



POTEN TANKER OPINION



Over A Barrel

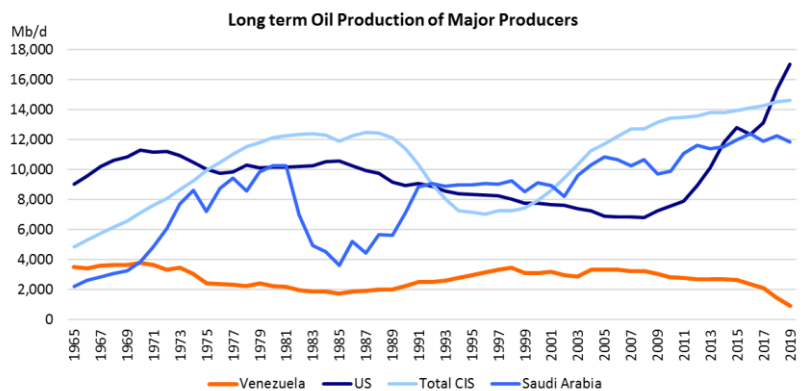
Sanctions against Venezuela are tightening

The situation in Venezuela is going from bad to worse. A recent article in Bloomberg mentioned that Venezuela currently produces only 374,000 barrels per day (b/d). To put this into perspective, this is a little more than 10% of the country's production 55 years ago according to the BP Statistical Review of World Energy 2020, which has oil production data going back to the 1960s. Venezuela was one of the five founding members of OPEC in 1960 (the others were Iran, Iraq, Kuwait and Saudi Arabia) and in 1965, the country produced 3.5 Mb/d on average. At the time, this made Venezuela the third largest oil producer in the world, after the United States and the Soviet Union, but before Saudi Arabia (Chart 1). That should not be a great surprise, since Venezuela has the largest crude oil reserves in the world according to the BP Statistical Review. At 303 billion barrels, it exceeds the reserves of no.2 Saudi Arabia (297 billion barrels). Although Venezuela was not able to hold on to its top position as a producer it remained a very important source of crude oil. As recently as 2009, average daily production was still above 3 Mb/d. However, years of mismanagement, rampant corruption and – in recent years – ever tightening sanctions have taken their toll.

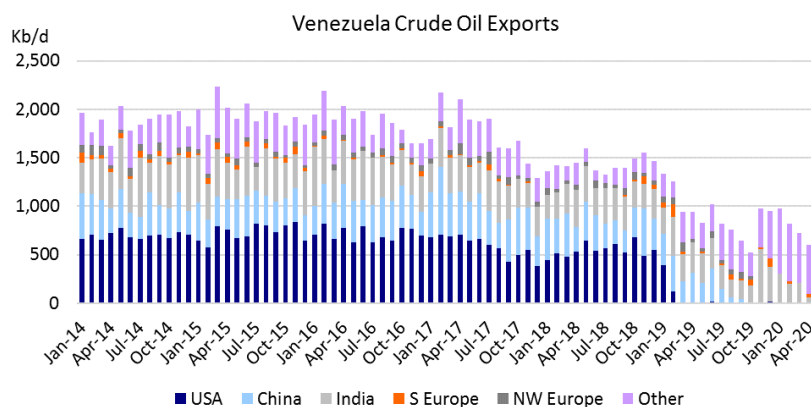
As an oil producer and exporter, Venezuela has become rather insignificant. However, the country can still have an outsized impact on the tanker market because of the attempts by the regime of Nicolas Maduro to circumvent U.S. sanctions and ship crude out of the country. These attempts have led to sanctions against Chinese, Russian and – most recently – Greek shipping companies. Because of the global reach of the U.S. treasury department and the importance of the U.S. financial system, these sanctions have been quite effective in deterring shipowners from doing business with Venezuela or handling its crude oil.

The most recent cases involve several Greek shipowners that were active in transporting Venezuelan crude oil. The U.S. pressure seems to be working, because the companies have all backed away from doing future business with Venezuela, directly or indirectly. The Union of Greek Shipowners also got involved and urged their members to refrain from conducting any business with Venezuela until there is a change in regime.

The change in attitude from the Greek shipowning community, which is famously independent, and a strong supporter of open markets is a blow for Venezuela. According to data from Lloyd's List Intelligence, more than three quarters of Venezuelan crude oil exports were lifted on Greek owned tankers.



Source: BP Statistical Review 2020



Source: Lloyds List Intelligence

A close review of the exports from Venezuela in recent years and months (Chart 2) shows a few important developments. First of all, overall exports have been trending down since 2017. In July of that year, a controversial constituent assembly was elected in the face of an opposition boycott and international condemnation. In May of 2018, Maduro won reelection as president, which was contested by the opposition and widely regarded as rigged. In January 2019, opposition leader Juan Guaidó declared himself interim president. Sanctions from the EU, but in particular from the United States tightened significantly as a result. The second key development was the U.S. ban on imports from Venezuela. For many years, the U.S. was one of the most important customers of PDVSA, but this abruptly stopped in January 2019. China and India took over as the leading importers of Venezuelan crude, although the overall volumes continued to go down. India has not imported crude from Venezuela since April of this year. China stopped direct purchases in September 2019, but has been accused of still buying Venezuelan crude, using ship-to-ship transfers in the waters around Singapore and Malaysia. A growing number of export cargoes from Venezuela do not list a destination anymore, making it more difficult to see where the crude eventually ends up. This is a cat and mouse game that will likely continue until there is regime change in Caracas or Washington. In the meantime, it makes sense for tanker owners to steer clear of Venezuela.