CRS INSIGHT

U.S. Petroleum Trade with Venezuela: Financial and Economic Considerations Associated with Possible Sanctions

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The political crisis in Venezuela is at a pivotal point (See CRS Report R44841, *Venezuela: Background and U.S. Policy*). President Nicolas Maduro is convening elections on July 30 for delegates to a constituent assembly to rewrite the country's constitution and possibly dismantle the legislative branch. On July 17, 2017, President Donald Trump issued a statement that declared that "the United States will take strong and swift economic actions" if the assembly elections occur. Those actions reportedly could include sanctions on Venezuela's energy sector, which generates 95% of its export earnings. While there are humanitarian and political risks of implementing sanctions on Venezuela, this insight explores economic considerations of potential petroleum sector sanctions.

Background

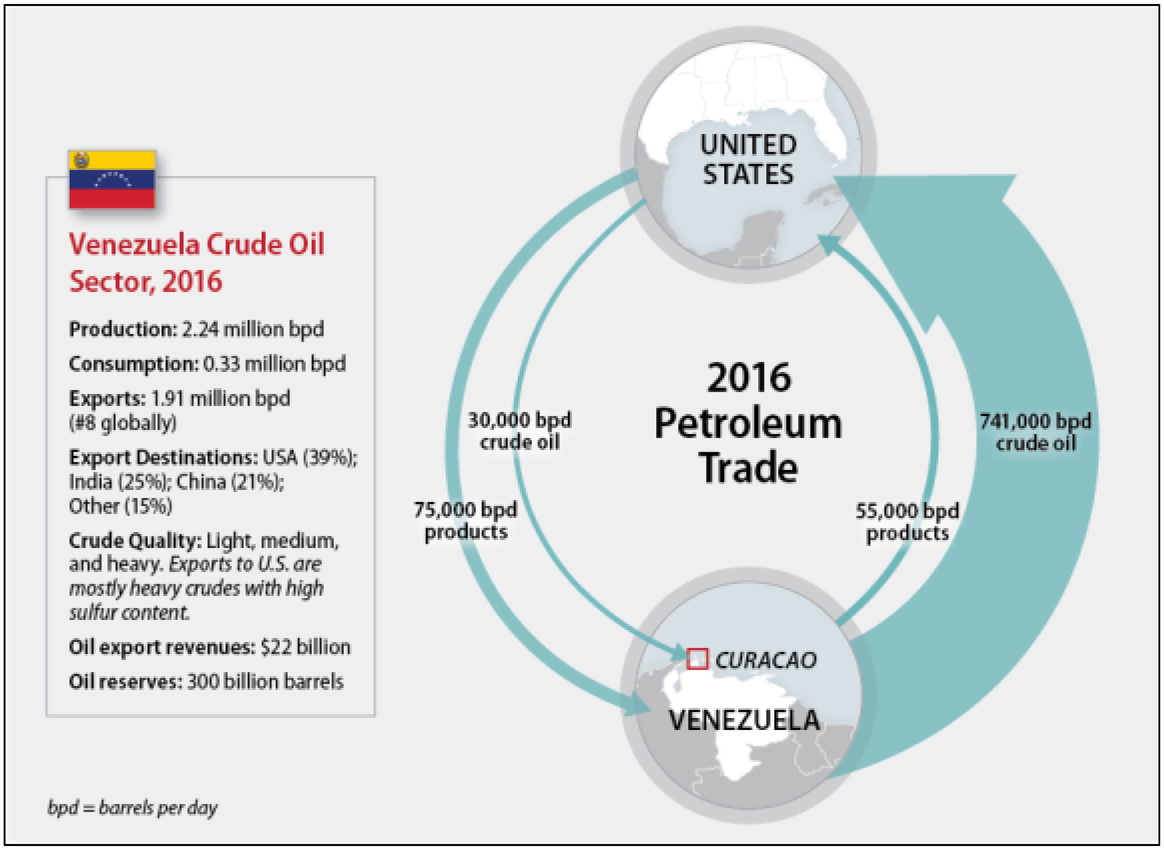
Venezuela is in a political, economic, and social crisis. Since March 2017, President Maduro has quashed ongoing protests. His constituent assembly process is moving forward despite opposition from Venezuela's attorney general and international condemnation. In an unofficial plebiscite on July 16, 2017, 98% of 7.2 million Venezuelans who voted opposed the assembly.

The United States has taken various actions to pressure the Maduro regime not to take undemocratic actions to stay in power. Those have included: speaking out against abuses of power; providing democracy and human rights aid for civil society; and sanctioning officials for drug trafficking, human rights abuses, and undemocratic actions. In both chambers of Congress, resolutions have been introduced to express concerns over the situation in Venezuela. The Senate passed (S.Res. 35) and the House Foreign Affairs Committee has ordered to be reported (H.Res. 259) separate resolutions urging U.S. and multilateral actions to hasten a return to democracy in Venezuela.

U.S.-Venezuela Petroleum Trade

Petroleum trade between the United States and Venezuela is dominated by imports of heavy Venezuelan crude oil to U.S. refineries (**Figure 1**), mostly to the Gulf Coast. In 2016 U.S. refineries imported 741,000 barrels per day (bpd) of Venezuelan crude oil. U.S. importers also purchased 55,000 bpd of Venezuelan petroleum products. U.S. exports to Venezuela consisted of 75,000 bpd of petroleum products. According to the U.S. Energy Information Administration (EIA), the United States did not export crude oil directly to Venezuela in 2016. However, 30,000 bpd of light crude oil was exported to Curacao where the Venezuelan national oil company Petroleos de Venezuela, S.A. (PDVSA) owns a refinery and oil storage facility. U.S. light oil exported to Curacao is reportedly used as a diluent for blending with Venezuelan heavy crude oil.

Figure 1. U.S. and Venezuela Petroleum Trade



Source: CRS, data from the Energy Information Administration.

Financial and Economic Considerations Associated with Possible Sanctions

The structure and framework of possible petroleum-related sanctions will determine related financial and economic impacts. While details have not been disclosed, the relatively large volume of U.S. crude oil imports from Venezuela results in this element of the trade relationship having the greatest impact potential. Generally—assuming such targeted sanctions take effect—Venezuela export revenues as well as operating profits for some U.S. refiners would likely be impacted. The magnitude of these effects would be a function of the sanctions timing and application.

Immediate prohibition of U.S. imports would likely result in a short-term shock to the oil supply chain, resulting in heavy crude oil price escalation for U.S. refiners. Venezuela heavy crude oil prices would decline. These price effects would eventually be resolved to some degree through changes to transportation routes, likely resulting in a less-than-optimal, and possibly more costly, oil transportation system.

Venezuela heavy crudes typically bound for the United States would need to secure alternative purchasers, likely further away in Asia. Lower prices would likely be needed in order to attract new buyers and Venezuela may have to discount their crude oil to levels that at least compensate for potentially higher shipping costs (approximately \$1 to \$3 per barrel above current shipping options, depending on the vessel type used). Additional crude oil quality discounts may also be necessary. Price discounts would be absorbed by PDVSA and export revenues would decrease accordingly.

Availability of heavy crudes for U.S. refiners would decrease and prices for such crudes would, all else being equal, increase. Heavy crude oil prices would likely rise to levels that would attract crude barrels from alternative suppliers that may be geographically further away (e.g., Saudi Arabia). Over time, once transportation systems adjust, heavy crude oil prices should reflect any transportation cost inefficiencies that might result from possible sanctions as well as crude oil quality considerations. Downward price pressure associated with Venezuelan barrels moving to non-U.S. markets would partially offset transportation and quality premiums. To the extent that transportation inefficiencies and quality differences are reflected in petroleum product prices, sanctions-related oil price premiums would likely be absorbed by consumers.

The impact to U.S. refiners is a consideration associated with prohibiting Venezuelan oil imports. **Table 1** shows the companies that purchased Venezuelan crude oil and the states where oil was delivered during the month of April 2017.

Table 1. Crude Oil Imports from Venezuela by Company and State, April 2017

Thousand Barrels

	Mississippi	Louisiana	Texas	Delaware	Total	Percentage
Chevron	3,108				3,108	13%
Citgo (see notes)		3,998	2,568		6,566	27%
Houston Refining			575		575	2%
Marathon		1,096			1,096	5%
Motiva			1,023		1,023	4%
Paulsboro		2,414		499	2,913	12%
Phillips 66			3,042		3,042	12%
Valero		2,753	3,278		6,031	25%
Total	3,108	10,261	10,486	499	24,354	100%
Percentage	13%	42%	43%	2%		100%

Source: Energy Information Administration, *Company Level Imports*, with data for April 2017, available at https://www.eia.gov/petroleum/imports/companylevel/, accessed July 23, 2017.

Notes: Citgo is majority-owned by Venezuelan national oil company PDVSA. Russian oil company Rosneft holds 49.9% of Citgo as loan collateral.

Other refiners purchase Venezuelan crude throughout the year, most located in the Gulf Coast.

As indicated, 98% of Venezuelan crude imports were delivered to the Gulf Coast and five companies purchased 89% of Venezuelan crude. However, all U.S. refiners that utilize heavy crudes would likely experience price impacts. The American Fuel and Petrochemical Manufacturers (AFPM)—an organization of U.S. refiners—published a letter opposing sanctions that might prohibit Venezuelan crude oil imports.