

PETROLEUM SANCTIONS IN VENEZUELA

By Carlos A. Rossi

The Origin of the Sanctions

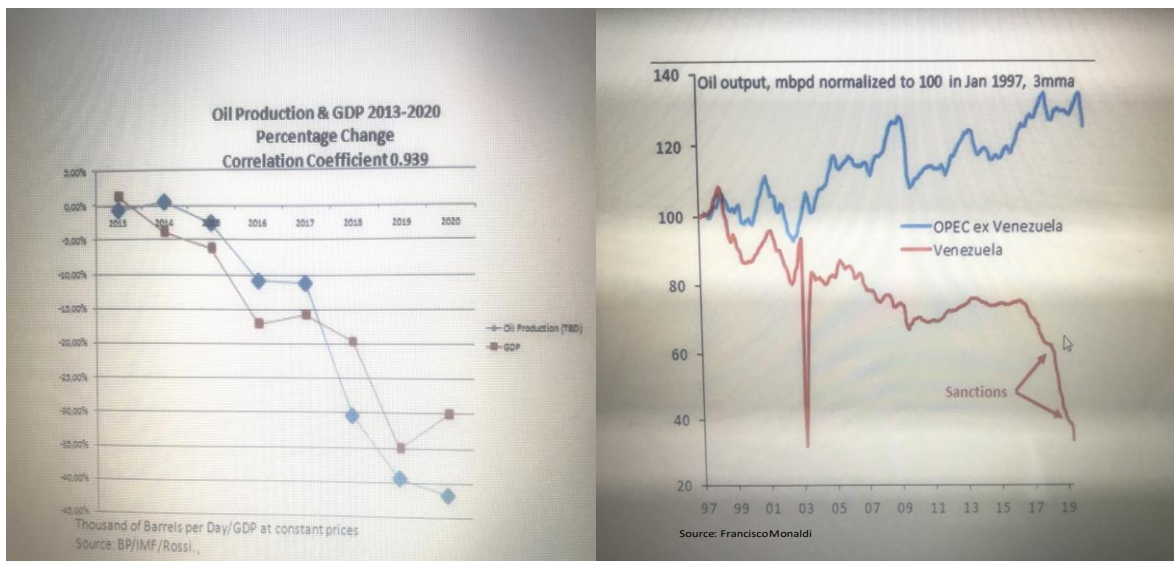
Although US sanctions to Venezuelan individuals for corruption charges date as far back as the beginning of the first decade of this century, The origin of US Sanctions against the nation of Venezuela date back to the Obama administration in March 2015 when it declared that: *“Venezuela represents an unusual and extraordinary threat to the National Security and Foreign Policy of the United States”*. The USA was crossed by two ongoing activities, one by the government itself: *“We are deeply concerned by the Venezuelan Government’s efforts to escalate intimidation of political opponents...Venezuela’s problems cannot be solved by criminalizing dissent”*. The ire of the USA was further fouled when the government announced it had captured and jailed Americans, including a pilot for espionage activities.

The principal activity that provoked these sanctions occurred when it became clear to the US Administration that the corruption of the Venezuelan Government had spined so out of control that it was not only contaminating its financial system with billions of corrupt money but that it was dragging down PDVSA, Venezuela’s National Oil Company, to a bottomless abyss of incompetence and bankruptcy because its revenues were being syphoned off to private off-shore accounts of government officials and cronies; drying out PDVSA out of investment revenue and could not pay its debts to its own foreign partners (US/Europe/Asian transnational oil companies), nor its debts to banks or to the bond holders. When PDVSA increased its debt to make good on these payments that too was taken away from them by the political class for the same reason. Needless to say, all of this collapsed investment, production, and exports of Venezuelan oil as the private transnationals refused to work without getting paid.

I myself had a front row seat to all of this in my position as the Economic Advisor to AVHI, the Lobbying firm that represented the foreign multinationals in Venezuela. In our meetings the anger on their faces was palpable when they realized they were not getting paid even though they knew first-hand that PDVSA and the Venezuelan government was flush with money as oil prices were high. This debt arrears had compounded their previous frustration when in 2006 their contracts were torn apart and redesigned in bizarre terms, which is why Exxon Mobil and Conoco Phillips left Venezuela and sued the government in international courts of law. Same with the pension funds that the PDVSA employees had so laboriously saved throughout their entire careers in PDVSA’s Trust, that too disappeared into the government’s coffers leaving these poor retirees with government handouts of less than \$4.00 per month!!

The Scope of the Sanctions

The sanctions increased in scope to the head-turning figure of 930 Sanctions with the next two US Presidents as the corruption galore kept getting out of control in Venezuela. From sanctions that specifically targeted people of the government by freezing their accounts offshore as Canada and other European nations joined the USA, to financial sanctions of 2017 that limited severely PDVSA's access to credit for imports of machinery and parts, to prohibiting the sales of military hardware to Venezuela's armed forces, to asset freezing of Venezuelan government companies abroad, to prohibiting foreign financial institutions into dealings with any Venezuelan government institution, even prohibiting the sale of Venezuelan government and PDVSA bonds in the secondary market.



In the graph on the right we see the collapse of Venezuela's oil output since 1999 as compared to other OPEC nations; and specifically since 2014 and observe that the Sanctions levied on PDVSA in 2019 accelerated the pace of what would have occurred anyway given the bizarre Statist economic platform of Socialismo Siglo 21 of the Chavez-Maduro era. In the left graph we see the disastrous effect on the national economy, namely GDP, because the correlation coefficient between the two variables, oil output and GDP, is nearly perfect. Oil output collapsed 81.1% in the period 2014-2020, whereas GDP collapsed a full 71% in the same period. In fact, according to the World Bank Venezuela's economy went from US\$347Billion to US\$ 100Billion before the first Sanction was levied on the country. According to OPEC Venezuela decreased its oil production from 3.1Million Barrels to 1.2Million before sanctions were levied on PDVSA.

Sanctions of PDVSA

In January of 2019 PDVSA it-self was sanctioned by prohibiting it to export to the USA or Europe nor purchase any input from any company of any other country that maintained a financial relationship inside the USA, like in Wall Street. The reason was simple, PDVSA works

like a pocket inside Nicolas Maduro's pants as money frozen outside could just be easily replenished with every oil export. In practice the Venezuelan Government and PDVSA are indistinguishable. Case in point the US seizure of CITGO, the Venezuelan refining complex inside the USA whose administration was transferred to the Venezuelan opposition much to everyone's regret, as it was later discovered that these opposition, headed by the "interim president" Juan Guaido, had incurred into dubious financial dealings with CITGO which the top legal authorities of the USA are currently investigating, like the enormous increase in CITGO's debts during the years under their control with no stated purpose. In 2023 the Court of Delaware declared the opposition responsible for managing CITGO in "*identical*" manner as Maduro managed PDVSA, and thus allowing PDVSA's creditors to sue CITGO to the tune of over \$20Billion Dollars even though the company is only worth, at best, half of that.

The Failure of the Sanctions

The Sanctions failed completely in their objectives, not in harming Venezuela's economy but on the larger goal of dislodging Nicolas Maduro from power through a military coup. There are several reasons both internally and externally. Externally because Nicolas Maduro is not alone; he has used intensive diplomacy with countries that are enemies of the USA, namely Russia and Iran both of whom have come to his rescue by supplying PDVSA with necessary inputs, like gasoline to move the extra-heavy oil in the south, and purchasing Venezuela's oil and shipping it to other destinations with tankers using third party flags, and then paying Venezuela through unorthodox banking transactions, all at huge discounts for PDVSA. Venezuela's Vice-President Delsi Rodriguez stated as recently as 2023 that Venezuela had lost an average of \$29Billion dollars every year of the sanctions; or \$232Billion since 2015, representing 99% of the export income to the country.

Then there are other countries like China and Turkey that are not enemies of the USA but rather prefer to keep an arms-length relationship with it and much rather focus on their own energy needs, meaning access to Venezuela's petroleum because neither country produces nearly all of the oil that they consume. They too have helped Venezuela with its food scarcity and imports of necessary parts. But the combination of these four nations have not been enough.

Take for example the COVID-19 vaccines. Because of the Sanctions none of the vaccines made in the Western countries were available to Venezuela (it is not clear whether the Venezuelan government was prohibited from purchasing these vaccines or if they flat out refused them) but the result was that the Russian and Chinese governments made sure that all Venezuelans had free access to the Sputnik-V and Sinofarm, of Russian and Chinese laboratories respectably, and as it turned out both were of excellent quality. I myself had two shots of each and my COVID was cured rapidly with zero side effects and everyone I know had the same experience.

In the internal front a key to the failure of the Sanctions was that most of the ill effects of food scarcity and deficiency in basic services like water and gasoline shortages, power-outs and cooking gas were felt mostly in the interior of the country (said here of anywhere that is not Caracas) and that the military has developed complex communication and spy networks to eavesdrop on poor barrios who might be planning protest.

A deeper reasoning for the failure of the Sanctions relates to the incomprehension by western nations of the historical and sociological complexities of Venezuela's society that date back to our colonial era and wars of independence. This is a topic that lies well outside the scope of this paper but is treated, and confidently corrected, in its entirety in my last book **The Rise and Fall of the Oil Nation Venezuela** (Springer, December 2023). It suffices to say here that these complexities result in a deep mistrust on the part of the majority of the poor people on the political opposition in Venezuela, whom they regard as belonging to the Elite class that is exclusive in their membership. Besides, this political opposition has turned out to be hapless, prone to huge mistakes, utterly divisive of each other and, as mentioned above, mostly corrupt. In other words, as bad as this government has proven to be, ordinary Venezuelans have little alternatives except for Maria Corina Machado, a lifelong opposition as far back as the early Chavez years who has just won, by a landslide, an internal primary in October 2023 acquiring around 2.5 million votes; a good figure for a primary elections but not nearly enough for a presidential election. Mrs. Machado has been forbidden to run on suspicious charges made not by any court in Venezuela, but by the Comptroller's Office. Nevertheless, in my opinion that landslide victory places Mrs. Machado as the ONLY opposition now still standing in Venezuela.

The easing of the Sanctions.

In October 2023 the government of the United States through its Office of Foreign Assets Control (OFAC) of its Treasury Department announced it was lifting on a limited and contingent basis many important Sanctions to Venezuela in what they call the Venezuelan Sanctions Resolution (VCR), and providing 4 general licenses that are temporary with the possibility of renewal. This came after a meeting earlier in Doha, Qatar between a high ranking official of the US State Department and Jorge Rodriguez, Venezuela's president of the National Assembly and the government's chief negotiator. Later these lifting of sanctions was ratified in the island of Barbados with Gerardo Blyde, the opposition chief negotiator. The contingency part is that Venezuela releases American and Venezuelan political prisoners, that it sets up a program for the return of Venezuelans that entered illegally into the USA and that the government makes definite steps leading towards a free, open and transparent presidential elections in 2024, which is the year that, according to Venezuela's Constitution, these elections must be held (the Constitution does not specify the exact date or month; so in theory it could be anytime).

These easing of sanctions were to effect on a positive way the gold sector of Venezuela that would be allowed to produce and export (License 43) the financial sector as it allows

operations in the secondary market of government and PDVSA bonds to US citizens and entities that were issued before August 2017.

In the hydrocarbons sector the flexibilization of these sanctions (License 44) allows PDVSA to increase the production and exports of oil and gas as well as the supply of related goods and services, including importing necessary parts related only to the oil sector and electricity. It also allows it to pay its bills of all its hydrocarbons operations, to seek and receive foreign investment in the oil sector and to use its exports of oil as barter to pay its debts to foreign partners. The time limit is six months, with the possibility of renewal. Some restrictions do remain however, like new investments or material supply to any oil field with affiliation to Russia, any internal financial transactions that are outside the realm of PDVSA, the Venezuelan Central Bank or the main government bank (Banco de Venezuela), or payments in the government's cryptocurrency PETRO (now officially eliminated).

The reasoning behind this flexibilization of the Sanctions is straight forward. Convinced that the original objective of the sanctions had not been met, the US government took the practical approach in the face of its own presidential elections, also in 2024. The coincidences of both political elections are unmistakable. Both incumbents are behind in the polls (Maduro much further), and in both cases it is not clear whether the leading contenders will be allowed to run, due to their legal troubles, real or not. So, both presidents, Biden and Maduro, although far apart in the political (and ethical) spectrum, both seem to need each other. One of them needs the supply of oil to go up so gasoline, heating, fertilizers and plastic bills go down and the economic gets a boost, while the other one just needs much dollar income to flush its treasury for political handouts and salary increases. The United States is a net exporter of oil now thanks to the great success of its fracking drilling technology, but those fields are expensive and depletable, and it would do some good to its economy if consumer-use oil prices go south. So, the old American saying: "Politics makes strange bed-fellows", seems to apply.

Hard Ball Again

On January 26th the Venezuelan Supreme Court ratified Mrs. Machado's disqualification to be elected and hold any political office for a period of 15 years starting now. On the one hand this is a bit surprising since Mrs. Machado had not been issued a formal disqualification note from any court in Venezuela, other than the one she got in 2016 that expired the next year and since then she has not done any formal wrongdoing. She just recently personally went to the offices of the Venezuelan Tribunal Supremo de Justicia (our Supreme Court) to inquire if there was any formal note disqualifying her and she was told that there wasn't any, that it was inside the Comptroller's office; but that they didn't have a copy. Embarrassing because the Government constantly reminds its citizens that she is disqualified. Mrs. Machado reacted by grabbing the microphone and stating that her disqualification was illegal, unconstitutional, and that the government was afraid with reason of competing openly with her.

But on the other hand it is not surprising at all because Mrs Machado has been radically vocal of her intentions of jailing and ruining Nicolas Maduro and the entire echelons of his inner circle and, previously, openly and publicly calling for more USA sanctions to asphyxiate Venezuela's economy (her words), even calling for a military invasion by the United States. On its part the USA reacted by revoking License 43 to gold company Minerven as it would not be legally allowed again to export gold out of Venezuela, and has also threatened to revoke License 44 in the petroleum sector in April of this year if the government doesn't qualify Mrs. Machado and let her participate in the presidential elections of 2024 along with the other Barbados commitments relating to immigration, transparency of the elections and foreign watch. The value of PDVSA bonds in the secondary market dropped 30% since Mrs. Machado was formally disqualified.

It appears now that Mrs. Machado's only option now is to step aside and handpick a successor with the hope that him/her are not disqualified too. Worth noting, the military invasion that Mrs. Machado called for was echoed by none other than Donald Trump during his Presidency of the USA in August 2017, when he too publicly stated that he was planning military maneuvers against the government of Venezuela; which left Maduro no choice but to seek Vladimir Putin to insert Venezuela inside the Russian orbit; which he did.

The question is would these licenses if not revoked work in Venezuela's oil-gas sector?. In my opinion only to a certain point. The oil sector has a very long gestation period, a decade is not uncommon, and to expect new US\$billion-dollar investments from oil companies to flush into Venezuela on a 6-month license is unreasonable. Where they can work for such a short and uncertain period is investment in old oil fields that have been explored and drilled upon but which are closed now because of PDVSA incompetence and Sanctions. As said, the spectacular drop in PDVSA's production has nothing to do with the country running out of oil but of sheer incompetence and corruption by the Government; most of these wells were just closed down and they can as easily be re-opened again requiring very little CAPEX investment, just OPEX and maintenance. Bottlenecks on trained personal and 24/7 electricity availability will arise; and they will be solved.

The company that stands to first benefit from the temporary relaxation of these sanctions is Chevron, the 2nd largest American oil company and the only one that has remained in Venezuela after all these decades of turbulence. Chevron operates as a minority holder in four Mixed Enterprises with PDVSA and produced, at the end of 2023, 150thousand barrels from these fields, an increase of 15.3% from just 3 months earlier when the licenses were first granted, and could reach 200,000BD. Keep in mind that these fields are old. So far they have used this increased in production to partially pay off their considerable debt with PDVSA, which includes, according to a source, around US\$750 million in unpaid debt and dividends plus some US\$ 3billion due at the end of 2025. Venezuela on its part obtains vitally needed royalties' payments and the possibility of much larger income benefits in the future.

But if License 44 is revoked in April, then we are back to square 1. We will go back to what we know: Shortage crisis in food and gasoline; impoverishment of the people, infrastructure and the productive sector; and all of the ill effects on the country that the Venezuelans had gotten used to but that will boomerang on the government come next elections; to the point that I believe that the PSUV government party would need to consider not presenting the candidacy of Nicolas Maduro, now rejected by 85% of the general populace. Would these votes switch to Mrs. Machado? No; she is disqualified. Would they align with her hand-picked successor? Most will, if that person a likable public figure and not disqualified.

Conclusions

About two dozen other oil companies are lining up to PDVSA's offices with the hope that these licenses become a permanent fixture in Venezuela even though they know that the risks of them being scaled back is real, given the political turbulence expected in this election year in Venezuela. As opposed to the boycott-abstention years between 2017-2020, Venezuelans, both opposition politicians and the general public, seem to have matured and will vote this time for the right candidate of their class. The question is for whom; as even the PSUV government party seems to have more than enough reasons to drop Nicolas Maduro from the ballot given his stated troubles and rejection polls; meaning that his only opportunity of winning is outright fraud, something that hasn't occurred in Venezuelan politics this century, notwithstanding radical rightist pundits here that have no proof. Not that the 2012 and 2013 elections were all that fair, as the government unshakingly uses all its revenues for campaign purposes, but that's another topic.

Should the oil companies like Chevron be worried that the oil-gas licenses are revoked in April as the US Government has threatened to do? given Mrs Machado's unreasonable disqualification? In my opinion they should not worry about it this year, because the USA State and Treasury Department must have strongly suspected that this was a very possible outcome and must have discounted it in their decision; as long as the supply of oil in Venezuela keeps increasing through Chevron nothing should happen, this year. Next year, if both of these incumbents remain in office will be a totally different ball-game because Venezuelan fraud or what they call here "the Nicaraguanization" of the electoral process (in reference to Nicaragua's Daniel Ortega who wins elections by jailing every opponent, brutally repressing every demonstration, and even kicking-out all catholic priests and nuns that seemingly look at him the wrong way).

If the United States experiences the return of Donald Trump as President, or if in Venezuela Mrs Machado's hand picked successor wins, or both, no one is sure what will happen. So international oil companies will likely sit tight and not invest any CAPEX but also they will likely not stand too far from Venezuela, whose bountiful oil resources the world needs.

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