

# The Lifting of Sanctions and the Oil Collapse of Venezuela

by Rafael Ramírez

On 18 October, the US Office of Foreign Assets Control (OFAC)<sup>1</sup> issued Licenses 43 and 44,<sup>2</sup> lifting the sanctions on the Venezuelan oil and mining sector that had been in place since January 2019. The OFAC measure is of a temporary nature, for a period of six months, subject to compliance by the Venezuelan government with the political agreements signed on 17 October with sectors of the opposition in Barbados.<sup>3</sup>

<sup>1</sup> Agency of the US Department of Treasury, that administers and enforces economic sanctions against countries and groups of individuals.

<sup>2</sup> OFAC, *Venezuela General License 43* (31 CFR part 591), Washington, 18 October 2023, <https://ofac.treasury.gov/media/932226/download?inline>; and *Venezuela General License 44* (31 CFR part 591), Washington, 18 October 2023, <https://ofac.treasury.gov/media/932231/download?inline>.

<sup>3</sup> Norwegian Government website: *The Venezuelan Negotiation Process*, [https://www.regjeringen.no/en/topics/id2674295; Acuerdo parcial sobre la promoción de derechos políticos y garantías electorales para todos](https://www.regjeringen.no/en/topics/id2674295;Acuerdo%20parcial%20sobre%20la%20promoci%C3%B3n%20de%20derechos%20pol%C3%ADticos%20y%20garant%C3%ADas%20electorales%20para%20todos) [Partial agreement on the promotion of political rights and electoral guarantees

Although the state-owned oil and gas company PDVSA is no longer subject to any type of restriction, the increase in oil production will be limited in the short and medium term, given the dimension of the Venezuelan oil collapse in the last decade,<sup>4</sup> which was largely due to the massive deterioration of the country's political and economic situation, as well as to the mismanagement of the oil industry and the political persecution within PDVSA.

## *Sanctions as a scapegoat*

When the US sanctions to the oil industry and the major export sectors of the Venezuelan economy, including

for all], Bridgetown, 17 October 2023, <https://www.regjeringen.no/contentassets/ac03d5655a8448e0a9653cd95d5c7978/garantias-electorales.pdf>.

<sup>4</sup> Rafael Ramírez, "The Venezuelan Oil Industry Collapse: Economic, Social and Political Implications", in *IAI Commentaries*, No. 21|52 (November 2021), <https://www.iai.it/en/node/14308>.

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PDVSA, were imposed in 2019, Venezuela's oil production already stood at 1.15 million barrels per day (mbd),<sup>5</sup> a loss of 1.87 mbd, compared to the average production of 3.02 mbd in 2013.<sup>6</sup> The collapse of oil production had already begun in 2014, as a consequence of the political persecution and government intervention in PDVSA and its subsequent militarisation in 2017.<sup>7</sup>

From 2014, the country has experienced a period of tough political and economic destabilisation. The government acted violently against all opponents, both the traditional opposition and *chavismo*.<sup>8</sup> Between 2014–2019, the government conducted a massive political *razzia* in Venezuela, strengthening its control over public institutions and state companies to secure its power. This resulted in governmental intervention in PDVSA, imprisoning more than one hundred managers and workers and leading over 30,000 specialised workers to leave the company due to the deterioration of labour conditions. Meanwhile, the government sidelined

the National Assembly<sup>9</sup> and took control of the Supreme Court of Justice and the judiciary, as well as the Attorney General's Office.<sup>10</sup>

In this period of violence, the Venezuelan GDP drastically diminished, and the country went through a phase of hyperinflation, which has continued until today. This economic deterioration was due to the collapse of PDVSA's production and the package of economic shock measures<sup>11</sup> – massive currency devaluation, dollarisation of the economy, removal of price controls, reduction of salaries, elimination of labour gains and rights, dramatic cuts to social spending, privatisation etc. – imposed by the government of Nicolás Maduro in 2018.

By 2018, oil production had already fallen by 62 per cent, the economy had shrunk by 61 per cent,<sup>12</sup> and the *bolívar*, the national currency, had devalued by

<sup>5</sup> OPEC, *Monthly Oil Market Report February 2019*, 12 February 2019, p. 57, [https://www.opec.org/opec\\_web/en/publications/5392.htm](https://www.opec.org/opec_web/en/publications/5392.htm).

<sup>6</sup> PDVSA, *Informe de Gestión Anual 2013*, Caracas, 2013, p. 53, <http://www.pdvsa.com/images/pdf/informesdeGestionNuevos/IGA2013Definitivo.pdf>.

<sup>7</sup> Alexandra Ulmer and Deisy Buitrago, "Maduro Taps Major General to Lead Venezuela's Deteriorating Oil Industry", in *Reuters*, 26 November 2017, <https://www.reuters.com/article/idUSKBN1DQ0R9>.

<sup>8</sup> During this period, former ministers of President Chávez's government were imprisoned and exiled, and street protests were violently repressed, causing hundreds of deaths and political detainees.

<sup>9</sup> The National Assembly was elected in 2015 and is controlled by the opposition.

<sup>10</sup> Ludmila Vinogradoff, "Maikel Moreno, el nuevo jefe del Tribunal Supremo nombrado por Maduro, estuvo preso por dos asesinatos", in *ABC International*, 25 February 2017, [https://www.abc.es/internacional/abci-maikel-moreno-nuevo-jefe-tribunal-supremo-nombrado-maduro-estuvo-preso-asesinatos-201702252251\\_noticia.html](https://www.abc.es/internacional/abci-maikel-moreno-nuevo-jefe-tribunal-supremo-nombrado-maduro-estuvo-preso-asesinatos-201702252251_noticia.html); Daniel Pardo, "Quién es Tarek William Saab, el 'poeta de la revolución' que la Asamblea Constituyente de Venezuela nombró como nuevo fiscal general", in *BBC News*, 5 August 2017, <https://www.bbc.com/mundo/noticias-america-latina-40839635>.

<sup>11</sup> Alexandra Ulmer and Corina Pons, "Maduro Orders 96 Percent Devaluation in Hyperinflation-stricken Venezuela", in *Reuters*, 18 August 2018, <https://www.reuters.com/article/idUKKBN1L22EZ>.

<sup>12</sup> Statista, *Venezuela: Gross Domestic Product (GDP) in Current Prices from 1986 to 2024 (in billion U.S. dollars)*, <https://www.statista.com/statistics/370937>.

200,000 per cent.<sup>13</sup> Subsequently, the average minimum wage stood at 7 US dollars per month<sup>14</sup> and poverty rose to 75 per cent,<sup>15</sup> according to income level, causing the exodus of more than 3.4 million Venezuelans, reported by UNHCR data.<sup>16</sup>

As evidenced by the economic collapse in 2014–2019, the crisis of Venezuela's economy and oil industry is a direct consequence of the government's actions, rather than the impact of US sanctions, which simply aggravated the situation. Nonetheless, the government has depicted sanctions as the cause of Venezuela's crisis, using them as a powerful propaganda tool both domestically and internationally to justify and cover up its inabilities and policies.

### *The state of Venezuela's oil sector*

The lifting of sanctions will not bring about a change in Venezuela's oil situation in the short to medium term, since the deterioration of the infrastructure and the dismantling of PDVSA's resources – equipment, labour force and capital goods – will take

several years to recover. Furthermore, Venezuela's serious economic and labour situation, as well as the lack of legal certainty and permanent political persecution<sup>17</sup> and instability, will prevent effective support from the service sector and the necessary level of investment to recover the national oil industry.

Current oil production in Venezuela is 0.73 mbd,<sup>18</sup> of which 0.595 mbd are from PDVSA's and 0.135 mbd from Chevron's production. The latter signed an oil-for-debt swap deal with PDVSA and – in accordance with the terms established in the previous OFAC license<sup>19</sup> – is exempt from paying royalties and taxes to the government of Venezuela and dividends to PDVSA. Most of Chevron's production areas<sup>20</sup> are fields already active, where investment for maintenance continued to be made in spite of sanctions, which means that the necessary infrastructure has been preserved.

<sup>13</sup> Alonso Moleiro, "El nuevo bolívar de Maduro se hunde en los primeros días", in *El País*, 24 August 2018, [https://elpais.com/internacional/2018/08/23/actualidad/1535046940\\_404580.html](https://elpais.com/internacional/2018/08/23/actualidad/1535046940_404580.html).

<sup>14</sup> UNHCR, *Hoja Informativa: Venezuela, diciembre 2018*, <https://www.acnur.org/media/hoja-informativa-venezuela-diciembre-2018>.

<sup>15</sup> Universidad Católica Andrés Bello, *Encovi 2018 | Encuesta nacional de condiciones de vida*, <https://www.proyectoencovi.com/encovi-2018-encuesta-nacional-de-condiciones-de-vida-copy>.

<sup>16</sup> UNHCR, *Americas Monthly Report March 2019*, April 2019, <https://data.unhcr.org/en/documents/details/68917>.

<sup>17</sup> This year, six union leaders arrested during protests demanding better working conditions were sentenced to 16 years in prison under conspiracy charges. See: Alonso Moleiro, "Wave of Outrage in Venezuela after Six Trade Unionists Convicted of Conspiracy and Terrorism", in *El País*, 9 August 2023, <https://english.elpais.com/international/2023-08-09/wave-of-outrage-in-venezuela-after-six-trade-unionists-convicted-of-conspiracy-and-terrorism.html>.

<sup>18</sup> OPEC, *Monthly Oil Market Report October 2023*, 12 October 2023, p. 50, [https://www.opec.org/opec\\_web/en/publications/7107.htm](https://www.opec.org/opec_web/en/publications/7107.htm).

<sup>19</sup> Chevron operates fields in the Maracaibo Lake basin and the Orinoco Oil Belt, under the OFAC License Conditions number 41 dated 26 November 2022.

<sup>20</sup> Chevron's joint ventures with PDVSA in Venezuela are PetroBoscán, PetroIndependiente, PetroPiar and PetroIndependencia.

As far as the other leading international companies are concerned, TotalEnergies, Equinor and Inpex left the country and ceded their rights due to the unfavourable conditions in 2021;<sup>21</sup> Rosneft sold its operations to Roszarubezhneft,<sup>22</sup> a Russian entity that is however prevented from producing in Venezuela according to the terms of the OFAC; finally, China National Petroleum Corporation continues operating to recover Venezuela's debt to the Chinese Fund,<sup>23</sup> a government fund created in 2007 to finance projects in the country and paid for with oil.

In the case of PDVSA, the infrastructure and production equipment have been progressively abandoned and dismantled, even sold for scrap.<sup>24</sup> For this reason, the cost of repairing the damage and reactivating the dismantled systems and infrastructure is still unknown but constitutes an obstacle in the short term. Unlike other countries under sanctions, such as Iran, the Venezuelan government has not preserved the national oil company's facilities. Furthermore, since 2018, based on Decree 3,368,

PDVSA's assets have been transferred to third parties,<sup>25</sup> in violation of the current legal framework<sup>26</sup> and under the protection of the questioned Anti-Blockade Law that imposes secrecy in public management.<sup>27</sup> Yet, no further information has been issued on the company's operational and financial situation.

As a result, there is no longer any form of control or accountability: PDVSA's administrative procedures and internal control norms have been systematically ignored under the shield of the Anti-Blockade Law; oil trade has been transferred to inexperienced and unknown entities that sell it at a 40 per cent discount; furthermore, on many occasions, the revenues have not reached the Venezuelan treasury; they remain abroad in a complicated network of corruption where the companies and individuals to whom oil shipments have been assigned for sale do not return it to the country, accumulating, between 2020–2022, an amount of 21.2 billion US dollars in accounts receivable.<sup>28</sup>

<sup>21</sup> "Total, Equinor Exit Venezuela Oil Venture, Citing Carbon Intensity", in *Reuters*, 29 July 2021, <https://www.reuters.com/business/energy/equinor-total-exit-venezuela-onshore-oil-project-2021-07-29>.

<sup>22</sup> A company created in 2020, which acquired the shares of Rosneft after the latter left Venezuela.

<sup>23</sup> According to unofficial sources, Venezuela's debt to China amounts to 60 billion US dollars.

<sup>24</sup> Herminia Fernández, "Del petróleo a la chatarra: una alternativa para la crisis económica en Venezuela", in *France 24*, 29 November 2022, <https://www.france24.com/es/programas/reporteros/20221129-del-petroleo-a-la-chatarra-una-alternativa-para-la-crisis-economica-en-venezuela>.

<sup>25</sup> Venezuela, "Decreto N° 3.368, mediante el cual se establece un régimen especial y transitorio para la gestión operativa y administrativa de la Industria Petrolera Nacional", in *Gaceta oficial de la República Bolivariana de Venezuela*, No. 41,376 (12 April 2018), p. 440859-440861, <https://www.rafaelramirez.net/articulos/decreto-3-368>.

<sup>26</sup> Specifically, Articles 202 and 203 of the Constitution and the Hydrocarbons Organic Law.

<sup>27</sup> A law approved by the National Constituent Assembly on 12 October 2020 that gives the government the power to "disapply" the laws of the Republic without being accountable.

<sup>28</sup> Marianna Parraga, "Exclusive: Middlemen

### *The challenges of relaunching the sector*

Oil production in Venezuela has its particularities and specific complexities, especially in the case of medium and extra-heavy crude. For example, in Lake Maracaibo, where oil production dates to more than a century ago, the operations are lake-based and require a large fleet of ships, transport boats, barges and tugboats which are currently not operational; also, the terminals, gas compression systems and flow stations have been dismantled too. The 45,000-kilometre-long complex network of pipelines, laid on the bottom of the lake, has not had the necessary maintenance and cathodic protection, so oil spills are frequent.<sup>29</sup>

The production areas in the north of Monagas, in the east of the country, need to install compression systems to re-inject gas into the reservoirs for oil production. Currently, approximately 2.2 billion cubic feet per day of gas are vented into the atmosphere.<sup>30</sup>

In the Orinoco Oil Belt area, significant volumes of naphtha or condensates, as well as reciprocating and electro-submersible pumps, are required for

crude lifting and production. The crude oil upgrading sites in the Industrial Complex José Antonio Anzoátegui,<sup>31</sup> necessary to process the extra-heavy crude converting it into medium and light oil for export, are currently paralysed or operating at their minimum capacity.

Finally, while in 2013 there were more than 200 drilling rigs operating in oil production, today there are less than five still active.<sup>32</sup>

### *A domestic political issue*

Since the Ministry of Petroleum has been dismantled, there is currently no regulation or control of oil production and exports in Venezuela. The actual levels of production and export are difficult to verify, since there is no oversight or fiscalization by the Ministry of Petroleum; PDVSA controls all the information and handles it secretly, which is why secondary sources and agencies are used to estimate the volume of export of oil; the same applies to the technical condition of the oil and gas production fields. Furthermore, the exported oil has serious quality problems,<sup>33</sup> due to the absence of crude oil treatment facilities to remove impurities and subsequent

Have Left Venezuela's PDVSA with \$21.2 Billion in Unpaid Bills", in *Reuters*, 21 March 2023, <http://reut.rs/3yZF03r>.

<sup>29</sup> Ariana Cubillos and Jorge Rueda, "Venezuela: derrames de petróleo y desechos tóxicos amenazan la vida del Lago de Maracaibo", in *AP News*, 16 August 2023, <https://apnews.com/ced879e76cc576cb06f45529499d369a>.

<sup>30</sup> Pietro Pitts, "Venezuela Flares More Gas than Freeport LNG Exports", in *Hart Energy*, 27 July 2023, <https://www.hartenergy.com/node/205923>.

<sup>31</sup> This is home to the heavy crude upgraders PetroPiar, PetroMonagas, PetroCedeño and PetroSanFélix, where coke, sulphur and naphtha are extracted from heavy oil to produce medium and light oil.

<sup>32</sup> YCharts, *Venezuela Oil Rig Count*, October 2023, [https://ycharts.com/indicators/venezuela\\_oil\\_rotary\\_rigs](https://ycharts.com/indicators/venezuela_oil_rotary_rigs).

<sup>33</sup> Marianna Parraga, "Quality Issues Add Delays to Venezuela's Crude Exports -Documents", in *Reuters*, 13 August 2020, <https://www.reuters.com/article/idAFL1N2FE1HE>.

excess levels of water and sulphur in exported oil.

To be sure, the lifting of sanctions will allow PDVSA to export crude oil, mainly through one-off shipments in the spot market,<sup>34</sup> and to obtain a better price to pay back its debt. PDVSA is heavily indebted to producers, service companies and suppliers, while the country faces debt litigation.<sup>35</sup> The OFAC license clearly indicates that exports will be used to serve the PDVSA and the country's debts where the company was placed as a guarantor.

Currently, 70 per cent of Venezuelan exports go to the Asian market,<sup>36</sup> with China as the final destination, and another 23 per cent to Chevron's refineries in the United States, in both cases to pay back debt. Therefore, beyond satisfying the needs of the Venezuelan government, resources available for PDVSA to leverage its production activities are reduced: the company has no cash flow to invest in its operations.

Given the temporary nature and the political conditions attached to the lifting of sanctions, it will be very difficult for international companies

to assume the risk of investing in Venezuela in the short term as the Venezuelan government's failure to comply with the agreements could result in the reinstatement of sanctions. The country lacks the institutional framework and the necessary guarantees to establish long-term relations with the international oil sector, while the government has a serious legitimacy problem. This is a determining factor in an oversupplied oil market, where other producing countries offer better and lower-risk investment opportunities to North American oil companies. This is for example the case of Guyana, bordering Venezuela, which today produces 0.38 mbd, expected to increase to 1.3 mbd by 2028.

The trajectory of oil production in Venezuela is closely linked to the development of the country's political environment and its capacity to improve its economic, financial and technological conditions. In particular, the reinstatement of the rule of law with a view to the 2024 presidential election would be the real step forward that may pave the way for the recovery of the national oil industry.

15 November 2023

<sup>34</sup> The spot market for crude oil and refined products refers to the trade of large physical cargoes or parcels in one-off transactions for near-term delivery.

<sup>35</sup> Alejandra Arredondo, "CITGO corre el riesgo de quedarse en manos de acreedores", in *Voz de América*, 20 March 2019, <https://www.vozdeamerica.com/a/4840100.html>.

<sup>36</sup> Marianna Parraga and Mircely Guanipa, "Venezuela's February Oil Exports Fall 8% amid Contract Revisions", in *Reuters*, 3 March 2023, <https://www.nasdaq.com/articles/venezuelas-february-oil-exports-fall-8-amid-contract-revisions>.

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