Venezuela's Oil Sector
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VENEZUELA’S OIL SECTOR

A Global Americans Explainer

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Introduction

On November 26, 2022, the Biden administration eased oil sanctions on Venezuela—allowing Chevron to resume its joint venture with the Venezuelan state oil company, Petróleos de Venezuela, S.A. (PDVSA). How did the United States and Venezuela arrive at this point? Where do the two countries go from here? In this explainer, Global Americans examines the Venezuelan oil sector and its relationship with the country’s ongoing political, economic, and humanitarian crises.

Under Presidents Hugo Chávez and Nicolás Maduro, Venezuela’s oil output fell by nearly 80 percent.1 As Venezuela’s oil revenues have historically been a key source of funding for social programs, this trend had dire consequences for the Venezuelan people. As oil exports and prices fell, Venezuela struggled to pay for imports, leading to widespread food and medicine shortages.

In an effort to pressure the Maduro regime and support a democratic transition, the United States imposed sanctions on PDVSA beginning in 2019. The Biden administration has emphasized its willingness to relax sanctions in exchange for “substantive progress” in negotiations between the Maduro regime and the democratic opposition.2 Reflecting this position, the White House’s decision to relax sanctions came on the same day that negotiators resumed talks in Mexico City.

What is Venezuela’s oil potential?

Venezuela has the world’s largest proven oil reserves, with an estimated 304 billion barrels available for extraction.3 The size of these reserves does not immediately translate into the potential for revenue, however. Venezuelan petroleum is heavier—i.e., denser—than the light crude oil commonly exported by Saudi Arabia and other leading petroleum producers. Heavy

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3 Note that this estimate is from an official source that has not been independently audited, but other estimates indicate the country has significant extra heavy resources. BP, “Statistical Review of World Energy: All Data, 1965-2011.”
crude is more expensive to produce, transport, and refine than light crude. Venezuelan oil producers bear the brunt of higher production costs as their petroleum is priced lower than that of light crude when sold to refineries. Venezuelan producers must also pay for diluents—chemical agents designed to dilute the heavy oil and make it easier to transport to upgraders and refineries.

As costly as Venezuelan oil is to produce, it offered a valuable source of income for the country through much of the 20th century. The Venezuelan government began granting private companies the right to drill and sell oil on the world market in the early 1900s. In 1960, Venezuela launched the Organization of Oil Exporting Countries (OPEC), a cartel of large oil exporters that agreed to limit their annual output of oil and thus raise prices and maximize revenue. In 1976, Venezuelan President Carlos Andrés Pérez (1974-1979) nationalized the oil sector, placing production in the hands of the state-owned company, PDVSA.

Subsequent governments relaxed PDVSA’s control over the oil sector and allowed the company to enter into strategic associations with multinational companies. Through the 1990s, PDVSA’s political independence and the relaxation of OPEC limits allowed Venezuela to expand production. By 1998, Venezuela’s annual oil output had reached 3.45 million barrels per day, the highest figure in the nation’s history.4

How did Hugo Chávez reform the Venezuelan oil sector?

President Hugo Chávez (1999-2013) pledged to place a greater emphasis on Venezuela’s OPEC limits—which were tightened in 1997—and to direct oil revenues toward social spending. To accomplish these twin goals, Chávez rolled back PDVSA’s autonomy—dismissing over a third of the company’s workers in 2002-2003 and placing loyalists in charge of the firm.5 While he promised to direct oil revenues to social priorities through an accountable institution, Chávez instead set up a system of Bolivarian missions that distributed services as political patronage.6

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4 BP.
Chávez further consolidated his control over the oil sector in 2006, directing PDVSA to secure a majority stake in each of its joint ventures with foreign firms. The companies that refused—such as ExxonMobil and ConocoPhillips—had their assets expropriated. By Chávez’s death in 2013, Venezuelan oil production had fallen to 2.68 million barrels per day—a 22 percent drop from when Chávez was elected.

How has the oil sector fared under Nicolás Maduro?

President Nicolás Maduro (2013-present) took Chávez’s oil sector consolidation even further and oversaw even sharper drops in the country’s petroleum output. The military played a key role in this consolidation and the resulting decline. Whereas Chávez had redirected PDVSA revenues to Bolivarian missions, Maduro established a military-run firm—the Compañía Anónima Militar de Industrias Mineras, Petrolíferas y de Gas (CAMIMPEG)—to provide oil services. While Chávez

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8 BP.

had placed political loyalists in control of PDVSA, Maduro named National Guard Major General Manuel Quevedo as the state oil company’s CEO.10

Under Maduro, Venezuela’s oil output declined to a low point of 640 thousand barrels per day in 2020—an 81 percent drop from when Chávez was elected in 1998.11

What explains the decline in Venezuelan oil production?

Venezuelan oil production declined under both Chávez and Maduro due to mismanagement and corruption. Beginning with Chávez’s dismissal of a third of PDVSA’s workforce in 2002 and continuing through the military’s control of PDVSA today, the Venezuelan government has removed trained technocrats in favor of loyalists with little relevant experience. PDVSA officials are often poorly qualified to maintain and increase oil production. Additionally, their interests are frequently at odds with expanding output; rather than investing oil profits in technological upgrades, they have delayed investment and pocketed the gains.12

PDVSA’s mismanagement also extends into its financial dealings. After repeatedly failing to pay its suppliers and creditors, the state oil company entered into arrears on much of its debt.13 In this position, PDVSA has struggled to obtain key inputs for oil production and refining, hindering efforts to increase oil production in the country.

Venezuela’s overlapping security, humanitarian, and refugee crises have exacerbated PDVSA’s problems. Armed groups—including some with ties to the Maduro government—have stolen critical parts of the oil production infrastructure.14 Workers suffering from shortages have taken

pipes, wires, and other small parts, selling them in exchange for food. Many PDVSA employees have fled the country—along with millions of other refugees, depriving the oil sector of both manual labor and seasoned expertise.

Finally, U.S. sanctions on PDVSA have forced Venezuela to sell its oil to new markets, identify non-U.S. suppliers for diluents and other chemicals, and seek alternative creditors. Analysts differ in their assessments of the relative impact of sanctions on Venezuelan output compared to other factors, such as mismanagement, corruption, and insecurity.

How has falling oil production impacted the Venezuelan people?

When Chávez entered office in 1999, he promised to use Venezuela’s oil revenue to alleviate poverty. Instead, his Bolivarian missions allocated benefits on the basis on clientelism. While neighboring governments generally succeeded at turning high commodity prices into sustained poverty reduction, Venezuela’s reductions in poverty had largely ceased by 2006 amid mismanagement of the oil sector. Over the last decade, the failure of the Venezuelan oil sector resulted in economic downturns, rising poverty rates, and a humanitarian catastrophe.

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16 Jaffe.
18 Rodríguez, “An Empty Revolution.”
19 While Venezuela’s poverty rate remained roughly stable from 2005 to 2013, extreme poverty in Latin America and the Caribbean as a whole fell from 10.5 to 4.3 percent over the same period, as measured by the World Bank. For poverty rate estimates in Venezuela, see ENCOVI, “Encuesta Nacional de Condiciones de Vida 2019-2020” (Universidad Católica Andrés Bello, Instituto de Investigaciones Económicas y Sociales, 2020), Slide 4, https://assets.website-files.com/5d14c6a5c4ad42a4e794d0f7/5f03875cac6fc11b6d67a8a5_Presentaci%C3%B3n%20ENCOCVI%202019-Pobreza_compressed.pdf; For extreme poverty in Latin America and the Caribbean (defined at $2.15 per day, 2017 PPP), see World Bank, “Poverty headcount ratio at $2.15 a day (2017 PPP) (% of population) - Latin America & Caribbean,” World Bank Group, https://data.worldbank.org/indicator/SI.POV.DDAY?locations=ZJ.
Venezuela’s oil woes have had particularly negative consequences for the country’s ability to pay for critical imports, far beyond oil sector inputs. As Venezuela’s largest export, petroleum has historically enabled the country to obtain dollars and other foreign currencies which Venezuelans have exchanged for imports such as food, gasoline, and medicines. Amid falling oil exports, the Venezuelan government turned to its central bank to pay for key imports with its foreign reserves. However, Venezuela’s reserves have proved insufficient to make up for oil revenues. As a consequence, the country continues to suffer from a volatile currency and product shortages. Between 2002 and 2021, the percentage of Venezuelans living in extreme poverty increased from 22.6 to 77 percent.\(^{20}\) 7.1 million people have fled the country in recent years—surpassing the number of Syrian refugees.\(^{21}\)

**How are U.S. firms involved in Venezuela’s oil sector?**

PDVSA has held a majority stake in U.S. oil refiner CITGO since 1986 and owned the company in full since 1990. In 2017, the Maduro regime jailed six CITGO executives, accusing them of embezzlement and other crimes amid a politically charged corruption investigation.\(^{22}\) The government released one of these executives in March 2022 and the remaining five in October of the same year. Following the announcement in 2019 of U.S. sanctions on PDVSA, the Venezuelan opposition gained control of CITGO. The U.S. District Court is currently weighing whether to sell shares of the firm to pay PDVSA’s outstanding debts.\(^{23}\) With the opposition-controlled National

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Assembly voting to dissolve the Interim Government in late December 2022, CITGO assets are currently overseen by the recently appointed National Assembly committee.24

Beyond its stake in CITGO, the Venezuelan oil industry has had relationships with several U.S. firms involved in oil extraction and processing. Prior to Chávez’s 2006 renationalization of the oil sector, three U.S. firms maintained joint ventures with PDVSA: ExxonMobil, Chevron, and ConocoPhillips. When the Chávez government expropriated ExxonMobil and ConocoPhillips assets in 2007, these firms filed legal action against the government. These disputes resulted in settlements in both U.S. courts and the International Centre for Settlement of Investment Disputes.25 However, the Venezuelan government has refused to pay most of these settlements. Many foreign companies ceased operations by 2018, leaving Chevron as the only U.S. firm operating in Venezuela.

In January 2019, the U.S. government designated PDVSA as subject to U.S. sanctions, effectively prohibiting the export of Venezuelan oil to the United States.26 Chevron was briefly permitted to continue operating in Venezuela, as long as it did not sell the country’s oil to the U.S. market. In 2020, the Trump administration tightened its restrictions on Chevron, allowing it only to wind down its joint venture with PDVSA. The Trump and Biden administrations have repeatedly extended Chevron’s exemption to wind down operations.27 The latest policy change by the Biden administration allows Chevron to shift gears and ramp up production.28


How might the Biden administration’s decision achieve its goals?

The Biden administration’s decision to relax sanctions has several goals, including increasing global oil supplies, providing economic relief to the Venezuelan people, and advancing negotiations between the Maduro regime and the opposition.

On the first goal, removing sanctions will remove one barrier to oil production in Venezuela. As recent history shows, however, the collapse of the Venezuelan oil sector predates the imposition of U.S. sanctions by over a decade. Corruption, mismanagement, and insecurity are among the many factors that caused production to fall over the last 20 years. As long as these factors remain, Venezuela’s oil sector will struggle to recover. Venezuelan economist José Toro Hardy estimates it would take about $250 billion in investment and seven to eight years to restore Venezuelan output to 1998 levels. However, this investment would have to come from foreign firms, which are reluctant to place their confidence in Venezuela given the Chávez and Maduro governments’ history of expropriation and sudden policy changes.

On the second goal, even if the government is able to increase oil production, the Maduro government continues to divert revenues away from humanitarian relief and toward political allies. To ensure this pattern does not continue, the United States must work carefully with the Venezuelan opposition, building on the initial implementation of the humanitarian aid agreement that negotiators reached in November 2022. Under this agreement, the United Nations will oversee a fund to disburse over $3 billion in previously frozen Venezuelan assets toward humanitarian goals. The Office of the U.S. Ambassador to the United Nations should play an important role in monitoring the UN fund, ensuring UN access to assets frozen by the United States, and

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31 Ibid.

guaranteeing that aid reaches those most in need. U.S. officials must also weigh options to help channel Venezuela’s oil revenue directly to humanitarian goals. Two major initiatives—the first from Oil for Venezuela and the second from the Boston Group—offer creative policy options for U.S. and Venezuelan leaders to consider.\(^\text{33}\)

On the third goal, the Maduro regime has rejoined negotiations in exchange for sanctions relief, but talks have stalled since November 2022. The United States must be willing to reimpose sanctions if the regime fails to make concrete progress toward democratic elections. The democratic opposition has few points of leverage to keep Maduro’s representatives at the negotiating table, let alone extract concessions. The credible threat of sanctions from the United States is one such point of leverage. U.S. officials rhetorically committed themselves to reimposing sanctions if negotiations do not bear fruit, but they can make this commitment more credible by developing a detailed plan on what conditions would trigger a snapback and how specific sanctions would be reimposed. The democratically elected National Assembly can advise their U.S. counterparts on how to design such a plan, as well as coordinate on how to use this leverage to advance negotiations.

Sanctions relief alone will not accomplish these goals. To increase the chance of success, the U.S. government and Venezuelan opposition must work together, applying pressure on the Maduro regime to improve oil sector governance and production capacity, provide humanitarian relief, and work toward a negotiated political solution to the crisis.

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