

# VENEZUELA DESK



## SHOULD THE UNITED STATES PRIORITIZE ENERGY SECURITY IN ITS VENEZUELA POLICY?

BY FRANCISCO MONALDI

LATIN AMERICA PROGRAM | JULY 2024

# WHAT IF THE US PRIORITIZED ENERGY SECURITY IN ITS VENEZUELA POLICY?

BY FRANCISCO MONALDI

Starting in 2022, after the invasion of Ukraine and its aftermath, the US government revisited its sanctions policy towards Venezuela, easing the “maximum pressure” implemented by the Trump administration in 2020. The Treasury Department approved a license for Chevron in late 2022 (GL41) to operate its four joint ventures with PDVSA, the Venezuelan national oil company, and export oil to the United States. In October of 2023, the United States announced a six-month general license (GL44) allowing all transactions with PDVSA, provided Venezuelan authorities complied with the Barbados agreement and permitted a competitive presidential election this year. After Venezuela failed to comply with the agreement, the United States let the general license expire in April 2024, but it signaled its willingness to approve specific licenses to oil companies, and it later did so for European companies Repsol and Maurel & Prom. Should the election on Sunday go off the rails, the White House would come under enormous pressure to tighten the screws on Venezuela’s oil industry. What if it didn’t?

## **Low Ceiling: The Venezuelan Oil Industry Will Not Fully Recover without Political and Institutional Change**

There is no doubt that Venezuela has significant upside production potential. It has low geological risks and significant spare infrastructure, albeit dilapidated. Venezuela could add more than 2 million barrels per day (bpd) of production capacity in less than a decade, with annual investments of some \$10 billion. For now, however, PDVSA is broke and has low technical capacities. So a serious recovery would require the stars aligning: a change in government, the lifting of economic sanctions, a restructuring of Venezuela’s foreign debt, internal stability, political consensus on the role of private investment, and an attractive and credible investment framework. In a status quo post-election scenario, with the Treasury Department issuing specific licenses, Venezuelan production would likely increase by only 150,000-200,000 bpd in the next two years.

## Why Did the Oil Industry Collapse in the First Place?

***“Venezuela could add more than 2 million barrels per day of production capacity in less than a decade, with annual investments of some \$10 billion. For now, however, PDVSA is broke and has low technical capacities.”***

---

The Venezuelan oil industry was in full decline before the US imposed sanctions. In 1998, before Hugo Chávez came to power, Venezuela produced more than 3.4 million bpd, 3.1 million bpd by PDVSA and 300,000 bpd through joint ventures with private firms.

By 2016, before US “maximum pressure,” production had fallen to 2.3 million bpd, including a 60% collapse in PDVSA production. Today, PDVSA’s partners account for more than half of Venezuela’s production.

Initially, the implosion of PDVSA had little impact on the Venezuelan government. High oil prices until 2014, and the expanded presence of private firms during the “oil opening” under President Rafael Caldera in the 1990s, allowed for a boom in oil revenues. But Chávez failed to bring about any new oil investment projects and when oil prices collapsed in 2014, the dire state of the Venezuelan oil sector became clear. Even at peak oil prices, PDVSA had accumulated billions of dollars in debt to partners and contractors, and it relied on the Central Bank to cover operational costs.

In 2017, the Treasury Department imposed financial sanctions on the Venezuelan government. PDVSA, already on the brink of default, could no longer refinance or restructure its debt. Foreign partners, including Chevron, could no longer provide credit for joint ventures. Oil service companies could no longer extend credit. In 2019, the United States ratcheted up its sanctions, this time targeting PDVSA specifically. The United States suspended its import of 500,000 bpd of oil from Venezuela and stopped providing 100,000 bpd of refined oil products. In 2020, through so-called secondary sanctions, the United States prohibited Russia’s Rosneft from marketing Venezuelan oil worldwide and forced Venezuelan oil exports onto the black market, largely destined to independent oil refiners in China. The “maximum pressure,” and the collapse in oil prices during the COVID-19 pandemic, led Venezuela’s production to fall

further, to less than 400,000 bpd in mid-2020. Production recovered, nearing 800,000 bpd in late 2021, but once Venezuela ran out of spare production capacity, further increases did not materialize until Chevron started to invest in late 2022.

### **A Lifeline from Washington?**

Since the United States loosened sanctions on Venezuela, Chevron has been the most relevant player, responsible for more than 80% of increased production over the last two years. The rest of the production increase largely happened in Chinese and Russian extra-heavy oil joint ventures. This is in part the result of US Treasury authorization to Repsol and ENI to trade Venezuelan oil for refined petroleum products, including the extra-heavy diluent used by Venezuela's oil industry. But for now, there is a low ceiling for oil production in Venezuela, despite abundant reserves.

Indeed, there are only five drilling rigs in operation—three involved in Chevron's projects and two operated by unlicensed Russian investors—down from 70 or so a decade ago.

***“The Venezuelan oil industry was in full decline before the US imposed sanctions.”***

---

Part of the problem is that the US sanctions relief has not been considered permanent. But US sanctions are not the only barrier to investment in Venezuela. Oil companies are also uncomfortable with the legal and regulatory frameworks and Venezuela's authoritarian political system. In some regards, the Chevron contract is an exemption; it gives the company control over its operations and cashflow in return for access to the US market and the higher prices compared to discounted black market sales. Chevron could increase production by 100,000 bpd over the next two years, after already increasing output by 130,000 bpd under its Treasury license.

PDVSA is aiming to replicate the “Chevron” model with Repsol and Maurel & Prom, but these joint ventures are significantly smaller and offer less upside. They will add less than 45 thousand bpd in the next two years and their projects are riskier because -unlike Chevron- they will have to invest some

fresh capital. There are other minor Canadian and European companies that have recently signed deals with PDVSA, but they are going to yield even smaller increases in output (even if they get licenses). The problem is that few are willing to risk significant amounts of fresh capital, before generating any revenues, in a country with a shaky institutional framework, an unreliable partner, and few guarantees of repayment.

**“More significant investments and production increases would require political change and a credible institutional framework to attract massive private investment.”**

---

The only two partners of PDVSA with substantial production (combined adding to Chevron’s) are the Chinese and Russian national oil companies. Like Chevron, they could use the cashflow of their projects to reinvest, without risking new capital, but they are unlikely to

obtain credible long-term US licenses in the current geopolitical environment.

## Conclusion

The “pragmatic” policy of US Treasury licenses for foreign oil companies to operate in Venezuela, particularly to Chevron, has helped reverse the decline of Venezuelan oil production and is likely to yield an increase of some additional 150-200 thousand bpd in the next couple of years. However, more significant investments and production increases would require political change and a credible institutional framework to attract massive private investment.

*Francisco J. Monaldi, PhD, is the director of the Latin America Energy Program and a fellow at the Center for Energy Studies at Rice University’s Baker Institute for Public Policy. He is a member of the International Faculty at IESA School of Management in Venezuela and Panama. He is a non-resident fellow at the Center on Global Energy Policy at Columbia University.*



Woodrow Wilson International Center for Scholars  
Latin America Program  
One Woodrow Wilson Plaza  
1300 Pennsylvania Avenue NW  
Washington, DC 20004-3027

 [www.wilsoncenter.org/lap](http://www.wilsoncenter.org/lap)

 @LATAMProg

 Wilson Center Latin American Program

*Cover Image: Shutterstock/Alejandro Solo*