takes power will be faced with some difficult fiscal decisions. Oil discoveries are not going to solve the country's problems in the short-term. Whomever becomes the ruling government will have to make some tough decisions early on—which, perhaps, is politically the best time to make potentially unpopular choices.

Chris Bennett: My understanding is that there is likely to be a devaluation of the Surinamese dollar. It is currently running at an official exchange rate of approximately 7.5 Surinamese dollars to the U.S. dollar, with the unofficial rate closer to 16:1. So the currency is substantially overvalued, and this has been the case in previous electoral cycles. In 2010 and 2015, for example, there was a substantial currency adjustment and people suffered greatly from the resulting loss in purchasing power. That is the type of 'tough decision' that will need to be made early on by those in power. There is some discussion already around what the current government will do to refinance some of its current debt obligations, such as the recent hydro dam purchase from Alcoa. Unfortunately, Mr. Bouterse, the current president, was unable to deal with many governments and agencies as result of his conviction in the Netherlands on drug charges and an active Interpol warrant for his arrest being in place. A new government may be better positioned to have an open dialogue regarding new sources of donor funds or other types of financial assistance.

Q. Can you advise if there is any intention to institute direct flights from the U.K. to Guyana?

Greg Quinn: Prior to the global pandemic, a series of preliminary discussions took place with a number of airlines regarding direct air links to Guyana. There are no logistical constraints with increasing access by air—the runway can accommodate 747s. The question is: does it make good business sense for airlines? All of the airlines are now considering how and when it might make best business sense to institute more flights post-COVID-19. I think in the near-term, we will first see "hop on" type flights coming out of Barbados until the travel industry is in a better economic situation.

Q. As a Guyanese scholar due to return to the country, I'd appreciate your thoughts on the type of transformational rural development we can expect to see in Guyana over the next five years?

Greg Quinn: There is a very clear understanding among all of the political parties that oil and gas monies must be used to benefit all people in Guyana—not just those living along the coastal strip. In particular, building up small-scale power generation capabilities in the hinterlands—such as hydro—will be a focus. This will help create the infrastructure needed to support improved tourism, agriculture, education and health. As a first step, we are seeing improvements to the road between Linden and Lethem allowing for better access to major markets and export routes.

Chris Bennett: In addition to the road development already underway as the result of investment from Barbados and elsewhere, the future of the sugar sector is also critically important. The sugar industry is a significant employer in rural communities but, unfortunately, not proving to be commercially successful. Something must be done to help bolster the sugar sector—whether that's improving their route to market, strengthening protection from imports or encouraging diversification into other food stuffs. It is a great tragedy that suicide rates in rural Guyana are four-times the global rate because so many feel there is no opportunity there.

Greg Quinn: Building on Chris' comments—sugar is interesting because the Guyanese rum industry is producing a highly demanded, high quality product in El Dorado rum. Sugar makes that possible and using local product / raw materials adds value as rum producers endeavor to meet worldwide demand for high-class spirits.

Q. Two questions: To what extent, if any, could the political situation affect the oil sector in Guyana and secondly, what are the prospects for sanctions if an unconstitutional government is seated in Guyana?

Greg Quinn: Many countries worldwide have made it clear that if any Guyanese government is sworn in on the basis of non-credible results—there will be consequences. Ultimately, I believe that whichever administration is in power, they will recognize and understand that the oil and gas industry is transformational and vital to the future prosperity of Guyana. And so, any regime will endeavor to ensure that the industry can operate effectively in the country. As an example, amidst COVID-19 lockdown orders, the only flights coming into Guyana at present are bringing in oil workers for shift changes, which makes very clear the commitment to the industry here.

Q. Do you have any views on the likely outcome of the election recount in Guyana? Also, what would a change in government mean for the investment environment for foreign companies in oil and gas and other sectors?

Chris Bennett: There have been numerous discussions by international observers that the People's Progressive Party (PPP) is likely to have won the election. The speed at which change happens remains to be seen. Much of the legislation related to oil and gas investment has been put in place by the current government—in particular, instituting the Sovereign Wealth Fund took place earlier this year after the vote of confidence collapse of the government majority. I suspect PPP will look at that and may approach the legislation in a different way. But, ultimately, investors should not expect much change as the imperative for all concerned is to ensure the future of the industry and make certain that investors aren't frightened away.

Greg Quinn: There is always some tinkering that occurs with any change in government. The opposition will likely question the basis on which the Sovereign Wealth Fund was passed, since it occurred after a no confidence vote. However, any government wants to see increased foreign investment and the overriding issue is to ensure that those foreign monies benefit people here.

Q. How did you see other countries in the Caribbean like Colombia supporting the development of Guyana and Suriname?

Greg Quinn: I'm not familiar with Colombia's foreign policy toward the region, but I know they have a growing ambition to provide diplomatic outreach. Colombia's oil and gas sector is doing very well as the result of Venezuelan capital and expertise. Over the past 3-4 years, we have seen a queue of international experts from oil and gas-producing countries offering their insights, so I would not be surprised to see Colombia have more of a presence in Guyana and/or Suriname.

Greg Quinn: In the region, Brazil is already very active given the long, shared border. Mexico has also been actively supporting the oil and gas sector. Chile, Peru and Argentina are here diplomatically as well, which was not the case 7-8 years ago. I agree we will see increased interest from other countries in the region looking to pass on their oil and gas expertise.

Q. There is some controversy over the deal between Exxon and Guyana and whether terms were optimal for Guyana. What should investors be thinking as they approach deals and deal terms in Suriname?

Ted Greeno: Any investors in Suriname should look for a stability clause and attempt to structure investments through the Netherlands via a subsidiary or some other means to take advantage of the Bilateral Investment Treaty. Otherwise, ideal fiscal terms always include tax breaks and other in-country perks, as well as an ICSID arbitration clause or, if not ICSID, in a well-established arbitration venue.

Q. What is the future for Staatsolie? Will it remain both a regulator and a national oil company?

Greg Quinn: Staatsolie provides an excellent example—they do a good job as both a regulator and an oil company as the result of their high-quality staff. However, I believe that the previous onshore oil operation will be dwarfed by what's going to happen offshore. So, some consideration must be given as to whether the current model is fit for purpose.

Q. With relation to Guyana, there are many who see a dichotomy between the desire to pump oil and gas and concerns about the impacts of climate change and rising sea levels. At the same time the current government is also pushing a 'Green State Development Strategy.' Is it possible to pursue oil wealth whilst still being at the forefront of demands for action on climate change and the environment?

Greg Quinn: Very much so. Oil and gas will provide funding to allow Guyana to put in place its development needs, including renewable energy. Given the country currently uses heavy fuel oil for power, there are huge benefits from using funding from oil and gas to do this.

Q. Where will Guyana be in 10 years' time? Can it avoid the resource curse?

Greg Quinn: I have every expectation that, in 10 years, I will not recognize Guyana as it will have developed in a truly positive sense. Both the politicians (on all sides) and businesses understand the dangers of the resource curse. They are determined to avoid it and are clear on the importance of not letting the economy become focussed solely on supporting the oil and gas industry. Indeed, they want to see skills develop which are applicable to other areas—be that engineering, construction etc. There is a desire to develop and expand other industries, such as tourism and agriculture, as well as to develop facilities such as a deep-water port, which would allow Guyana to be an exit route for goods from Brazil for example.

Q. On Suriname, how keen is it to expand its relations with the U.K. and what do new oil finds mean for the country?

Greg Quinn: The current government has been clear about its desire to increase connections with the U.K. It is particularly keen to do so in a post-Brexit era. Similar to Guyana, oil and gas should, in the longer-term, provide funds to allow broader development in Suriname.

StoneTurn Latin America

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