



POTEN TANKER OPINION



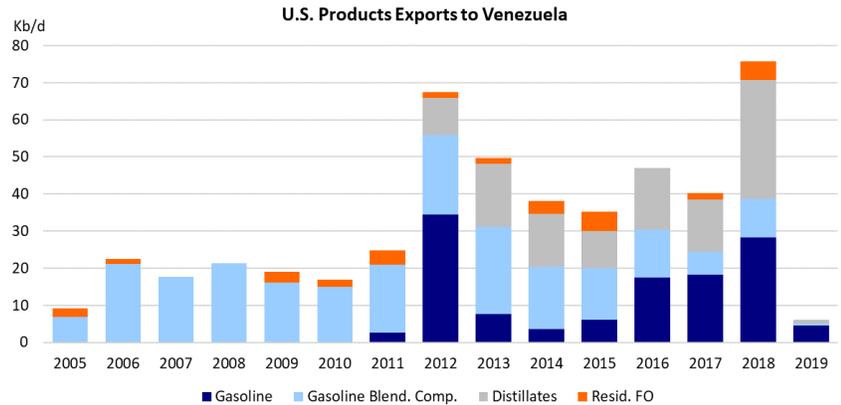
Another Brick in the Wall

The U.S. announces more sanctions on Venezuela

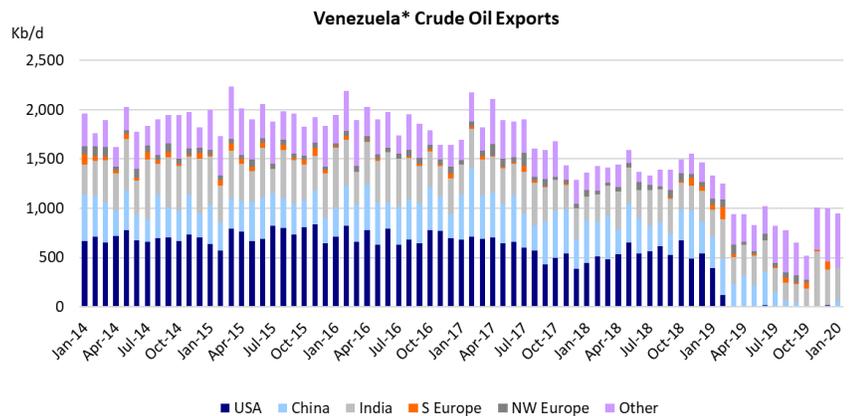
A little more than a year ago, Mr. Juan Guaido, then the head of Venezuela’s National Assembly burst on the international scene after he declared himself interim president. The United States, Canada, the United Kingdom and much of the rest of the world decided to support Mr. Guaido. He was a guest of President Trump during his State of the Union Address earlier this month. Since recognizing Mr. Guaido as the legitimate interim president of Venezuela, the U.S. has announced additional sanctions on PDVSA, the Central Bank of Venezuela, government officials and several foreign banks. However, despite the increasing pressure from the international community, Mr. Maduro remains in power as president of Venezuela. He continues to have the backing of the military as well as Russia, China and Cuba. As a result, the U.S. government decided to ramp up the pressure. On 7 February 2020, the Office of Foreign Assets Control (OFAC) added Venezuela’s state airline Conviasa (including the presidential plane) to the Specially Designated Nationals (SDN) list. Earlier this week, on February 18, the U.S. imposed sanctions on the trading arm of Russia’s oil giant Rosneft for allegedly helping the Venezuelan government export crude oil. The aim of the Trump administration is to bring the Venezuelan oil industry, which is the main source of income of the Maduro regime, to its knees.

For the tanker market, Venezuela has lost much of its luster in recent years. As production declined, seaborne exports deteriorated as well. Until early 2019, Venezuela still exported some 500,000 b/d to the U.S., but this has stopped. The petroleum product trade between the United States and Venezuela has dried up as well. A major blast at the giant Amuay facility in 2012, killing 41 people, took out a significant portion of Venezuela’s refining capacity and the facility never recovered. Following the explosion, U.S. exports of refined petroleum products jumped from less than 30,000 barrels per day (b/d) in 2011 to more than 80,000 b/d in 2012 and they stayed at around 70,000 b/d until 2018 when they jumped to 124,000 b/d. After reaching almost 200,000 b/d in December 2018, U.S. product exports to Venezuela collapsed in February 2019, when new sanctions were announced that prohibited U.S. companies from doing business with Venezuela. Since March 2019, U.S. exports have virtually stopped.

After U.S. sanctions were tightened in early 2019, Venezuelan exports fell from 1,250 Kb/d in January to about 500 Kb/d in October. However, in the last few months of 2019, and into 2020, Venezuelan crude oil exports staged something of a recovery, increasing to about 1 Mb/d, primarily on the back of increased movements to India. Key buyers of Venezuelan



Source: EIA



*Including Caribbean Terminals

Source: Lloyd's List Intelligence

crude in India are Reliance and Nayara Energy (formerly Essar Oil, since 2017 owned by Rosneft and a group of investors). Both companies are assessing the impact of the U.S. sanctions on Rosneft to determine if they need to change their purchases from Venezuela to remain in compliance with U.S. sanctions and policy guidelines. Combined, the two companies import about 300-350,000 b/d of heavy sour crude from Venezuela. Losing these customers would be a severe blow to PDVSA.

The regime of Mr. Maduro has resisted sanctions for so long that few people will venture a guess as to if, or when, he will be removed from power. It could happen next month, next year or at some point in the distant future. In the meantime, most buyers of Venezuelan crude have found alternative sources of heavy crude, like Canada and Columbia. Even if the regime changes and all sanctions are lifted, it will take significant time and effort to rebuild the oil industry in the country and regain the export markets that have been lost over time. While a new government in the country will likely need and try to encourage foreign investment in the oil sector, many companies may be reluctant at first and the recovery could therefore be slower than expected.