Venezuela announces plan to sell US oil operations

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It has become clear over the past month that the Venezuelan government has taken significant steps toward selling US-based Citgo Petroleum, a wholly-owned subsidiary of Petróleos de Venezuela, S.A. (PdVSA). The immediate concern driving Nicolás Maduro and the *chavista* regime is a precipitous drop in the level of the country's foreign reserves which, beyond impacting its ability to maintain imports of necessary industrial and consumer goods, has worried the country's creditors and made it more expensive for the government to borrow.

Citgo's US operations include three oil refineries: two on the Gulf Coast in Louisiana and Texas, and one in Illinois near Chicago. Beyond that, Citgo's assets include 48 terminals, three pipelines it owns outright, and six pipelines it owns as part of joint ventures. The refineries have a capacity of around 750,000 barrels per day, making Citgo the eighth-largest refiner in the US, although the facility in Lake Charles, Louisiana by itself can process 440,000 barrels per day, making it the fourth-largest refinery in the US.

On August 5, Venezuelan Oil Minister Rafael Ramírez told reporters that PdVSA was asking for at least $10 billion, but claimed that the assets' "value is much, much more." A bond prospectus for Citgo noted PdVSA's intent to sell the company, saying that it "is currently seeking to monetize its ownership interest in us." PdVSA has hired the investment bank Lazard to help work out a deal, which has attracted offers made through Goldman Sachs, JP Morgan, and Deutsche Bank.

Venezuela is willing to take a lower price for Citgo than it believes it is worth primarily due to the ongoing economic crisis in the country and a consequent short-term need for cash. Foreign reserves, which are used to pay for imports, are near an 11-year low of just over $20 billion, a fall of 32.6 percent since late 2011.

However, the amount of foreign reserves held as currency is at less than $2 billion, the rest having been depleted by imports and the need to cover budget deficits. During the past eight years, the Central Bank of Venezuela has transferred $47 billion into a fund used by the government to cover spending and investment. Over 71 percent of the foreign reserve is now made up of gold bars.

Though the amount of gold has stayed basically the same, the price of gold has suffered a sharp drop, resulting in a 24 percent decline in the value of Venezuela's holdings. This caused the Chinese-based Dagong Global Credit to downgrade Venezuela's debt rating, making government borrowing more expensive. Venezuelan bond yields are now the highest in the Western hemisphere, reflecting perceptions among the financial elite that default is a significant possibility.

Venezuela generates approximately $58 billion in revenue from its oil production, but imports have in recent years exceeded that, with 2012 imports amounting to $77 billion. As a consequence, the government has had to borrow to cover the difference, with some of the payment being made in barrels of oil.

Production at PdVSA has declined from 3.5 million bpd in 2000 to just 2.47 million bpd recorded in a Reuters survey of OPEC countries in July. The government's official figure remains at 3 million bpd. Some of the falloff in production can be attributed to the maturation of its oil fields in the Maracaibo basin, which means more investment is needed to maintain production at current levels. Although the Orinoco basin holds potential reserves which are much larger, the belt requires much heavier investment to extract and refine the so-called heavy crude it yields.

Of current oil production, some 310,000 barrels per day (bpd) go to China to pay loans, around 10 percent of total production. Another 400,000 bpd go to countries such as Cuba at below-market rates or for barter (such as for Cuban doctors), while 600,000 bpd goes to meet domestic demand, sold for just a few cents per liter.

The domestic oil subsidy is increasingly a target for cutbacks. According to Ramírez, the subsidy costs $12 billion per year, and he has called for debate on the issue of the subsidy. Any decrease in the subsidy would have an enormously negative impact on Venezuelan workers, who have already seen inflation levels reach 60 percent and experienced a significant erosion of their purchasing power.

Shipments of subsidized oil to other Latin American and Caribbean allies have already dropped, to the tune of 11 percent in 2003, with much of that amount being diverted to China. Ecuador, Jamaica, and Argentina have had to buy oil on the open market at much higher rates.

There has also been a drop in productivity at PdVSA. According to research by Ramón Espinasa, chief economist at PdVSA until 1999, production per worker has dropped from 83 barrels per day in 1998 to 23 per day in 2013.

Aside from the immediate need for cash, another factor in the move to sell off Citgo may be some arbitration cases Venezuela is facing in the International Centre for Settlement of Investment Disputes, a panel associated with the World Bank. ExxonMobile and ConocoPhillips filed complaints in response to nationalizations of some of their assets undertaken by Hugo Chávez in 2007. Were Venezuela to lose the arbitration case, they might face seizure of their US assets, thus providing a motive to give up Citgo quickly for less than its full worth.

For its part, the Venezuelan government denies that it is selling Citgo to meet short term financial needs, with Ramírez saying, “Our situation is not like many analysts have said, claiming that we need fiscal revenues.” The Venezuelan government has portrayed the move as a means of getting its production geared to meet Chinese demand. In doing so, however, it risks losing a significant part of its current demand, and 34 percent of its refining capacity from refineries with the ability to process Venezuelan heavy crude.

The sale of Citgo will no doubt enrich a select layer of the *boliburguesia* involved in the sale and negotiations. At the same time, it is clear that, just as with other capitalist governments the world over, there is no prospect of renewed investment in production and expansion of the national economy. Rather, the banks and financial elite, whose significance has grown immensely over the past decade, will continue to demand austerity from the working class, and resort to violence in the face of opposition, as seen with the shooting of protesting SIDOR steel workers by the National Guard earlier this month.