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.)

July 11, 2016

Erwin Cifuentes, OilPrice.com
PDVSA Slashes Venezuelan Oil Exports to Cuba

Cifuentes reports that a Reuters news release published in June put Venezuela's crude oil exports to Cuba in 2016 at 53,500 barrels per day, a forty-percent decrease from the first six months of 2015. PDVSA has offset this somewhat by increasing the amount of refined products sent to Cuba. Even so, its total crude and product exports to Cuba have fallen 19.5 percent in 2016 to 83,130 barrels per day.

July 4, 2016

Robert Perkins, Platts
US Holds More Oil Reserves than Saudi Arabia, Venezuela, New Study Shows

A study by the Norwegian research group Rystad Energy has concluded that the United States has more recoverable crude oil reserves than Saudi Arabia, Venezuela, or Russia. The estimates, which include potential reserves in recent discoveries and in yet to be discovered fields, put US reserves at 264 billion barrels, Russian reserves at 256 billion barrels, Saudi reserves at 212 billion barrels, and Venezuela at just 95 billion barrels. The study notes that more than half of the US reserves are unconventional shale oil, with Texas alone holding over 60 billion barrels.

July 2, 2016

Brian Ellsworth, Reuters
Venezuela's PDVSA Says 2015 Revenue Tumbles on Oil Price Fall

Venezuela's state-owned oil company has reported that its 2015 revenue fell forty-one percent from its revenue in 2014. Revenue in 2015 was $72.2 billion compared to $121.9 billion in the previous year. Net profit fell from $9.1 billion to $7.3 billion.

June 29, 2016

Platts
PdV Refining Complex Running at Fraction of Capacity

Platts reports that Venezuela's CRP refining complex, which has a nameplate capacity of nine hundred forty thousand barrels per day, is running at only twenty-eight percent of capacity due to "multiple unplanned outages." The two refineries that make up the complex are now processing two hundred sixty thousand barrels per day of crude. Equipment failures and power outages have been blamed for the reduced output. Platts also notes that the country's energy ministry expects throughput to increase in July as a major turnaround at the El Palito refining is completed.

June 23, 2016

Erwin Cifuentes, OilPrice.com
Venezuela Oil Production Faces Worse-than-Estimated Decline

Naming Argus Media as his source, Cifuentes notes that the two hundred thousand barrel per day estimated decline in PDVSA's crude oil output for May 2016 has been revised to three hundred thousand barrels per day. This means, he observes, that "daily production could fall below 1.9 million bpd for the first time since 1989." Argus estimates that the country's current output is around 2.1 million barrels per day. Cifuentes also cites a Barclays report that claims "Venezuelan oil output could nosedive by as much as 500,000 bpd to 1.7 million bpd." The report also believes that political and economic instability in the country will dissuade China from providing additional aid.

June 21, 2016

*fast*FT, *Financial Times*
Is Venezuela Close to the Boiling Point?

A growing number of analysts, according to this report, seem to think Venezuela has reached the point of no return. The country has been racked by rampant inflation, staggering debt, chronic shortages of basic goods, and rolling power blackouts. Food riots have become a regular occurrence and someone recently opened fire on the nation's central bank. In the midst of all the shortages, the Maduro government intends to cut imports by thirty percent in 2016 compared to 2015. The 100-bolivar bank note, the largest currency denomination, is now worth just nine cents in US dollars. In the view of many, the nation teeters on the brink of sovereign default and regime change with little hope of recovery.

“Venezuela hasn’t hit bottom yet,” one analyst opines, “the only light at the end of the tunnel seems to be from another of a series of oncoming locomotives.”

Mery Mogollon, Platts
Venezuelan Crude Output Decline Accelerating: PDVSA Internal Report

A monthly PDVSA internal report viewed by Platts on Tuesday put Venezuelan crude oil output at 2,468,200 barrels per day in May, down 194,500 barrels per day from January. Mogollon notes that the country’s output has been falling steadily since January 2015, dropping 343,700 barrels per day over seventeen months. The change is due in part to the smaller number of rigs operating, as oil services firms like Schlumberger, Haliburton, San Antonio Internacional, and Petrex have reduced their operations in Venezuela. Mogollon also observes that analysts question the PDVSA figures and believe actual production may be much lower than the official numbers.

June 20, 2016

Christine Jenkins, Bloomberg
Venezuela 2016 Default Likely, PDVSA May Go First, Moody’s Says

According to Moody’s Investor Service, Venezuela will likely fail to make its debt payments this year. The firm thinks default by the state-owned oil company PDVSA will occur before a sovereign default. The oil firm’s failure will put additional pressure on government finances. Not all hope is lost, however. Moody’s said, according to Jenkins, that “there is a non-negligible probability that a credit event for both could be avoided, although a default is more likely than not.” As a sign of the latter, traders in the credit default swaps market are pricing in a sixty-percent probability that the country defaults in the next twelve months. In addition, the International Monetary Fund expects Venezuela’s economy to shrink eight percent in 2016 and its inflation rate to reach four hundred eighty percent.

June 13, 2016

Kejal Vyas and Timothy Puko, *The Wall Street Journal*
Venezuela Oil Production Drops Sharply in May

The *Journal* reports that, according to OPEC data, Venezuela experienced its biggest monthly oil-production decline in a decade in May. The decrease amounted to 120,000 barrels per day, taking the country’s output down to 2.37 million barrels per day. This development, the authors write, signals “further trouble for a country already enduring severe economic hardship.”

June 11, 2016

Alexandra Ulmer, Reuters
Venezuela PDVSA Nears Deals to Boost Schlumberger Presence: Executive

PDVSA president Eulogio del Pino told Reuters that his company “is close to reaching deals to boost Schlumberger’s presence” in Venezuela. This comes after the oil services firm announced in April that it would reduce its activity there because of payment problems. According to del Pino, fourteen Schlumberger drills “will start operations soon under a different financing scheme.” He did not reveal the details of that scheme, and Schlumberger has yet to respond to a request for comment on the purported deal.

June 8, 2016

Mery Mogollon, Platts
Venezuela's Failure to Pay Service Companies Leads to Drop in Rigs, Output

Mogollon reports that Venezuela's rig count fell 14.5 percent in May, further contributing to the decline in crude oil production there. The country now has fifty-nine rigs, down ten from April. Specifically, an Argentinean firm suspended operations at eight of its sixteen platforms in late May due to lack of payment from PDVSA. Mogollon notes that, according to OPEC reports, Venezuela's crude oil output fell from 2.318 million barrels per day in March to 2.298 million barrels per day in April. While PDVSA claims the country has the potential to produce 3.05 million barrels per day, Mogollon observes that "with rigs and oil production falling, the country faces an uphill battle in paying for the equipment needed to reach the potential production."

May 31, 2016

Marianna Parraga and Sarah McFarlane, Reuters
Oil Tankers in Limbo as Venezuela's PDVSA Fails to Pay BP

Reuters reports that four tankers carrying over two million barrels of US WTI crude are stranded at anchorage at a Caribbean terminal. They cannot unload because PDVSA has not paid BP for the oil. The cargos are part of a deal for Venezuela to import around eight million barrels of WTI for use as diluent for domestic crudes and feedstock for Caribbean refineries. Three of the tankers have been anchored for more than 30 days. This development has also raised questions regarding who will pay the costs incurred from the delay. Due to this problem and port equipment issues, around thirty tankers are now waiting to be discharged at PDVSA's ports in Venezuela and Curacao.

May 27, 2016

Argus Media
Venezuela Revisits Debt Default Option

Argus reports that President Maduro is rethinking his public vow to repay foreign debt. The country's cash reserves are shrinking and creditors and partners are balking at proffered restructuring deals and debt swap arrangements. One official reportedly said "that default may be the president's 'most rational and pragmatic option.'" Under this scenario, PDVSA would be able to seek bankruptcy protection in Venezuela and in foreign jurisdictions such as the United States.

May 25, 2016

Henry Sanderson and Andres Schipani, *Financial Times*
[Venezuela Sells Gold Reserves as Economy Worsens]

FT reports that the country's gold reserves have hit their lowest recorded level after the government sold $1.7 billion of the metal in the first quarter to repay debts. The reserves have dropped by a third over the past year, including sales of 40 metric tons in February and March 2016. According to the IMF, this article observes, Venezuela's economy will shrink eight percent this year and 4.5 percent in 2017, and inflation next year is forecast to hit 1,642 percent. The country began selling its gold in March 2015. Last year it made a deal with Citi to exchange gold for $1 billion in cash. The gold swap, the authors note, is just one more indication of the nation's desperation for cash as it has, together with the national oil company PDVSA, roughly $6 billion in principal and interest payments to make in 2016.

May 20, 2016

Argus Media
[PdV Oil Production Slipping as Tensions Escalate]

According to this report, the "overall decline" in Venezuela's oil production "appears to be accelerating amid rising political tensions." The article notes that PDVSA is focusing its resources on maintaining output in the "giant Orinoco extra-heavy oil belt" but that an array of problems is "eroding critical light and medium crude flows from mature fields in the country's eastern and western divisions." It goes on to explain that, given PDVSA's current reliance on Venezuela's lighter oils as diluents for Orinoco crude, that Orinoco production "cannot be sustained without incremental volumes of light or medium crude" as the flow of its lighter crudes such as Mesa is decreasing and the country cannot afford to import the diluent volumes it requires. In short, "Argus estimates that Venezuelan production is trending down toward 2mn b/d, a third of PdV's official 6mn b/d target in 2019."

May 16, 2016

Al Jazeera
[Venezuela Reaches Better Oil Loans Deal with China]

The report opens by announcing that an "improved China deal is expected to give Venezuela's economy 'oxygen' in the face of heavy debt payments." As an aside, it notes that China has lent Venezuela around $50 billion over the past decade. No details of the new arrangement are given, just a statement that "Venezuela has reached a deal with its main financier China to improve the conditions of the oil-for-loans deal." The country's Economy Vice President, Miguel Perez, said these conditions "are adapted to the country's reality" and that "this will give the country important oxygen to go forward."

PKVerleger LLC has no information regarding the impact of the revisions. We do not know whether Venezuela received more cash, for example. We only report what the government claims. We leave it to readers to evaluate these assertions.

May 13, 2016

Deisy Buitrago and Alexander Ulmer, Reuters
Venezuela President Declares Emergency, Cites US, Domestic “Threats”

According to this Reuters report, President Maduro has just declared a 60-day state of emergency due to “plots from within OPEC and the United States to topple his leftist government.” Maduro provided no details on the measure, but, in previous instances of declared regional states of emergency, constitutional guarantees were suspended except for those relating to human rights. “Washington,” Maduro said during a broadcast, “is activating measures at the request of Venezuela’s fascist right, who are emboldened by the coup in Brazil.” The political opposition has condemned the president’s action. “Maduro has again violated the constitution,” one leader said, “Why? Because he’s scared of being recalled.”

Juan Forero, The Wall Street Journal
US Sees Growing Risk of Coup in Venezuela

Forero reports that, according to “senior US intelligence officials,” the worsening trouble in Venezuela could end in violence and even a coup attempt against the Maduro government. The officials think the coup may be of the “palace” variety, where close associates of the president move to oust him from office, or a military uprising. The officials pointed out that the country’s much diminished oil revenues are “driving a lot of the economic distress” and that the nation’s crude output might fall below two million barrels per day because of, among other factors, the pullout of the large oil-services firms Haliburton and Schlumberger. “The total lack of any investment by PDVSA,” one said, “has continued to eat into production.”

May 5, 2016

Sebastian Boyd, Reuters
Venezuela Desperation Roils Bonds after Output Plunge, GE Deal

“Cash-strapped Venezuela’s plunging oil production is spooking bond investors,” Boyd writes. He notes that PDVSA notes have dropped 2.6 percent since reports on Tuesday revealed the country’s oil production had dropped in all regions for the first time since 2008 and that the firm had paid some of its debt to GE with securities that have a “cross-default clause” with its bonds. According to a consulting firm, Venezuela’s crude output was down 188,000 barrels per day in the first quarter from the 2015 average. The same firm noted that PDVSA is considering issuing another $2.5 billion in bonds to pay service providers. A Credit Suisse analyst says the country converting its “arrears” into financial debt “highlights how severely PDVSA's liquidity is impaired.”

May 4, 2016

Marianna Parraga, Reuters
Venezuelan Crude Sales to United States Fell 8 pct in April

Parraga reports that Venezuelan crude sales to the United States dropped to 734,700 barrels per day in April from the same month in 2015 (an 8.3 percent decline), and that the crude cargoes going to the US decreased from 54 in April 2015 to 45 in April 2016. She notes that equipment malfunctions at the Jose port have delayed loading and unloading operations. Most of the oil shipped in April went to Citgo Petroleum, owned by PDVSA, with substantial amounts also going to Valero and Phillips 66.

May 3, 2016

Alexandra Ulmer, Reuters
Venezuela 2016 Oil Output Seen Down at 2.35 mln bpd – Consultancy

Reuters reports that consulting firm IPD Latin America expects Venezuela's crude output to fall to an average of 2.35 million barrels per day in 2016. Production in the country decreased to 2.59 million barrels per day in the first quarter of this year, a 6.8 percent decrease from the same quarter last year. Ulmer attributes the first-quarter production drop to drilling delays, insufficient maintenance, theft, and diluent shortfalls.

May 2, 2016

Argus Media
PetroCaribe Members Seek Alternative Supply

Argus Media reports that Caribbean refineries are seeking crude to replace volumes they previously bought from Venezuela. Facilities in PetroCaribe countries such as the Dominican Republic, Colombia, Jamaica, and Nicaragua have been buying crude or putting out tenders to buy crude from the United States, Nigeria, Libya, Norway, and Abu Dhabi to substitute for the oil they can no longer get from Venezuela.

April 29, 2016

Steve Johnson, Financial Times
Fears Venezuelan Imports Heading for 60% Slide

According to Bank of America Merrill Lynch, Johnson reports, Venezuela is "on course for a 60 percent slump in imports over a four-year period." If this occurs, it could mark the largest economic contraction since 1970, when comparable records began to be kept for Latin America. BOA's numbers suggest that Venezuelan imports fell 50.1 percent in the fourth quarter of 2015 and were down an average of 41 percent in January and February 2016. Some of the worst shortages in goods are medicines and medical equipment. Average monthly wages in the country now equate to $11-12 at the black market exchange rate. One analyst fears the worst. "Among the potential endgames he foresees," Johnson notes, "is a 'Somalia-type breakdown of civil order, where you just have gangs.'"

April 27, 2016

Hannah Dreier, Associated Press
Protests as Venezuela Embraces 2-Day Workweek to Save Power

To cut electricity use, Dreier reports, government officials in Venezuela will now only be working on Mondays and Tuesdays. This comes as cities clean up after a "night of looting and fiery protests" on

Wednesday. Residents angry at the recently imposed electricity restrictions hit the streets to raid shops for bread and other food, some setting up flaming barricades. The capital Caracas is being excluded from the power outages, and Dreier observes that "some here complain that the country is beginning to resemble the dystopian series "The Hunger Games," in which districts suffer for the benefit of the extravagant capital city." The workers being sent home will still be paid, but their work won't get done, which, according to one analyst, "will paralyze Venezuela's public administration, further hampering the state's ability to function."

Andrew Rosati, Bloomberg
Venezuela Doesn't Have Enough Money to Pay for Its Money

"Venezuela…is so broke that it may not have enough money to pay for its money," Rosati writes after explaining how the country has been printing 100-bolivar bills hand over fist to keep up with the hyperinflation there. Late in 2015, he reports, the nation ordered more than 10 billion bank notes, compared to the US Federal Reserve ordering 7.6 billion notes for a much larger country. So far the Venezuela central bank has refused to order currency in larger denominations.

Today, one 100-bolivar bill, the largest denomination at present, might buy you a single cigarette. The IMF expects inflation in Venezuela to approach five hundred percent this year. The foreign firms printing the bolivars, one now owed $71 million in back payments, are starting to balk at new orders. This is just one more sign of the economic chaos in the country. As a Johns Hopkins professor cited by Rosati puts it, "It's a very bad sign to see people running around with wheelbarrows full of cash to buy a hot dog. Even the cash economy starts breaking down."

April 22, 2016

Reuters
Haliburton Curtailing Business Activity in Venezuela

Reuters notes that Haliburton is about to begin curtailing its activity in Venezuela. The announcement comes two weeks after Schlumberger released similar news. The Haliburton decision appeared in a recent earnings report issued by the firm. Although not specifically stated, the Haliburton action likely comes in response to PDVSA's ongoing difficulty in paying service firms what they are owed. An earlier Barron's report had observed that Venezuela accounted for a negative three percent of Haliburton's total revenue in 2015.

April 21, 2016

Brian Ellsworth, Reuters
Venezuela Announces Daily, Nationwide Power Cuts on Drought

Given the ongoing drought severely hampering the country's hydroelectric generation, Venezuela announced it would begin rationing electricity. Ellsworth quotes an official as saying the "power cuts will rotate among different hours during different four-hour periods for 40 days starting Monday" (April 25). The crude oil sector, however, is being exempted from the power cuts.

April 19, 2016

Andres Schipani, Financial Times
Venezuela Faces Oil Production Disruption

Schipani reports that chronic power shortages in Venezuela may lower the country's oil output by one hundred to two hundred thousand barrels per day this year. As noted previously, falling water levels may cause generation from the huge Guri hydroelectric dam to be sharply curtailed or even halted altogether. Schipani quotes an analyst report that warns that "Venezuela is less than 20 days away from a major power production disruption. Crude and product production could be negatively impacted and the country might have to increase imports of petroleum products for generators." As a result of electricity shortages and other problems, analysts expect Venezuela's crude oil output to drop from the 2.78 million barrels per day achieved in 2015 to 2.62 million barrels per day in 2016.

April 14, 2016

Mery Mogollon, Platts
PDVSA Proposes Take It or Leave It Offer to Partners on Raising Output

Mogollon quotes sources as saying that "Venezuela's state-owned PDVSA is offering its partners in 36 'mixed ventures' new financial incentives in order to raise crude production." The incentives comprise three new financing models, including the partners receiving oil sales dollars directly before PDVSA gets paid. According to one executive quoted in the article, "These financing contracts eliminate the investment risk in Venezuela at a moment when PDVSA, the majority partner, has negative cash flow." In addition, the PDVSA partners will receive a preferential exchange rate ten times higher than the rates for the majority of the country's mixed ventures. This would reduce their operating costs in Venezuela more than sixty percent.

Mogollon also notes the previously reported reduction in oil services firm Schlumberger's operations there due to lack of payments from Venezuela. "Broadly speaking," says an analyst cited by the author, "the impact of Schlumberger leaving could see output fall a further 100,000-150,000 b/d by year-end."

Mery Mogollon, Platts
Bolivar Devalued in February

In an article related to the piece above, Platts reports that Venezuela devalued its national currency in February, changing to a dual rate that comprises ten bolivars per dollar for official imports and a floating rate called DICOM for designated business sectors. The DICOM rate has hovered around three hundred bolivars per dollar in recent weeks. In particular, the latter "improves financial conditions and ultimately oil production can rise significantly in the short term," said one partner firm executive. A different executive sees the new business conditions as "the last opportunity for some companies to maintain their presence in Venezuela."

April 13, 2016

Maria Armental, *The Wall Street Journal*
Schlumberger Curtails Operations in Venezuela amid Cash Crunch

The oilfield services giant Schlumberger Ltd. has had operations in Venezuela since 1929. Today, the country accounts for more than ten percent of the company's business. Now, as *The Wall Street Journal* reports, Schlumberger will cut back its operations there this month, "citing delays in payments from Petróleos de Venezuela." The firm had already accepted "certain fixed assets" from PDVSA in the fourth quarter in lieu of $200 million owed to it. The *WSJ* article noted that Halliburton and Weatherford International had also reported similar delays in payments from PDVSA.

April 2, 2016

Corina Pons, Reuters
Venezuela to Cut Energy Output if Key Dam Falls to Critical Low

The water levels at Venezuela's critical hydropower-producing Guri dam are now just four meters above the level where its generating turbines will stop turning. The country's residents, hospitals, schools, and businesses, including PDVSA's oil facilities, depend on hydropower for sixty percent of their electricity. If the Guri dam water reaches the critical levels, the state-run power corporation will have to institute measures that may include "rotating rationing." These measures will come in addition to the nation's frequent blackouts, which will likely further incense the population against the Maduro government.

March 29, 2016

Argus Media, Reuters
Delays at Venezuelan Ports

Argus Media and Reuters have reported long delays at various Caribbean ports due to problems loading and unloading ships. Argus Media reports that "at least 40 tankers currently are stacked up near PdV terminals including Jose, Amuay, Punta Cardón and El Palito, and at nearby Curacao's Bullen Bay, Bonaire and Aruba." Reuters puts the number at 70.

The delays are attributed to the breakdown of loading arms. Reuters reports that only four of the eleven loading arms used to attach lines to ships from tanks are working. Argus puts capacity utilization at forty percent.

March 11, 2016

Marianna Parraga, Reuters
Venezuela's PDVSA Seeks 8 Million Barrels of Crude in Large Tender

Parraga reports the Venezuela has issued a tender seeking eight million barrels of US or Nigerian crude for delivery from April through June. She notes that the tender amounts to roughly ninety thousand barrels of oil per day, which is more than PDVSA bought last year, and that "the cash-strapped firm is now proposing several payment mechanisms to oil and trading companies, including swaps, prepaid sales, letters of credit and open credit."

[Any comment you would like to add?]

February 27, 2016

Marianna Parraga, Reuters
Deepening Default Fears Cast Shadow over Venezuela's Oil Flows

Reuters' Parraga notes that the state-owned oil company PDVSA must pay bondholders around $5.2 billion in 2016, an obligation the firm may be "be hard-pressed to meet after the government used nearly all of its available cash reserves to pay $1.5 billion in maturities last week." The company's default would be unprecedented and, as one source told the author, the possibility "is worrying for everybody."

If PDVSA does manage to pay its bondholders, it will have almost nothing left to pay suppliers, and without its imports of light crudes and naphtha as diluents, the country may find its heavy crude exports diminished by 235,000 barrels per day. Parraga states that this "disruption…could help curb an oversupplied global crude market." She also observes, however, that most of Venezuela's two million barrels per day of exports would continue to flow because "PDVSA's entire output is not dependent on imports and it has been increasing shipments to political allies."

February 25, 2016

Carolyn Cui and Sara Schaefer Muñoz, *The Wall Street Journal*
In Decaying Venezuela, Debts Get Repaid

In Venezuela, oil is everything it seems. Cui and Muñoz note that despite plummeting oil revenues, countrywide shortages, shrinking foreign reserves, and the likelihood of an eight-percent economic contraction in 2016, the nation "appears set to hand over $1.5 billion for its debt payment to foreign bondholders." The authors assert that the debt payment is being made for Venezuela to avoid losing control of the state-owned oil company PDVSA. Specifically, "Caracas fears a default could open up claims to PDVSA assets such as rigs, refineries, and oil shipments." More importantly perhaps, the assets of US-based PDVSA subsidiary Citgo Petroleum could also be at risk.

Cui and Munoz point out that Venezuela has not paid any other debts, including the $31 billion it owes private companies. The country's decision to pay the debt has been met with considerable skepticism and some derision in the global financial community. As one executive from an asset management firm put it, "We still think that people that are currently in charge are only motivated to keep servicing the debt because that's the only way they can keep this crazy charade country functioning."

February 20, 2016

Lucia Kassai, Bloomberg
Venezuela Said to Consider Aruba Refinery to Upgrade Heavy Oil

In a move "being considered as cash-strapped PDVSA doesn't have the financial resources to build the oil upgraders it needs," Venezuela's state-owned oil company is reportedly in talks with the Aruba government through its US subsidiary CITGO to lease the Aruba refinery. If it is feasible, PDVSA would use the refinery to upgrade the heavy crude from the Orinoco Belt into higher-value synthetic crude rather than fuels such as gasoline.

One analyst described the plan as "an obvious alternative to building their [PDVSA's] own badly needed upgrading capacity." She also said this could "prove a more viable option to get their [Venezuela's] exports to market." The lease could be signed by the end of March. Valero Energy Corporation owns the Aruba refinery, which has capacity to process 235,000 barrels per day.

February 19, 2016

Mery Mogollón, Platts
Venezuela's PDVSA Purchases Two Additional Shipments of US Crude

Mogollón reported that Venezuela's state-owned oil firm bought the two cargoes for processing at its Isla of Curacao refinery. PDVSA purchased the oil through its US subsidiary Citgo as part of a contract signed with Citgo in January. Besides crude oil, PDVSA will receive shipments of a "mixture of light ends and distillate products this year." The products include naphtha, gasoline blend stocks, and ultra-low-sulfur diesel. These purchases are meant to "cover the deficit of refined products in the domestic market caused by the persistent failures in the Venezuelan refineries."

The Platts piece also reported, as many others have, on the government raising domestic retail gasoline prices very sharply for the first time since 1994. Up until this point, according to official data, the federal subsidy of gasoline had cost PDVSA $12 billion annually.

February 16, 2016

Argus Media
Embattled Maduro Rebuffs Debt Default Advocate

Argus reports that Venezuelan president Nicolas Maduro replaced the country's economic minister, Luis Salas, Monday. Salas had advocated for the country defaulting on its national debt.

February 12, 2016

Argus Media
PdV Boss Resisting Default Lobby in Caracas

Officials in Venezuela have told Argus Media that the new economy minister Luis Salas wants to suspend the country's foreign debt payments immediately and use the funds to finance imports of food and medicine, both in short supply there. Salas' proposal is opposed by energy minister Eulogio del Pino, also CEO of the state-owned oil company PdV. The latter argues that terminating debt payments would adversely affect PdV's imports and exports, cut off the company's access to international credit, and expose offshore assets like Citgo to lawsuits from creditors. He favors renegotiating the $20 billion in debt and interest payments for 2016 and 2017 to, among other things, preserve PdV's efforts to restructure its own debt and raise new investment. In addition, he asserts that a Venezuelan default could force "the shutdown of critical upstream ventures in the Orinoco oil belt" due to foreign oil companies suspending their capital expenditures in the region.

Reuters
Venezuela Top Court Grants Maduro Economic Emergency Powers, Opposition Cries Foul

Reuters notes that the Venezuelan supreme court has granted the country's president "emergency economic powers" after its parliament rejected the measure last month. Maduro now has the power to control the federal budget, companies, and the currency. The opposition leaders said this action "offered no real solutions to the worsening recession, shortages, and inflation." They have vowed to find a legal way to remove Maduro from his post by mid-2016.

February 11, 2016

Argus Media
Venezuela Imposes Nationwide Power Rationing

Argus Media reports that Venezuela has begun rationing electricity across the country in a move that "formalizes" what have become routine power cuts. For now, the oil industry has been exempted from the rationing. If the main hydroelectric reservoir drops lower, however, the country's state-owned utility might lose half of the facility's generation. This would "disrupt PdV's upstream and operations nationally."

February 9, 2016

Argus Media
PdV Misses Orinoco Crude Production Target

PDVSA Brutal Facts: American diplomat, scientist, and philosopher Ben Franklin once observed that "one of the greatest tragedies in life is the murder of a beautiful theory by a gang of brutal facts." Venezuela's "beautiful theory" of boosting output from its Orinoco fields has just been "murdered" by its lack of cash, which limits its ability to obtain the light crudes needed to dilute the heavy Orinoco crude.

According to Argus Media, PDVSA strategy director Sergio Tovar told an audience at IP Week in London that the country's production goals must be reduced. The words "hard currency" were not uttered. But Venezuela's dearth of cash is clearly beginning to constrain output.

February 4, 2016

Argus Media
[PdV Taps Citgo Credit Line for Oil Imports]

Argus Media notes that, according to Venezuelan officials, "Cash-strapped Venezuelan state-owned PdV is tapping the credit line of its US downstream subsidiary Citgo to finance imports of light crude and refined products that it needs to sustain and expand production in the Orinoco extra-heavy oil belt." This move comes in addition to the company's efforts, unsuccessful so far, to get joint-venture partners to finance required crude and naphtha imports and state-owned oil companies in Africa to partner with PdV in expanding Orinoco output. In closing, the article suggests that PdV´s financial maneuvers might cause perceptions of Citgo´s credit profile to deteriorate and thus reduce future borrowing and credit opportunities for the Venezuelan government.

February 3, 2016

Ricardo Hausman, *Financial Times*
[It Could Be Too Late to Avoid Catastrophe in Venezuela]

Regarding Venezuela, Hausman writes, "Domestically, the most likely scenario is an imminent economic collapse and a humanitarian crisis. Internationally, it will imply the largest and messiest emerging market sovereign default since the Argentine crisis of 2001." He ascribes the blame for this to Hugo Chavez spending "as if the average price of a barrel of oil was $197 in 2012, when in fact it was only $111" and thus quadrupling the nation's foreign debt. He notes that the country has yet to announce a plan for dealing with its domestic imbalances or balance-of-payments problems. He ends by suggesting that, although it may be too late to "avoid a Venezuelan catastrophe altogether," the countries around Venezuela should protect their economies by exerting pressure on the International Monetary Fund to perform economic surveillance on Venezuela and for the nation itself "to adopt a sound economic plan that can garner ample international financial support."

January 23, 2016

The Economist
[Venezuela's Crisis: Heading for a Crash]

In its January 23 issue, *The Economist* asks whether actions taken by President Maduro and the opposition-led assembly are "leading the country away from an economic and political crash or more rapidly towards one." On the positive side, it notes, Maduro has replaced the current vice president, Hugh Chavez's son-in-law, with the former mayor of Caracas, someone "respected both by the opposition and within *chavismo*." Still, "there is little sign that president and parliament agree on why things are so bad—apart from the collapse in the price of oil, virtually the only export—or what to do about it." The president suggests the country will raise the dirt-cheap price of gasoline but does not plan to cut social programs. As the Argus article below points out, the assembly faces a Hobson's choice in deciding whether to support or reject Maduro's economic emergency decree. In addition, the assembly opposition leader, Henry Ramos, has vowed to remove the president by constitutional means within six months. Given these circumstances, *The Economist* opines, "a crack-up will be hard to avoid."

January 22, 2016

fastFT, *Financial Times*
IMF Sees Venezuela Inflation at 720% This Year

fastFT notes that low oil prices and economic mismanagement have left Venezuela's economy "in shambles" and inflation skyrocketing. The IMF's expectation for 2015 inflation is far harsher than the Venezuelan central bank's published figure of 141.5 percent. "It now takes around 800 bolivares [sic] to buy a dollar from black market money traders," the article explains, "compared to less than 200 bolivares [sic] just a year ago." This translates to the 100-bolivar bill now being worth about twelve cents on the black market.

January 21, 2016

Sara Schaefer Munoz and Anatoly Kurmanev, *The Wall Street Journal*
Fears of Venezuela Default Grow amid Drop in Oil Prices

The *WSJ* authors quote a Barclays analyst as saying Venezuela defaulting on its debt in 2016 is becoming more and more probable: "If oil stays at $32 per barrel, Mr. Arreaza estimated that Venezuela will need to use 90% of its oil income this year just to meet its obligations, including sovereign debt and money owed to China." They cite another analyst who believes "the government will likely make its February payments but will struggle beyond that." Because of this and other factors, they write, "investors deem Venezuela the riskiest bet in the developing world and charge it the highest borrowing rates."

Argus Media
Crude Oil, Corporate, Politics

Argus Media reports that Venezuela's "opposition-controlled legislative assembly has begun debating a sweeping presidential economic decree as plummeting oil prices approach production costs and big debt payments loom." The article notes that PdV's average export price hit $21 per barrel on January 20 for the first time since 1999 and that the energy ministry expects prices to decline further to $10 to $15 per barrel. PdV has denied shutting any wells, but Argus comments that "the company is clearly at a breaking point."

The country may also be at a breaking point. Despite President Maduro appointing a new commission to "recharge nine 'economic motors' led by the oil, petrochemicals, and mining sectors," the government is "widely seen as impotent" given the oil price plunge, and the economy and citizenry are further at risk. "Venezuela's main Caribbean container ports are virtually idle," Argus observes, "threatening a humanitarian crisis as food and medicine dwindle." It also explains that whether the assembly approves the president's decree, giving him broader economic and political power, or rejects it and risks being blamed for the collapse, "opposition lawmakers appear to lose ground either way."

January 18, 2016

Marianna Parraga, Reuters
Exclusive: Venezuela's PDVSA Asks Partner to Pick Up Tabs as Oil Prices Sink

Could this be the beginning of the end? Reuters' Marianna Parraga reported Monday that PDVSA had asked its joint venture partners to pay for the naphtha used to produce exportable crudes. PDVSA evidently lacks the cash. According to Parraga, PDVSA is responsible for supplying the naphtha used to dilute heavy Oronoco Belt crude to produce marketable oil. She adds that "a barrel of Venezuelan Merey or DCO heavy crude needs around 30 percent to 50 percent of diluent to be exportable." At present prices, Venezuela's naphtha costs are estimated to be $9 million per month. Spokespeople for the joint-venture partners have indicated they would not pay for the diluent.

Is this a sign that Venezuela's oil exports will soon drop?

January 16, 2016

Paul Coyer, Forbes
Venezuela's Future – Mortgaged by Chavismo in Cooperation with China

Coyer opens his article with this statement: "Yesterday's declaration by Venezuelan President Nicolás Maduro of a state of economic emergency in Venezuela is a tactical maneuver by Maduro to forestall changes championed by the new democratic opposition majority in the National Assembly—most notably their intention to get rid of Maduro himself." He then goes on to detail the major challenges to democracy in Venezuela: the ruling PSUV, the military, and, in particular, China. Regarding the latter, Coyer observes that

> China's looming presence in the country has been a factor that has reinforced the negative tendencies of the ruling socialists, helped to prolong the misery of the Venezuelan people, and is now adding to the very serious challenges that the opposition now in the majority of the National Assembly and any successor government will have in attempting to untie the Gordian knot that is the country's current economic, political and social condition.

The fly in the democratic ointment is the "comprehensive strategic partnership" forged by Hugh Chavez with China. Chavez and current president Maduro have solicited and received over $60 billion in loans and investments from the Chinese "not to invest in future oil production or other economically productive ventures, but for social programs and political projects that kept them in power." Up until recently, Coyer explains, Chinese money has protected the PSUV from the consequences of its policies but at the same time heightened the risk of greater crises when everything goes south. And, he writes, "the day of reckoning is fast approaching."

January 15, 2016

BBC News
Venezuela Economy: Nicolas Maduro Declares Emergency

The BBC notes that "President Nicolas Maduro will govern by decree for two months." This news came after the Venezuelan government declared a 60-day economic state of emergency to deal with the country's worsening crisis. The economy there contracted 4.5 percent in the first nine months of 2015. The president can now issue edicts for tax increases and for paying for welfare services and food imports. The decree also "instilled more state controls on businesses, industrial productivity, and electronic currency transactions." President Maduro and his economy minister argue that they need to protect the social programs instituted by Hugo Chavez from the effects of the global drop in oil prices. They blame the soaring inflation and shortages of basic goods on their political opponents.

January 13, 2016

Mircely Guanipa, Reuters
Blackout Halts Venezuela's Paraguana Refineries

Reuters reported today, as did Argus Media, that, according to two workers and an "anti-government union leader," the nine hundred fifty thousand barrel per day Paraguana refinery complex had again been "paralyzed" by an electrical blackout. The units had been producing about four hundred thousand barrels per day before the power failure. After the incident, employees were evacuated, as were children at schools nearby. Images on social media showed thick black smoke rising from the facilities.

The Argus Media report ("PdV Shuts Main Refining Complex on Power Outage") noted that "operators were able to shut down crude processing units at both refineries without damaging key infrastructure." Its sources attributed the blackout to problems at the gas-fired power plant that supplies electricity to Paraguana, the marine terminals, and the surrounding communities. PDVSA has yet to issue a statement on the incident.

The Paraguana refineries, Reuters' Guanipa observed, have been "plagued" by such outages in recent years, "with power outages…in 2014 prompting PDVSA to import gasoline and diesel."

January 8, 2016

The Economist
The Coming Confrontation

The Economist writes that "a dangerous standoff looms between [Venezuela's] government and the newly elected parliament." The new parliament, the "first to be elected with an opposition majority in 17 years of autocratic rule," opened on January 5. The article notes that Venezuela's supreme court may be the *Chavismo* regime's main weapon for preserving its power and authority. President Maduro has suggested, it notes, that all legislation he disagrees with "will be deemed unconstitutional by the Supreme Court." It goes on to observe, however, that the regime is under increasing pressure because it is close to defaulting on some of its $98 billion in foreign debt because of low oil prices, because shortages of basic consumer goods will likely get worse, and because the economy is expected to shrink another fifteen percent over the coming year.

December 16, 2015

Andres Schipani, *Financial Times*
Venezuela on Edge of Political Crisis

Andres Schipani reports that Venezuela's Socialist Party, after losing last week's national election, is moving to pack the Supreme Court before a coalition of opposition parties takes power in January with a supermajority. The incoming opposition has the votes to impeach the Supreme Court and reverse any measures taken before then. However, Schipani suggests the Socialists may take other measures to undermine the new national assembly, such as dissolving the body, thus setting the stage for conflict.

December 9, 2015

Argus Media
Incoming Lawmakers Vow Scrutiny of PdV

Argus Media reports that when Venezuela's Democratic Unity coalition takes control of the country's national assembly on January 5, it will, among other things, put the operations of the state-owned oil company PdV "under a magnifying glass." The review would include "joint venture contracts, loan agreements with China and other lenders, all foreign and local debts owed by PdV, including its debts to the central bank, suppliers and oil services providers, and the company's workers." "The wellbeing of Venezuela's people comes first," an aide to likely incoming president Henry Ramos Allup said, "and that means the new assembly must enact measures to ensure that 100pc of the revenue from PdV's oil exports is invoiced promptly and income booked transparently."

December 7, 2015

Financial Times FastFT
Venezuelan Opposition Declares "Supermajority"

As FastFT reports, the opposition party in Venezuela has declared that it won a "supermajority," two-thirds of the National Assembly seats, in the recent election. Opposition leader Henrique Capriles announced that his party had won 112 out of the 167 seats. Having a supermajority would give the opposition "special powers," including petitioning the Supreme Court to impeach the president and/or calling for a recall referendum to revoke Nicolas Maduro's presidential mandate.

Financial Times FastFT
Venezuela Bonds Rally on Election Results

FastFT explains in this article that achieving a supermajority would allow the opposition party in Venezuela "to initiate constitutional reform, appoint and remove Supreme Court judges, and submit the approval of certain laws to popular referendums." *FT* notes that analysts only expected a simple majority for the opposition in the election. It also notes that the prospects for a change away from seventeen years of socialist rule prompted a sharp rally in the dollar bonds issued by the Venezuelan government.

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 20th 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 Indypendent*
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."

<u>October 29, 2015</u>

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.)

<u>October 28, 2015</u>

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."