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Snap

## What the Venezuelan oil sanctions mean for supply

The US has imposed sanctions on Venezuelan state-owned oil company PDVSA, effectively bringing US purchases of Venezuelan oil to an end. The announcement has had little impact on price, with expectations growing in recent days that such action would be taken. Furthermore, Venezuela will likely increase sales to buyers outside of the US

### What was decided?

The US Treasury announced yesterday that it is imposing sanctions on Venezuelan state-owned oil company PDVSA, which would effectively close the US as a market for Venezuelan crude oil. Volumes currently being shipped will be exempt from sanctions whilst Venezuela will be allowed to sell oil to US refiners, however payments will have to go to a blocked account so that proceeds cannot be remitted to Venezuela.

The sanctions also prohibit the sale of diluents to PDVSA- usually blended with the heavier crude oil that Venezuela exports. The US exports around 120Mbbbls/d of lighter oils to Venezuela for this purpose. Furthermore, US companies currently transacting/engaged with Venezuela have been given three months to wind down operations. Whilst Venezuelan refiner Citgo, currently operating in the US will be allowed to operate as normal but is not allowed to remit funds to Venezuela.

### What is the impact on oil supply?

EIA data shows that the US imported on average 514Mbbbls/d of Venezuelan crude oil over 2018. This supply is key for a number of refiners in the US Gulf Coast, who blend it with domestic light oil, making an optimum blend for US refineries. These refiners can switch to other origins for heavier crude oil though it may be fairly difficult for the time being.

The obvious choice for the industry would be to turn increasingly to Canadian oil. However, as a result of mandated production cuts in Alberta, the additional supply from Canada is likely to be limited. The other issue is logistics- the reason Canadian oil producers cut output was due to a lack of takeaway capacity and this is an issue that is likely to linger for quite some time.

Refiners could also turn increasingly to the Middle East for heavy crude oil supply. However under the current OPEC+ deal, members are likely to cut output of heavier crude oil first, given the discount at which it trades to lighter grades. Mexico is another supplier of heavier crude to US refiners but Mexican output has trended lower in recent years, which has also meant that exports of crude oil to the US have trended lower.

Venezuela can turn to its next biggest buyers to increase purchases- China and India, which both took, on average, around 300Mbbbls/d over the course of 2018. However for China, much of the exports go towards debt repayment, and so for PDVSA, this does little to help generate cash.

### More downside to Venezuelan output?

Venezuelan oil output has been in decline for several years now, with a lack of investment in oil fields seeing production fall from close to 2.4MMbbbls/d in late 2015 to around 1.2MMbbbls/d currently. Given that US oil service companies will have to wind down dealings with PDVSA, this

suggests the potential for a more rapid decline in Venezuelan crude oil output moving forward.

**Warren Patterson**

Head of Commodities Strategy

+31 20 563 8921

[warren.patterson@ing.com](mailto:warren.patterson@ing.com)

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