



VENEZUELA'S FALSE PROMISE

Biden's Reckless Strategy for Global Energy Security Plays into the Hands of America's Adversaries

By: Samuel Buchan

June 6, 2022

KEY TAKEAWAYS:

1. The Biden Administration's failure, or unwillingness, to enforce sanctions on American adversaries, including Venezuela, repeatedly signals wavering resolve to advance American interests abroad.
2. Venezuela's oil production capacity, the basis for the Biden Administration's diplomatic overture, is wildly overestimated and will require billions in investment over several years to begin contributing to oil price woes.
3. Venezuela's economy, a true petrostate, is underpinned by billions in Chinese and Iranian investment and illicit oil trade aimed directly at subverting American interests in the Western Hemisphere.
4. Venezuela is one of the most prolific contributors to environmental degradation, experiencing tens of thousands of oil spills since 2010 with no remediation efforts.
5. Continued engagement with Venezuela's regime must require clear and enforceable preconditions. But President Biden's best course of action is to empower American producers and realize the economic gains for the American people, not the corrupt, authoritarian Maduro regime.

On May 17, 2022, the Department of the Treasury moved to ease [prohibitions](#) on Chevron's commercial discussions with Venezuela's state-owned energy giant Petroleos de Venezuela (PDVSA). And on May 23, global creditors specializing in distressed debt, of which PDVSA is largely comprised, met to discuss Venezuela's oil production potential at the World Economic Forum's annual meeting in [Davos](#). The moves are strong signals that Western investment in Venezuela could get a second wind under President Biden's approach to energy diplomacy. Before the Biden Administration's latest move, companies in Venezuela, principally Chevron, were limited to activities that strictly preserve existing assets but prohibit crude oil production and operational expansion. While these moves may be good news for Chevron and Venezuela, they are no more than a false promise for Americans struggling with higher prices at the pump and energy inflation. Rather than continue down this path, the Biden Administration would do well to look inward to American production potential rather than our adversaries. The upcoming June Summit of the Americas offers a key opportunity to implement a better approach.

On its current trajectory, however, President Biden's energy diplomacy towards Venezuela presents three significant challenges to American foreign energy policy. First, the policy signals a willingness to sacrifice democratic and humanitarian norms within Venezuela based on dubious assumptions of Venezuela's crude oil production capacity. [Claims](#) of any significant contribution by Venezuela to presently strained global oil markets have been labeled wildly inaccurate and technically suspect and remain veiled by Venezuela's opaque reporting. Second, allowing for a return of Western capital to Venezuela without addressing illicit trade among adversarial authoritarian regimes threatens to add legitimacy to the growing China-Iran-Venezuela energy axis by further eroding the stigma associated with

doing business with human rights violators. Third, the reentry of Western companies and capital implicitly endorses one of the world's worst environmental violators. The latter two challenges are not unique to Venezuela but are prevalent in U.S. policy toward China and Iran, and a concession with regard to one signals a weakened resolve to the others. The Biden Administration fails to incorporate any preconditions for easing sanctions, apart from a misguided hope for energy market [relief](#), leading the United States to negotiate from a position of weakness.

Even with easing restrictions on Venezuelan commercial activities, any significant increases in Venezuelan production will take considerable time. Despite possessing the world's largest oil [reserves](#)—304 billion barrels worth—Venezuela's energy sector has been [crippled](#) by years of stagnated investment into the petrostate's oil production capabilities, the flight of Venezuelan technical know-how, and corruption that saw pre-Chavez oil production collapse 50 percent from over 3 million barrels per day (b/d). In fact, following the imposition of U.S. sanctions on Venezuela's energy sector in [2019](#), its crude oil [production](#) fell to its lowest levels since 2003, bottoming out at 830,000 b/d from a temporary high of 1.2 million b/d at the beginning of that year. According to the Organization of Petroleum Exporting Countries ([OPEC](#)), of which Venezuela is a member, Venezuela's crude oil production in 2020 and 2021 reached new lows of 512,000 b/d and 555,000 b/d, respectively. Notably, Venezuela's production level has experienced modest upticks since President Biden began reengaging with the regime of President Nicolas Maduro in late 2021, with first-quarter production levels for 2022 reaching 681,000 b/d. However, even if the U.S. eases sanctions, significant investment over the long term would be required for Venezuela to return to its long past output heights of 3 million b/d. Some [estimates](#) place the required investment figure at about \$250 billion and the time horizon at no less than 8 years to develop the necessary infrastructure, thereby limiting Venezuela's viability as an option to significantly alleviate short- to medium-term oil market pressures.

Venezuela's growing ties with China and Iran also cause concern. Before and following the withdrawal of the United States and Western countries, Venezuela courted America's adversaries to secure investment into aging and increasingly decrepit oil production infrastructure. Iran and China have unapologetically involved themselves in this respect and are proving successful in [circumventing](#) U.S. sanctions on both Venezuela and Iran, particularly in the absence of rigid enforcement under President Biden. The result of the Biden Administration's failure, or unwillingness, to enforce U.S. sanctions is that the United States projects weakness and lends legitimacy to the subversion of American interests. The absence of preconditions to address these growing geopolitical threats only reinforces this perception on the world stage.

China, for its part, has long viewed Venezuela's significant oil reserves as a potential source of oil to fuel its increasing demand. As a result, the China National Petroleum Corporation stepped in to provide significant support for Venezuelan production. Since 2007, China has granted Venezuela more than [\\$50 billion](#) in oil-for-loan agreements, loans Venezuela is increasingly incapable of paying back. The injection of Chinese loans into the Venezuelan economy has subsequently served to prop up the Maduro regime and maintain relatively modest levels of oil production. In 2021, China's total oil [imports](#) from Venezuela and Iran totaled some 324 million barrels. While data disclosing the total from each supplier is not readily provided, the overarching total demonstrates a galloping troika of illicit trade that flies in the face of U.S. sanctions. President Biden would do well to view China's heavily leveraged position within the Venezuelan economy as a foreign policy opportunity to deter Chinese efforts from engaging with America's adversaries. Should the Biden Administration

choose to enforce sanctions in good faith, China's ability to recoup billions in loans from Venezuela would be undermined and would serve as an economic deterrent in future Chinese efforts to engage with American adversaries.

Iran is also [stepping up](#) to ensure Venezuela has the resources and technical capabilities to maintain its production and oil refinement. The introduction of Iranian [condensate](#)—a light hydrocarbon liquid used to blend the very heavy Venezuelan oil into a viable product—has significantly boosted production levels in recent years. This new arrangement between Iran and Venezuela helps not only to ensure Iran receives oil swaps for its own refinery needs but also increases the availability of supplies for high-demand countries, principally China. Iran is also stepping up to fill the void left by Venezuela's rampant brain drain within the engineering and oil sectors by striking [contracts](#) with PDVSA to overhaul and expand refining capacity. The National Iranian Oil Refining and Distribution Company is expanding its operations within Venezuela, further deepening the economic ties between the two rogue nations. Just days before the Biden Administration's announced easing of Venezuelan sanctions, Venezuela and Iran openly discussed [collaboration](#) to circumvent U.S. sanctions on their respective energy sectors. The meeting was held in Venezuela's capital Caracas and included Iran's Minister of Petroleum, Javad Owji, and Venezuela's Minister of Petroleum, Tareck [El Aissami](#), incidentally wanted by the United States for narcotics trafficking.

Further, as President Biden rejects high efficiency and environmentally responsible U.S. oil production, Venezuela's disastrous environmental track record should accordingly be scrutinized. Venezuela is now witnessing the unsustainable [degradation](#) of the environment, leading to river pollution, deforestation, and illegal mining. PDVSA also announced in 2016 that it would halt its [reporting](#) of oil spills. Between 2010 and 2016, the state-owned oil company reported more than 46,000 oil [spills](#), with 8,250 spills in 2016 and an estimated 4,000 in 2017. As transparency has been eviscerated by the Maduro regime, it is increasingly difficult to understand just how irresponsible Venezuela is in crude oil production but based on historical trends and the degradation of the country's infrastructure; this has likely that this has continued. The diplomatic and commercial overtures offered by President Biden clearly conflict with his administration's own proclaimed policy of environmental justice and neglect to enforce accountability or environmental remediation planning on the part of the Venezuelan government. If the Biden Administration truly wants to elevate environmental justice, it should hold Venezuela and China accountable.

Beyond a desire to see Venezuela adhere to the most basic humanitarian and democratic [values](#), the Biden Administration must also clearly demonstrate that no relief in the form of Western capital injection will be available if Venezuela continues in its trajectory of economic interdependence with its authoritarian partners, Iran and China. The existing state of the economic relations is a clear demonstration of the increasingly misaligned values of the United States and Venezuela. The United States must insist most principally on transparency, a notoriously difficult aspiration for the Maduro regime to attain. This must be in terms of democracy and humanitarian conditions, but transparency in feasible oil production, the infrastructure condition, the depth of Chinese and Iranian involvement in the country, and finally, transparency in Venezuela's environmental degradation.

In the meantime, it is easier and certainly more prudent for President Biden to conduct a version of energy diplomacy with American industry seeking to develop and transport domestic resources to American consumers and the global marketplace. Chasing false promises of authoritarian petrostates like Venezuela does nothing to ease the economic pain facing the American people. This is a lesson the Biden Administration should have

learned following the failed waiving of sanctions on Russia's Nord Stream 2 pipeline in the flawed hope that it would coax Russia into passivity. Unfortunately, we are seeing the same policy of appeasement rear its head again.

WORK CITED

- Fanzeres. (2022, May 17). Oil Falls as US to Allow Talks With Venezuela's State Producer. *Bloomberg*. <https://www.bloomberg.com/news/articles/2022-05-16/oil-steadies-after-four-day-surge-as-us-product-markets-run-hot>
- Yapur. (2022, May 17). Venezuela Investors Meet in Davos as US Weigh Sanctions. *Bloomberg*. <https://www.bloomberg.com/news/articles/2022-05-20/venezuela-investors-meet-in-davos-as-us-weighs-easing-sanctions>
- Smith. (2021, September 8). China Sees Opportunity As Venezuela's Oil Industry Hits Rock Bottom. *OilPrice.com*. <https://oilprice.com/Energy/Crude-Oil/China-Sees-Opportunity-As-Venezuelas-Oil-Industry-Hits-Rock-Bottom.html>
- Paraskova. (2021, June 21). Venezuela Claims It Can Quadruple Its Oil Production By The End Of 2021. *OilPrice.com*. <https://oilprice.com/Latest-Energy-News/World-News/Venezuela-Claims-It-Can-Quadruple-Its-Oil-Production-By-The-End-Of-2021.html>
- Shenk. (2017, April 10). Venezuela Oil No Easy Fix After Brain Drain, Asset Seizures. *Bloomberg*. <https://www.bloomberg.com/news/articles/2017-04-10/venezuela-oil-no-easy-fix-after-brain-drain-asset-seizures>
- U.S. Department of State. (n.d.). *Venezuela-Related Sanctions*. <https://www.state.gov/venezuela-related-sanctions/>
- Energy Information Administration. (2019, May 20). *Venezuelan Crude Oil Production Falls to Lowest Level Since January 2003*. <https://www.eia.gov/todayinenergy/detail.php?id=39532>
- Organization of the Petroleum Exporting Countries. (2022, May 12). *OPEC Monthly Oil Market Report*. https://www.opec.org/opec_web/en/publications/338.htm
- Abreu. (2022, March 8). Venezuela's Devastated Oil Industry Is In No Condition To Replace Russian Production. *Forbes*. <https://www.forbes.com/sites/mariaabreu/2022/03/08/venezuelas-devastated-oil-industry-is-in-no-condition-to-replace-russian-production/?sh=62cc4b6c601e>
- Kennedy. (2021, June 4). Traders Rush To Ship Masked Venezuelan Crude To China. *OilPrice.com*. <https://oilprice.com/Energy/Crude-Oil/Traders-Rush-To-Ship-Masked-Venezuelan-Crude-To-China.html>
- Armas and Pons. (2020, August 12). Venezuela Wins Grace Period on China Oil-for-Loan Deals, Sources Say. *Reuters*. https://finance.yahoo.com/news/exclusive-venezuela-wins-grace-period-140222395.html?fr=sycsrp_catchall
- Cho and Chen. (2022, January 10). China Gorges On Cheap, Sanctioned Oil From Iran, Venezuela. *Bloomberg*. <https://www.bloomberg.com/news/articles/2022-01-10/china-buys-more-sanctioned-oil-from-iran-venezuela-at-a-bargain>

- Parraga. (2022, May 12). From the Maldives to Venezuela: How Iran Gets Oil to an Ally. *Reuters*. <https://www.reuters.com/business/energy/exclusive-maldives-venezuela-how-iran-gets-oil-an-ally-2022-05-12/>
- Buitrago, Parraga, Spetalnick. (2021, September 25). Under U.S. Sanctions, Iran and Venezuela Strike Oil Export Deal. *Reuters*. <https://www.reuters.com/business/energy/exclusive-under-us-sanctions-iran-venezuela-strike-oil-export-deal-sources-2021-09-25/>
- Guanipa, Parraga, Romero. (2022, May 23). After Revamping Venezuela's Smallest Oil Refinery, Iran to Fix the Largest. *Reuters*. <https://www.nasdaq.com/articles/exclusive-after-revamping-venezuelas-smallest-oil-refinery-iran-to-fix-the-largest>
- AlJazeera*. (2022, May 3). Iranian Oil Minister Meets Venezuela's Maduro in Caracas. <https://www.aljazeera.com/news/2022/5/3/iran-oil-minister-meets-venezuelas-maduro-in-caracas>
- U.S. Department of State. (2020, March 26). Tareck Zaidan El Aissami Maddah – New Target. <https://www.state.gov/tareck-zaidan-el-aissami-maddah-new-target/>
- Dallmeier, Burelli. (2021, February 22). The World Must Act to Stop Venezuela's Environmental Destruction. *The Washington Post*. <https://www.washingtonpost.com/opinions/2021/02/22/venezuela-environment-mining-gold-maduro-destruction/>
- Smith. (2020, November 30). Venezuela's Oil Crisis Is An Environmental Time Bomb. *OilPrice.com*. <https://oilprice.com/Energy/General/Venezuelas-Oil-Crisis-Is-An-Environmental-Time-Bomb.html>
- Zuniga, Faiola. (2020, September 24). Venezuela's Broken Oil Industry Is Spewing Crude Into the Caribbean Sea. *The Washington Post*. https://www.washingtonpost.com/world/the_americas/venezuela-oil-spills/2020/09/23/5613c996-f793-11ea-a275-1a2c2d36e1f1_story.html
- Gillespie, Schatzker. (2022, May 19). US Needs to See More From Maduro to Ease Venezuela Sanctions. *Bloomberg*. <https://www.bloomberg.com/news/articles/2022-05-19/us-needs-to-see-more-from-maduro-to-ease-sanctions-on-venezuela>