Chevron Is Playing a Long Game in Venezuela's Oil Fields

by Peter Millard,

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The American petro giant is helping prop up the embattled nation's energy industry, positioning itself for post-Maduro prosperity.

A sculpture depicting an oil derrick in a hand stands outside PDVSA headquarters in Caracas.

Photographer: Roman Camacho/Getty Images

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Donald Trump may have slammed Venezuela with sanctions in an effort to change the regime of President Nicolás Maduro, but the country's energy industry has an unlikely ally: Chevron Corp.

Despite the U.S. administration's push to disrupt the financial resources available to Venezuela's leadership, the second-biggest U.S. oil company is working to bolster one of the Maduro government's chief economic pillars—its ability to produce crude oil. Chevron is helping tap four fields in the country while testing new injection technologies to maximize production in one, says a person familiar with the operations who asked not to be named because he wasn't authorized to discuss the matter. Chevron is also helping pay for supplies, expenses, and even health care for workers at state-owned oil producer Petróleos de Venezuela SA (PDVSA) to keep the crude flowing, says that person.

Chevron's actions are an attempt to play the long game in economically ravaged Venezuela. U.S. and European rivals have largely abandoned the country, but Chevron is betting on a future payoff if it stays put in a country with 303 billion barrels of proven crude reserves, or about 7 billion more than Saudi Arabia. If Maduro retains power, Chevron will keep its tenuous—but still profitable—foothold in Venezuela. If he's forced out and U.S. sanctions end, the company could be first in line to gain from the country's vast geologic riches.

Venezuela's Crude Oil Production

Barrels per day

Data: EIA

"They will try to hang on for as long as they can," says Francisco Monaldi, a lecturer in energy economics at Rice University's Baker Institute for Public Policy. "I think they realize there's going to be an oil opening different from Brazil, Mexico, or Venezuela in the past. They will have to open up the best fields" to international oil companies.

The gamble puts Chevron in the same group as state-controlled producers from Russia and China that have been supportive of the Maduro regime—and potentially at odds with its home country. The company is working under a Department of the Treasury waiver of U.S. sanctions against Venezuela that expires on July 27. A decision by the U.S. government not to renew the waiver could cripple the production of more than 200,000 barrels a day at the four projects Chevron is keeping afloat, even though the majority of that production goes to PDVSA. And it could lead Maduro to hand Chevron's stakes in these fields to other explorers. "If Western producers leave, the Chinese and the Russians will dominate the largest oil reserves on the planet," says Raul Gallegos, an associate director at consulting company Control Risks and author of *Crude Nation: How Oil Riches Ruined Venezuela*. "Does Trump want to do that? I don't think so."

"Our operations in Venezuela continue in compliance with all applicable laws and regulations," a Chevron spokesman said by email.

Chevron first explored for oil in Venezuela almost 100 years ago. It discovered the Boscan heavy crude field in the Lake Maracaibo region in 1946, lost it to nationalization in the 1970s, and regained operating rights in the 1990s. Chevron's Pascagoula refinery in Mississippi is engineered to handle the heavy oil coming from the field. It also has a small, light-oil venture in Maracaibo and two other projects in the Orinoco Belt in the eastern part of the country. In April, Chief Executive Officer Mike Wirth said the Venezuela properties won't be included in a $20 billion divestment plan the company announced in conjunction with its $33 billion bid for Anadarko Petroleum Corp.

Ali Moshiri, Chevron's exploration and production chief for Africa and Latin America until he retired in 2017, developed close ties with Hugo Chávez when he led Venezuela from 1999 to 2013. Moshiri made appearances on Chávez's *Aló Presidente* weekly TV program, even as the populist firebrand overhauled foreign oil contracts to benefit PDVSA. At one industry event in the mid-2000s, Chávez noticed there was no place for Moshiri to sit when it was his turn to speak. He got up and offered his chair to the Chevron executive, who reluctantly accepted after an embrace and back slaps.

Chevron outlived Chávez, but positioning itself to outlast Maduro won't be easy. Its relationship with the government came under strain amid the oil price crash, economic collapse, and humanitarian crisis that followed Chávez's death. Last year two Chevron employees were arrested and held for seven weeks for reasons neither the government nor the company disclosed. Still, the oil producer continues to work with the government to keep its operation intact. The company has a promising concession in a giant shale play in Argentina and is starting to explore ultradeep waters off Brazil, but Venezuela remains its biggest crude-producing source in Latin America.

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At its largest project, PetroPiar in the Orinoco, output jumped to 128,300 barrels a day in June from only 86,500 in May. The bulk of Venezuela's current production is from joint-venture projects in which foreign partners pay the bills for a delinquent PDVSA, which has built up arrears with international equipment and services suppliers.

The Orinoco projects were the most expensive to set up in Venezuela because they include industrial plants known as upgraders that convert sludgy oil into a product foreign refiners can process. Those cost $3.8 billion at PetroPiar. Chevron was investing about $700 million a year in the country even after Chávez's nationalization, Moshiri said in 2014. It "built those upgraders in the middle of the jungle," says Russ Dallen, managing partner at brokerage Caracas Capital Markets. "How do you explain walking away from that?"

PetroPiar is a resounding success compared with the legacy of the politically aligned deals Chávez signed with national oil companies from Angola, Belarus, and Cuba. Production at those projects has dwindled to a trickle after rolling blackouts ravaged Venezuela's oil patch in March. Apart from Chevron, the only Orinoco projects with any meaningful production are with Russian and Chinese producers.

The country likes to boast that it has the largest oil reserves on the planet, but that doesn't mean much if they stay in the ground. In a world flush with opportunities—including the deep waters off Brazil and U.S. shale fields—most of Venezuela's Orinoco oil will remain untouched, says Jorge Camargo, the head of the energy and infrastructure group at the Brazilian Center for International Relations, a think tank in Rio de Janeiro.

This news may be bad for the future of Venezuela's public finances, but it puts Chevron in a privileged position. Although many rivals may avoid Venezuela because of its difficult operating environment and low-quality crude, Chevron already has more than $1 billion worth of complex infrastructure in place to deal with both. "The ideal outcome is to still have the property when the regime ends," says Dallen of Caracas Capital Markets. "I think their goal is to outlast Maduro."

That could mean braving Trump administration pressure and weathering the worsening humanitarian crisis, but the payoff might be worth the risks. "Whatever government that is coming in will be dealing with very diverse issues and doing it with very little cash in the bank, and that presents a unique opportunity," says Schreiner Parker, vice president for Latin America at consulting firm Rystad Energy. "In the medium to long term with regime change, we believe Venezuela will become very investor-friendly, out of necessity more than anything."

(Updates with Chevron comment in the sixth paragraph.)