Lloyd's List
Maritime intelligence | informa

US imposes sanctions on Venezuelan oil giant

Venezuela stands to lose one of its most important trade partners for crude and refined products, which will alter trade flows. However, total demand for tankers could receive a boost if Venezuelan trade with the US is prohibited

29 Jan 2019 | **NEWS**

by Inderpreet Walia | @w_inderpreet | Inderpreet.walia@informa.com

Due to the sanctions, US refiners will need to find alternative sources to replace Venezuelan heavy crude, which would be positive for tanker tonne-mile demand, says Poten & Partners

NATIONAL SECURITY ADVISER JOHN BOLTON, LEFT, LISTENS AS TREASURY SECRETARY STEVEN MNUCHIN, RIGHT, EXPLAINS THE SANCTIONS AT THE WHITE HOUSE IN WASHINGTON ON MONDAY.

Source: © 2019 AP Photo/Susan Walsh

THE US has imposed sanctions on Petróleos de Venezuela, Venezuela's state-owned oil company, in a move designed to prevent the proceeds of US crude sales benefiting the government of President Nicolas Maduro.

The measures, effective immediately, involve suspending roughly 500,000 bpd of Venezuelan crude exports to US Gulf coast refineries and shutting down US exports of refined products to the South American nation.

The US did not directly ban imports of Venezuelan crude oil but instead blocked companies from entering into financial transactions with PDVSA as long as it remains under the control of the Maduro government.

That essentially means any payment for Venezuelan crude imports will go to blocked bank accounts, according to Treasury Secretary Steven Mnuchin.

PDVSA's US subsidiary Citgo, whose assets in the country include refineries in Louisiana, Texas and Illinois, will be allowed to continue to operate, although revenue will be required to be held in blocked accounts, Mr Mnuchin added.

The move will block about $7bn in assets and result in over $11bn in lost assets over 12 months, US national security adviser John Bolton said.

In a national address following the US announcement, President Maduro said he would take legal action to challenge the sanctions and defend Citgo. He said he would retaliate, without announcing any specific measures.

PDVSA responded to the sanctions by ordering customers with tankers waiting to load crude destined for the US to prepay, Reuters reported, citing three sources with knowledge of the decision.

However, the measure will force Venezuela to redirect its US exports to other countries, which could boost total demand for tankers, some analysts said.

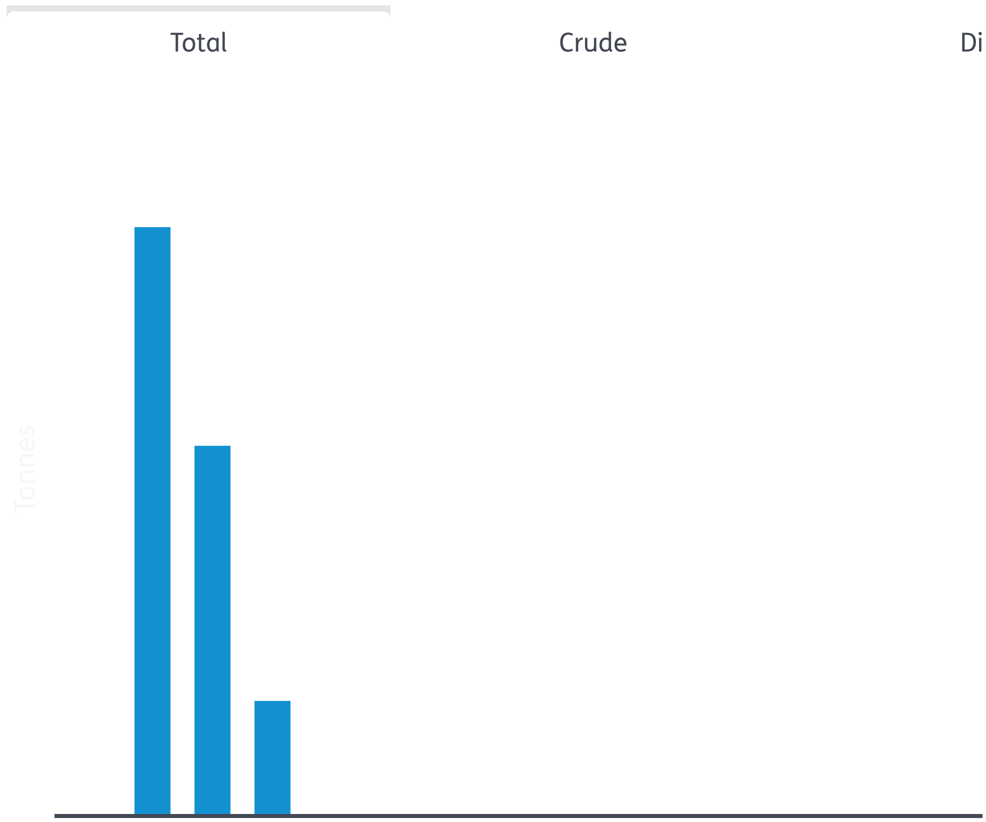
Trade so far

Venezuela is an oil powerhouse, especially because it is a producer of heavy crude, a variety which is not widely available in the world.

Yet crude oil exports, which overwhelmingly represent the main source of revenue for the state, have been in sharp decline in recent years.

Venezuela's crude exports last year averaged 1.12m bpd, 40% lower than the 2015 average, according to Clipperdata. Three countries — the US, India and China — accounted for 84% of last year's exports.

Venezuela Oil Exports



Data supplied by:

Lloyd's List Intelligence
Maritime intelligence | informa

India imported an average of 300,000 bpd of Venezuelan crude last year, down about 9% from 2017. China's imports of Venezuelan crude declined 28% from 2017 to average 277,000 bpd last year, pushing India into the number two spot in terms of importers of Venezuelan crude oil.

But it is the US that receives the lion's share of Venezuela's crude exports, even though volumes dropped by about 16% from 2017 levels to around 503,000 bpd last year, Clipperdata estimates.

Meanwhile, a number of US refiners on the Gulf coast are geared to process the heavier type of oil that Venezuela produces, creating a sticky situation in the current political climate.

Venezuela is maximising exports to the US because these clients pay for the crude in hard currency. Most of the Venezuelan crude going to Asia is sent as repayment for loans that have been extended to the country over the years. Venezuela is, therefore, highly reliant on US importers for foreign exchange.

Tonne-mile boost

India and China are possible destinations where PDVSA can send its cargoes following the sanctions, although they are less attractive customers, unless they start paying cash for the incremental volumes.

A switch from the US to Asia will also reshuffle the tanker markets.

"It will significantly add to tanker tonne-mile demand with long-haul very large crude carrier trips replacing short-haul aframax voyages," Poten & Partners said in its weekly note.

Under this scenario, US refiners will need to look for cargoes to replace the Venezuelan heavy crude. Production of heavy crude oil in Mexico has been in decline and moving Canadian heavy grades to the US Gulf has been a challenge.

According to Poten, US refiners could end up importing more Middle Eastern heavy grades, which would be another boost for VLCC demand.

On the product side, the situation is rather similar. If Venezuela can no longer rely on US supplies, it may need to import additional refined products from Europe, which is a much longer voyage.

"Alternative sources of supply, including refiners in the Middle East or Asia would generate even more tonne-miles and could trigger a switch from [medium range tankers] to [long range one vessels]," said Poten & Partners.