Venezuela. Uncertain oil recovery.
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06/22/22

Many expectations have been created around the possibility that Joe Biden's government will relax the sanctions on Venezuela, in order to make progress in the recovery of the oil industry and thus improve the functioning of the country's economy for the welfare of the population. As of today, and after the meeting held in Miraflores by delegates of the U.S. government and President Nicolás Maduro, little progress has been made in this regard. Of course, they are a reflection of the unwillingness of both actors to move forward.

Fluctuating production

A review of the data from the June edition of the OPEC MOMR, an organization of which Venezuela was a founding member, confirms how far away the possibility is for the Venezuelan oil industry to recover as long as US sanctions persist and Caracas maintains its current policy.

According to secondary sources, in the month of May, the South American country's production decreased by 2 MB/D with respect to the previous month, reaching 717 MB/d. Meanwhile, according to primary sources, those provided by the competent authorities, the drop was more pronounced, reaching 40 MB/D, to 735 MB/D. This decrease, in turn, is 53 MB/D higher than February's production, when it reached its highest volume of the half year, climbing to 788 MB/D.

The variations experienced by production show the difficulty of implementing a sustained policy for the recovery of oil activity, for several reasons. One of them are the sanctions imposed by the USA, which established in 2019 a total embargo on Venezuelan crude oil in the ports and refineries of the North American country. This same measure permeated for European oil transnationals doing business with Venezuela.

In addition to the prohibition, the acquisition of spare parts, components, parts, solvents, diluents and any other input necessary for the operation of the activity was also prohibited. U.S. companies were also prohibited from conducting any type of business with Venezuela and PDVSA, including those related to its bonds and financing possibilities.

On the other hand, the loss of human resources with technical, professional and operational capacity of PDVSA, which, according to Reuters Graphics, would have decreased 50% in the period 2014-2018. This without taking into account the massive layoffs that took

place in 2002 as a result of the oil strike, where the state-owned company lost 20,000 workers - half of its payroll - are evidence of the company's debacle.

According to Iván Freites, general secretary of the Oil and Gas Workers Union of Falcón state, the oil company currently only has 10% of qualified personnel to carry out technical activities in the business. Third, and not the last factor in a long list, corruption, non-compliance with operating plans and the constant rotation of managers with no knowledge in the area, are important elements to understand the current situation of the country's main industry.

However, economists' estimates suggest that Venezuela would have lost some US$ 100 million in May as a result of the 40 MBD drop in production, despite the discounts with which its crude oil is sold, which became toxic once the sanctions were imposed. This factor has prevented, to a certain extent, the recovery of production, since the country has had to accumulate inventories and close productive wells due to the inability to export low API grade crude, which is the main component of Venezuelan reserves, and the inability to refine them in adequate quantities or improve them to increase their quality, because it does not have enough buyers abroad. The information indicates the existence of only 25 active drill holes.

Easing of sanctions to Pdvsa

The slight easing of sanctions against Venezuela represented in the extension of Chevron's license to operate in the country and to establish contacts with the Venezuelan government to advance negotiations, although it does not imply an increase in Chevron's investments in exploration and production activities, is rather a show of will on the part of Washington in the hope that the Executive led by Nicolás Maduro will once again sit down in Mexico to negotiate with the Unitary platform that brings together broad sectors of the Venezuelan opposition.

Motivated by the complex economic situation that the Biden administration is going through, with high inflation and rising fuels, which will certainly have an impact on the November legislative elections, it is not easy to grant greater concessions to the oil company, since the decision involves involving and aligning several national institutions. It even requires internal consensus among democrats and the knowledge of the interim presidency headed by Juan Guaidó. Therefore, the extension to the license of the last major U.S. oil company present in Venezuela will have to wait.

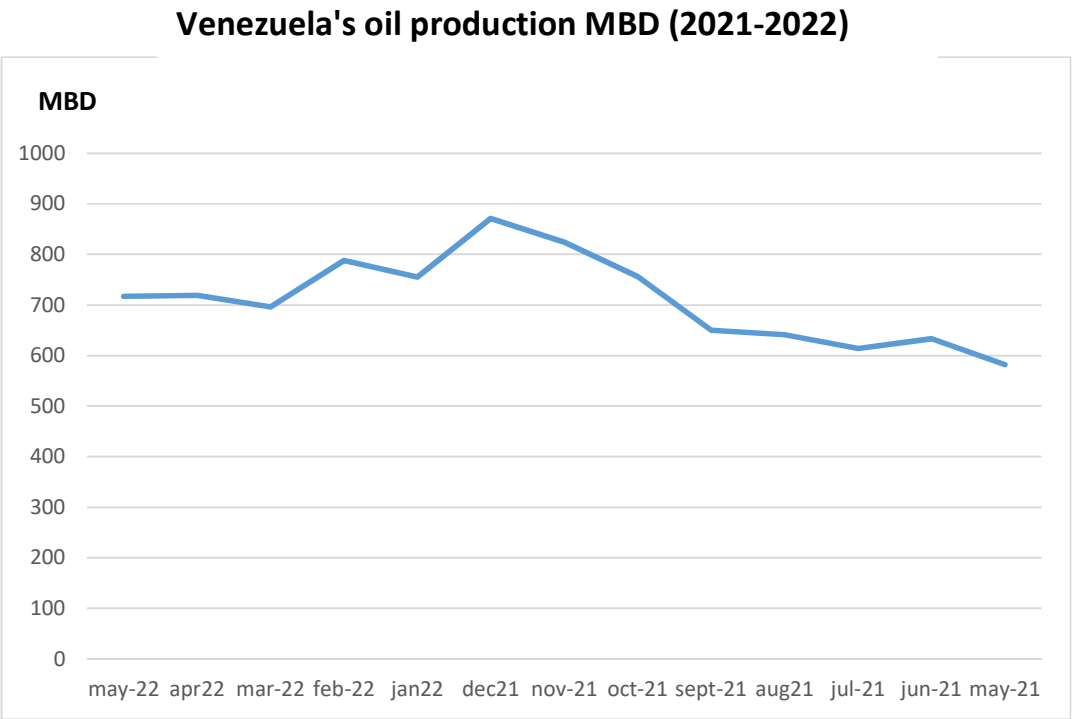
The case of ENI and Repsol is different, insofar as both European companies were sending Venezuelan oil to the old continent until 2020 under an agreement based on the cancellation of debts. Additionally, the prevailing energy situation in Europe, aggravated by the Russian invasion of Ukraine and the veto on Russian oil, led the White House to allow the reactivation of Venezuelan crude oil shipments to the EU.

It should be noted that the country has high inventories of diluted crude oil, which has been negotiated in shipments of approximately 32 MBD for each company, that is, 1 million barrels per month, which, although it represents a modest volume without generating cash flow for the Government of Caracas, will allow it to clear inventories, cancel accumulated debts and reactivate the joint ventures in which these corporations operate.

On the other hand, when reviewing Venezuela's crude oil production data, as well as the difficulties to reactivate the refining system in a robust manner in order to normalize fuel production, having to resort to the import of diluents and even light crude from Iran, it is evident that the country does not have the financial or technical conditions to take charge of both activities, which are essential in the oil business. Even the recent arrival of Iranian tankers to Venezuelan ports, as well as the shipment of spare parts and technicians in the area confirm this, which distances not only the possibility of the country reaching the 1 MMBD announced for last year, much less the 2 MMBD proposed as a goal for 2022.

Table 1

Venezuela's oil production MBD (2021-2022)													
Months	may-22	apr22	mar-22	feb-22	jan22	dec21	nov-21	oct-21	sept-21	aug21	jul-21	jun-21	may-21
Production	717	719	696	788	755	871	824	756	650	641	614	633	582
OPEC source													


Venezuela's oil production MBD (2021-2022)
MBD
1000
900
800
700
600
500
400
300
200
100
0
may-22
apr22
mar-22
feb-22
jan22
dec21
nov-21
oct-21
sept-21
aug21
jul-21
jun-21
may-21