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COUNTRY RISK

Venezuela Sanctions Expiration Could Offer Silver Lining

- *The US has allowed its most generous Venezuela sanctions relief to expire after it said the Maduro government broke promises around holding free and fair presidential elections.*
- *But existing permissions for Chevron's growing flows to the US, and Repsol and Eni's to Europe, will stay in place, while volumes snapped up by India could shift back to dark markets in Asia.*
- *Venezuela's opposition has maintained its unity to back little-known former diplomat Edmundo Gonzalez Urrutia as its latest replacement candidate.*

The Issue

Venezuela oil sector observers have been on tenterhooks for months over whether the US would extend GL 44, its six-month reprieve on most Trump-era sanctions. The temporary relief was a carrot to encourage President Nicolas Maduro to stick to electoral commitments made in Barbados in October. Last week, the US declined the extension — not surprising given Caracas' ongoing prohibition of higher-profile candidates from running and arrests of opposition figures. Yet the US Treasury, in parallel, maintained existing individual licenses and encouraged companies to apply for more to continue activities they began under GL 44. Flows of heavy oil from the Opec nation — although moderate — are sought-after by global refiners.

Sanctions Implications: Room to Maneuver

On its face, the return of sanctions would appear to spell industry woe. Yet the emphasis by the US Office of Foreign Assets Control (Ofac) on new individual licenses, combined with a lengthy wind-down period through late May, is seen offering the oil sector room to maneuver. "The US is trying to start closing doors until May 31, but leaving open different windows," Jose Chalhoub, oil risk analyst with Orinoco Research and Venergy Global, told Energy Intelligence.

Luis Vicente Leon, president of the Caracas-based Datanalisis polling firm, said the new scenario could turn out to be an improvement — perhaps one reason for the relatively muted response from the Maduro government. The US is "changing a volatile general license for specific individual licenses, which could be better for some companies in Venezuela and could incentivize investment," he told a recent X Spaces discussion. A trading source called the current state of affairs "comfortable" for both Venezuela and the US. "The US gets to say that sanctions are reimposed, and Chevron, a major source of dollars to the economy, continues to operate in Venezuela."

The key question will be to what extent the US ultimately grants additional licenses. Industry players are no strangers to requests for individual authorizations: Many have been pursuing such permissions for months since the US began its broader sanctions rollback in 2022, but with mixed results, a point of frustration, Energy Intelligence understands.

Jason Prince, partner in law firm Akin's international trade practice and a former Ofac Chief Counsel, does see appetite for new specific license issuances given the Biden administration's interest in keeping Venezuelan barrels flowing, but in a way that lets the US Treasury more rapidly fine-tune its responses to political developments. Companies' requests for specific activities give Ofac "much more control over what it's allowing or not allowing on a case-by-case basis and can be revoked or amended at any time," Prince added.

While many licenses are issued for a year, they can be granted for shorter periods to keep closer tabs on a situation, Prince said. However, bandwidth to administer the program could remain a headwind with the office "understaffed and underfunded." Still, he expects the sector and financial institutions to maintain caution around transactions that could run afoul of sanctions.

>> [continued on page 2](#)

Venezuela >> *continued from page 1*

Trade Flow Fallout

Critically, the GL 44 expiration does not impact existing industry licenses. The highest profile is Chevron, responsible for the lion's share of flows that have returned to the US, a high of 180,000 barrels per day in November from zero in 2022, per data from analytics firm Kpler. Eni and Repsol also hold pre-existing permissions to bring oil cargoes to Europe for debt repayment and have also won permission for individual transactions including swaps. Shell also holds an authorization, good through 2025, to develop a Venezuelan gas field via infrastructure in Trinidad & Tobago.

The expiration of GL 44 will hit traders, especially Indian players that have slurped up as much as 192,000 b/d of Venezuelan cargoes since December, unless they can obtain individual licenses. As such, some of Venezuela's exports — which averaged around 550,000 b/d over the last 15 months — will likely shift back to dark markets in Asia. Caracas will no longer be able to realize proceeds in dollars, a blow to Maduro as he faces Jul. 28 elections and aims to rebuild the country's economy. That will likely mean a hit to Caracas' price realizations amid a return to higher shipping costs, a trading source said. "Operating under sanctions is a completely different ballgame, but the actors in the country already know how to do it."

A handful of modest announced upstream projects could also be put on ice unless licenses are granted. The expiration could also impact the domestic gasoline market, which could see prices and supplies tighten with fewer permissions to import diluent, a key ingredient in upgrading heavy oil, multiple sources said.

Election Outlook

Venezuela's opposition has not given up the fight, designating former diplomat Edmundo Gonzalez, Venezuela's former ambassador to Argentina and Algeria, as its latest replacement candidate. Popular opposition primary winner Maria Corina Machado remains banned from holding public office, while her initial handpicked successor, academic Corina Yoris, was not allowed to register her candidacy. Gonzalez now has three months "under near impossible circumstances to organize a campaign and defeat an entrenched incumbent who controls all state organs, determined to keep power," former US diplomat Eric Farnsworth wrote on X.

But pushback from Maduro is expected. Datanalisis' Leon reckons Maduro's poor popularity means even an obscure candidate with opposition backing could represent a "huge problem" and re-election threat for Maduro: Some 80% of Venezuelans want a change in government and 75% want to vote, per the firm's data.

Still, even absent an opposition win, Leon sees Maduro's government as showing openness to more opposition collaboration post-election. "We are in the middle of a transition. That doesn't mean the government is going to be out," he said. "But we have to understand a transition is not a point, it's a period."

Kathrine Schmidt, Houston