No Sleep, Frantic Calls: Maduro's Oil Team Scrambles to Survive U.S. Ban

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An oil storage tank stands at the PDVSA El Tigre facility in Venezuela.

Photographer: Bloomberg

At Venezuela's state oil company, desperation and chaos are setting in one week after the U.S. imposed a de facto ban on the country's crude products.

Working around the clock, employees are calling dozens of traders, some little known, in a search for new markets for its crude, according to people describing the atmosphere at Petroleos de Venezuela SA. Some are barely sleeping. One meeting to find new partners started at 11 p.m., one person said. PDVSA employees are also working furiously to entice vendors to sell them refined products such as naphtha that are critical to keeping its ailing industry working. As the supply of those products falls under the sanctions, early signs of a gasoline shortage have surfaced in the countryside.

An exodus of PDVSA employees in key areas such as commerce and supply has only added to the confusion, according to the people. PDVSA has even reached out to ex-employees to ask them for traders' phone numbers. The lack of experienced employees has complicated what would be in normal circumstances a fairly straightforward job making deals with traders to buy shipments of oil that equal less than half of one percent of the global market. (The U.S. typically purchased 400,000 barrels a day from Venezuela.) At the same time, the sanctions have narrowed options for making and receiving payments.

Economic Lifeline

“PDVSA is desperately scrambling to find, through traders suppliers and clients, gasoline and naphtha to import, and also outlets for its crude,” said Francisco Monaldi, an expert on Latin American energy policy at Rice University in Houston. “These are the kind of situations where traders take advantage and benefit from. PDVSA will have to offer discounts in order to sell its crude and pay way more for imports.”

Whether PDVSA’s efforts succeed will go a long way in determining the fate of the embattled leader Nicolas Maduro. President Donald Trump imposed the ban on Venezuelan oil as part of the U.S. push to get Maduro to cede power to an interim government led by Juan Guaido, the lawmaker who claims he’s the nation’s rightful leader. By choking off the Maduro regime’s finances, the Trump administration hopes to convince Venezuela’s military brass to abandon the autocratic leader and accelerate his exit. But the tack comes with great risk: The oil industry is essentially Venezuela’s lone source of hard currency, and the sanctions could wind up exacerbating the humanitarian crisis in the country.

A PDVSA press official downplayed the problem, saying it has already managed to find replacement markets to sell and buy crude products from.

Already, the sanctions have sliced Venezuela oil exports to a 10-month low. Last year, Venezuela loaded one vessel a day for U.S. refiners. After the U.S. ratcheted up sanctions on Jan. 28, only one vessel has loaded over a 10-day period. That has turned oil tankers into floating storage facilities.

There are about 8.28 million barrels of Venezuelan crude idling all over the Gulf of Mexico in an area that stretches from U.S. coast to the Yucatan Peninsula in Mexico, according to cargo-tracking and market intelligence company Kpler. Some of these vessels, like the Monterey, loaded with 400,000 barrels of crude for the Chevron Pascagoula refinery in Mississippi, have been floating for almost 40 days now, according to ship-tracking data compiled by Bloomberg.

A Few Options

Part of Venezuela’s problem is that the man tasked with overseeing these efforts has little experience in the energy industry. Manuel Quevedo, a career military man who rose to the rank of general in the National Guard, was appointed head of PDVSA in late 2017 as Maduro began to purge and jail large swathes of the company’s managerial ranks.

PDVSA oil tankers sit moored near Anzoategui state, Venezuela in 2018.

Photographer: Wil Riera/Bloomberg

It's unclear how PDVSA will offset the loss of the U.S. sales, but it has a few options. China, which now buys about 300,000 barrels a day, could increase its purchases. India's Reliance Industries Ltd., also free from sanctions, is another probable taker. But those choices would come at a cost because of the longer haul and the competition from supplies from the Middle East. PDVSA could also turn more to intermediaries, using trading firms such as Trafigura Group Pte, Glencore Plc and Vitol Group to land buyers.

A more urgent task for PDVSA employees is finding someone to sell it the refined product known as heavy naphtha. The product is fed into reformer units to make gasoline and is also used in its operations to produce crude.

"It's not an easy task replacing markets, especially naphtha in Latin America," said Gilberto Morillo, a financial advisor in Caracas who worked in PDVSA's finance department. "The U.S. has been our traditional seller."

Gasoline Facilities

Venezuela imported about 90,000 barrels a day of naphtha from the U.S. last year. It recently started using domestically-produced light oils to thin its extra-heavy oil in a bid to keep producing crude amid the sanctions, according to shipping reports and a person with knowledge of the situation.

But with the U.S. supply cut off, the country may be getting close to running out of gasoline. In some of PDVSA's fuel stock facilities, inventories have been drained down to as little as just one day, according to a company document dated Feb. 6 that was seen by Bloomberg News.

PDVSA could turn to suppliers in Europe and Asia, though it may be more expensive. The Spanish oil company Repsol SA recently delivered naphtha to PDVSA and is sending two vessels of gasoline that will arrive in coming weeks, according to a person familiar with the matter. (Members of Guaido team have asked Repsol and the Spanish government to stop doing business in Venezuela, another person said.) Repsol declined comment.

PDVSA could also shut some of the 1,600 gas stations it operates in Venezuela or ration gasoline to each. If all that fails, the South American nation may be forced to shut-in oil fields, hurting its ability to bring in cash and pay back loans. That would deal a further blow to the country's oil production, which fell to a 69-year low of 1.33 million barrels a day last year and is already expected to drop below the one-million barrel mark later this year.

(Adds information on oil company Repsol in penultimate paragraph.)