

# VenWatch™

VenWatch is an information service created in October 2015 by PKVerleger LLC to alert readers to changing events in Venezuela's oil industry. We have written that Venezuela is the "Weakest Link" among world oil suppliers. The country's foreign currency reserves have dipped below \$10 billion and will likely be exhausted by the end of the year. The loss of foreign currency reserves and increased pressure from US Justice Department of Justice investigations into PDVSA activities threaten to leave the nation's oil industry destitute. A partial or total shutdown of production is possible. This would not be the first time low oil prices have led to chaos in Venezuela.

We created VenWatch because other organizations are ignoring Venezuela's precarious situation. PKVerleger LLC will post references to articles on the country's ongoing collapse as they appear, often accompanied by comments on the stories.

(Note: Right-click on links to open in a new browser window.)

November 24, 2015

Argus Media

## **Terminal Bottlenecks Curb PDV Export Plans**

Venezuela's efforts to boost exports of 18° Merey crude, a blend of extra heavy and light crudes, are being hampered by the lack of light crude production and the inability of its ports to import crude oil. Citing internal PDV documents, Argus Media reports that "Venezuelan oil terminals, including Jose and Guaraguao, have damaged loading arms, inoperative pumps, faulty power supply systems, water contamination, off-specification cargoes, toxic product leaks, structural damages to some berthing facilities, and deteriorated storage tanks." The low crude oil prices have made needed repairs difficult if not impossible.

November 19, 2015

Oil Price Information Service (OPIS)

OPIS reports the petroleum "debacle" in Venezuela has worsened. Fifteen to twenty tankers are waiting offshore to unload. The problem is payment. The cargo owners must be paid before the ships will unload. The ships contain blendstocks and light crude. Refinery problems have increased the nation's requirements for imported product.

OPIS also indicates that Venezuela has built gasoline inventories prior to the upcoming election by increasing imports.

November 18, 2015

William Neuman, *The New York Times*

[In Guyana, a Land Dispute with Venezuela Escalates over Oil](#)

Venezuela and Guyana's territorial contention has "heated up" recently, sparked by an Exxon oil discovery in waters assigned to Guyana by an international tribunal more than one hundred years ago.

November 15, 2015

*Latin American Herald Tribune*

[Venezuela Oil Price Tumbles to Within Dollar of 2015 Lows](#)

According to LAHT, Venezuela's weekly oil basket price fell to \$37.23 per barrel for the week ending November 13, down \$2.67 from the previous week. The average price for Venezuelan crude for 2015 is \$46.57 per barrel, down from \$88.42 in 2014, \$98.08 in 2013, and \$103.42 in 2012. The current basket price is within \$1 of the 2015 low.

November 12, 2015

Lucy Hornby, *Financial Times*

[Falling Oil Prices and Slow Growth Push China to Find New Friends](#)

Hornby notes that China is diversifying its Latin American investment away from "oil-dependent ideological allies such as Venezuela" toward countries like Brazil. The reason, she suggests, is the steep drop in oil prices that has weakened Chinese ventures in oil-dependent nations. An analyst she quotes offers this explanation: "In the past, Chinese investment in such countries [e.g., Venezuela or Ecuador] had ideological or political undertones, but today we give more weight to economic concerns."

Francisco Rodriguez, *Financial Times*

[Lessons from Venezuela in Tough Economic Times](#)

According to economist Rodriguez, many of Venezuela's current economic woes can be traced to a political system that works well when times are good and abominably when they are not: "The last two decades of Venezuela's 20<sup>th</sup> century can best be summarized as a succession of stop-and-go economic adjustments during which the country's political class blocked any administration that tried to stabilize external and fiscal accounts.... If no attempt is made to design more stable and accountable political institutions, we should not be surprised if the country fails to make a break with the past."

November 11, 2015

Z.C. Dutka, *The Independent*

[Venezuela at an Impasse](#)

Dutka describes the rise of an alternative economy in Venezuela. Today, he writes, "the epoch of high-minded ideas bolstered by abundant resources is long gone. The difference will be made in Venezuela

by those who see opportunity in its absence, not the opportunity to profiteer and drive the economy further downward, but the possibility of regeneration.”

November 9, 2015

*Argus Media News and Analysis*

**PdV Seeks to Reschedule Foreign Debt**

Argus Media reports that Petroleus de Venezuela is seeking to reschedule its foreign debt. The company wants to invite voluntary swaps of \$5.1 billion in dollar-denominated debt maturing in 2016 and 2017 for new notes that mature after 2018. The government and PDV are due to pay more than \$10 billion for bonds coming due in 2016 and another \$10 billion in 2017 and 2018. Bond dealers surveyed by Argus Media conclude the deal could be done but would be expensive, possibly costing the company and the government \$2.5 billion for every \$1 billion rescheduled.

November 7, 2015

*Agence France-Press (AFP)*

**Venezuela Withdraws \$460 Million from IMF**

According to the AFP, Venezuela took out \$460 million last month from the IMF by exchanging part of its Special Drawing Rights (SDR), an international reserve created by the IMF, for cash. This is the country's third SDR exchange this year, for a total withdrawal of more than \$2.3 billion.

November 5, 2015

*Energy News Today*

**PDVSA Seeking to Import 1 Million BBL Light Crude in December amid Tumbling Domestic Output**

PDVSA seeks to buy one million barrels of 30-degree API light crude to run at its Isla/Curacao refinery in December. The crude would replace Venezuelan Mesa 30 grade, which is declining. Isla regularly runs Ural and African light and sweet crude as replacements for the decreasing Venezuelan light grades.

November 4, 2015

*Argus Media News and Analysis*

**PdV Restarting Refinery after Fresh Blackout**

The state-owned Venezuelan oil firm is attempting to restart its 146,000 b/d El Palito refinery today after a two-hour blackout on November 1 forced it to shut down. Workers are having trouble getting the fluid catalytic cracker running, however. The FCC may have suffered damage from the power outage, which occurred due to simultaneous equipment failures at two Corpoelec substations nearby. This is the third time this year the refinery has been shuttered by blackouts.

*Argus Media News and Analysis*

### **Venezuela State Utility Warns of Caracas Blackouts**

Venezuela's utility Corpoelec is warning that Caracas could face major blackouts in coming weeks, noting that only a third of the city's power generation capacity is operational. The country has been in a nationwide power emergency, decreed by Hugo Chavez, since December 2009. Until now, however, Caracas had been exempted from electricity rationing. Corpoelec "attributes the shortfall to a combination of planned and forced infrastructure maintenance, replacement parts shortages, and gas and diesel supply deficits." Venezuela's electricity minister blames the problems on "Machiavellian" saboteurs.

November 2, 2015

*Financial Times "fastFT"*

### **Venezuela in Worst Recession in over 70 Years**

FT notes that economic circumstances are grim in Venezuela. The country, "which generates 96 per cent of its foreign income from crude exports, is seen by Capital Economics (CE) to be contracting 10 per cent this year." According to FT, \$1 today buys 785 bolivars on the country's currency black market and citizens there are having difficulty finding toilet paper, cooking oil, and other staples. The article finishes with this quote from CE: "Recessions of this depth and duration are rare and tend to have consequence beyond just the real economy—they can threaten the entire social and political fabric of countries. There's no reason to think this time will be any different in Venezuela."

October 29, 2015

*CNN Money Watch*

### **Venezuela Is Running Out of Cash and Selling its Gold**

*Financial Times "fastFT"*

### **Venezuela Steps Up Gold Reserves Liquidation**

Nation's reserves have dropped to \$15.35 billion, according to its central bank.

*Platts Global Alert*

### **Venezuela's PDVSA Targets 2.4 Million b/d Crude Exports in 2016**

Country hopes to reach 2.9 million barrels per day of crude production, one hundred nineteen thousand barrels per day of liquid natural gas for a total of 3.05 million barrels per day. Current domestic consumption is six hundred forty-eight thousand barrels per day. Source: Eulogio Del Pino, PDVSA CEO, in presentation to National Assembly.

PDVSA will invest \$34.5 billion in 2016 (twenty-seven percent to be allocated to exploration and production).

PDVSA assumes a price of \$40 per barrel, implying revenues of \$35 billion from exports. (This is a PKVerleger LLC calculation.)

October 28, 2015

*Reuters*

[Venezuela's PDVSA Has Paid \\$5 Bln in Bonds in Last 15 days – Finance Minister](#)

Brian Ellsworth

*The Wall Street Journal*

[Gulf Countries Oppose Venezuela's Oil-Price Summit Proposal](#)

Summer Said

Summer Said reports that key Middle Eastern oil producers Kuwait, Qatar, Saudi Arabia, and UAE prefer not to hold a summit with other producers because “It will be like going back to square one,’ said an OPEC official from a Gulf country. ‘It will have a negative impact on the market and prices if no real measures are taken,’ the official said.”

The *Journal* posted this article at 8:38 a.m. EST. The price increase began at 9:45 a.m. Is there a connection?

October 27, 2015

*Argus Media News and Analysis*

**PdV-Ancap Oil-for-Food Deals Founder**

Argus Media reports that PDVSA did not renew an oil-for-food agreement with Uruguay that dates back to 2005. PDVSA had delivered ten thousand barrels per day to Uruguay for food. In explanation, the Venezuelan oil ministry told Argus Media that “PdV’s exportable crude and product supply is very tight and the oil export revenue must be maximized because oil’s price is too low.”

*Argus Media News and Analysis*

**PdV, Honghua Sign \$340mn Oil Services Contract**

According to Argus Media, PDVSA and the Chinese oil services firm Honghua signed a \$340 million contract to upgrade the Lake Maracaibo crude infrastructure. The firm has been conducting land drilling in Venezuela since 2010.

The article adds that Venezuela has borrowed \$50 billion from the China Development Bank since 2007 and repays its loans by shipping three hundred thousand barrels per day to China.

October 22, 2015

*Platts Global Alert*

**PDVSA Seeks 1-2 Cargos of High-Sulfur Diesel**

Platts reports that PDVSA seeks one or two cargos of high-sulfur diesel. The story adds that PDVSA last bought a cargo of this product in September 2014, more than a year ago.

Interestingly, delivery is to be at “One or two **SAFE** ports in the PDVSA system.”

## RELATED ARTICLES

November 11, 2015

Jose de Cordoba, *The Wall Street Journal*

[US Arrests Two Relatives of Venezuelan President Nicolas Maduro on Drug-Trafficking Charges](#)

“US agents have arrested two relatives of Venezuelan President Nicolas Maduro on charges they conspired to transport 800 kilograms of cocaine to the US, according to two people familiar with the matter.”