

## INTER AMERICAN DIALOGUE

By Carlos A Rossi

## Questions:

## 1) Consequences of having two PDVSA and CITGO Boards

Venezuela's deep complexities and turmoil are coming to the foreground and its beleaguered oil industry is much a part of it; since Nicolas Maduro was elected in April of 2013, both PDVSA's oil production and Venezuela's GDP have both collapsed 57%. The consequences of having two PDVSA and CITGO Boards affect each company differently. PDVSA can try to ignore Juan Guaido's appointments but not its consequences. They can try to find new markets for its oil in the few friendly nations that it still has, like Russia who can buy its oil and re-sell it to its customers or China, India and Turkey who can purchase it for its own consumption. The latter option carries a heavy price for PDVSA as these nations will doubtless demand deep discounts to a desperate seller and to compensate the likely sanctions the USA and others may impose on them. The Russian option is more likely but not immediate, because Russia will need to re-program production to reduce it to accommodate new Venezuelan oil shipments to its customers in Europe that still need plenty of heating oil, and that takes a while, but not too long. This helps explain the \$500 million of Venezuelan crude stranded in tankers with no prospective buyers at the moment. The only other possible buyer, the European Community, will likely balk at any PDVSA offer due to their strong commercial and financial relations with the US, but more importantly because they are vehemently opposed to Maduro's despotic repression of Venezuelans and its disastrous impact on its oil industry.

As for CITGO, in USA soil, it has now cut ties with PDVSA to avoid the impact on its sanctions and to keep systems operations. They have other providers, namely Canada. CITGO is in the opposite camp of PDVSA, they will not try to circumvent the USA; they will respect the mandates from Washington and ignore Caracas.

## 2) How will the companies be able to conduct business amid legal uncertainties over governance?

As said, PDVSA will try to evade US instructions and might succeed, but only at steep discounts from the market price of oil. CITGO has no legal uncertainty, they will abide by US law, but it will hurt its bottom line for a short period of time, its creditors will likely understand and most will probably roll over their debt for an extended period. There is the issue of the heavy crude quality of Venezuelan oil which CITGO is designed to manage while most other refineries are not; and that complicates matters for both, but much more for PDVSA as it shrinks its market of prospective buyers. India, PDVSA's biggest Asian customer for the last 6 years is no stranger to heavy oil, and they might invest on expanding their heavy oil conversion refinery system but that takes time and is doable if, and only if, PDVSA is willing to sign a long term contract with them at a steep discount, say over 20%, of the market price. The opposition led National Assembly of Venezuela may need to underwrite this and chances are that they will not hear of it; so the question becomes will India sign it anyway,

make the huge investment, and risk that the new government will scrap it. Wise Indian diplomats should talk to the Venezuelan opposition before.

3) How will the parallel structure affect PDVSA relations with its creditors?

PDVSA's relations with its creditors are deeply affected already and will in all certainty worsen every day. Maduro and Chavism remain the de-facto government in Venezuela. PDVSA bonds are already rock bottom in the secondary market because of the sanctions; by the end of March all Americans working as contractors to PDVSA will be banned from continuing to do so; by April 28 (spring time in the northern hemisphere) any company that has minimal financial relations with the USA and buying PDVSA crude oil must quit or face heavy fines (or worse) for violating US sanctions. Venezuela will stop paying its creditors and may declare force-majeure; except that this clause does not include commercial sanctions for political/humanitarian reasons.