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POTEN TANKER OPINION

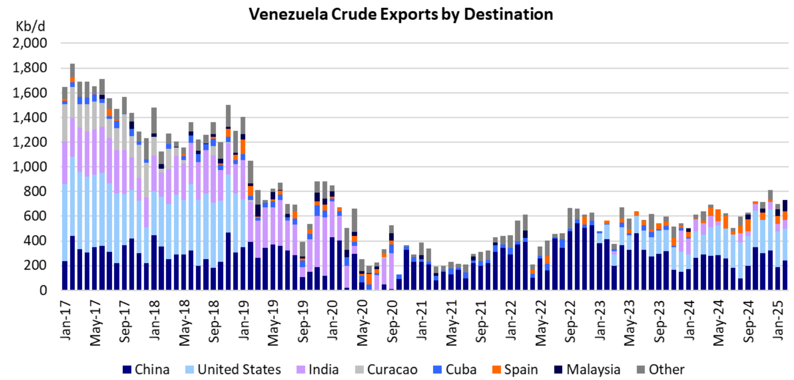
Closing The Door (Again) On Venezuela

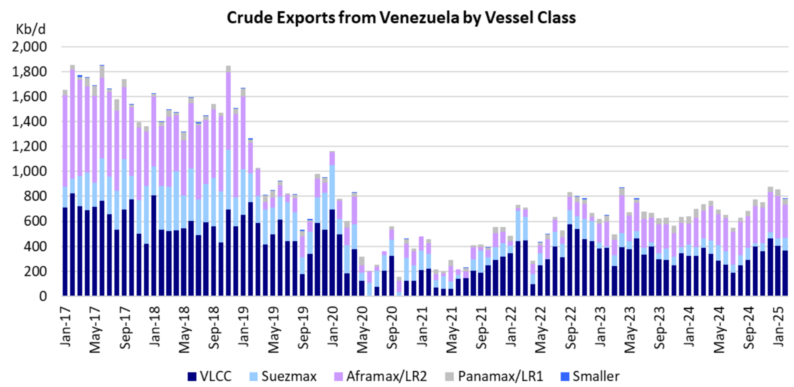
Production and exports will suffer as Chevron license revoked

During the first Trump administration, the U.S. ramped up sanctions on Venezuela as part of a "maximum pressure" campaign. The aim was to oust Venezuela's President Nicolas Maduro and support opposition leader Juan Guaido. The sanctions crippled Venezuela's economy and its oil industry. Oil production and exports collapsed. Similar to Iran, Venezuela started using a fleet of dark vessels for its sharply reduced oil exports (mostly to India and China). During the Biden administration, Venezuela received some relief. In November 2022, Biden granted Chevron a license to restart operations in Venezuela and in exchange for the promise of free elections in 2024, the U.S. government further relaxed sanctions in October 2023. However, in April 2024, some sanctions were reimposed as the promise of free elections in Venezuela had not been honored, although Chevron maintained their license. The situation changed dramatically in February of this year, when President Trump pulled the license. Chevron will seize operations by the end of the wind down period on April 3rd and the implications for Venezuela are severe; oil production and exports will be compromised, and trade flows will change as a result.

As can be seen in Chart 1, the U.S. stopped importing crude oil from Venezuela in February 2019, when Trump's sanctions took effect. Venezuela's exports to other countries continued, primarily to India and China. Under pressure from the U.S., India stopped importing Venezuelan crude oil in 2020. From October 2020 until December 2022, virtually all crude oil exports from Venezuela went to China. During this period total exports from Venezuela increased from a low of 127,000 b/d to 630,000 b/d. When Chevron started operating in Venezuela again, production and exports continued to grow gradually. Exports exceeded 800,000 b/d in December 2024. Due to the involvement of Chevron, who was running the crude they produced in their own refineries in the U.S. Gulf, trade flows shifted away from China and towards the U.S. and, to a lesser extent, Europe. From 2022 to 2024, the share of Venezuelan crude oil that was shipped to China was cut in half; from an average of 70% (2020) to 37% in 2024. The U.S. has been the main beneficiary. From February 2019 until December 2022, sanctions prevented the U.S. from importing any crude from Venezuela. By 2024, the volume of Venezuelan exports going to the U.S. (243,000 b/d) virtually matched the volume going to China (248,000 b/d).

From a shipping perspective the shift in Venezuelan exports from the Pacific (China and India) to the Atlantic (U.S. and Europe) led to an increased use of Aframaxes and a reduction in VLCC employment (Chart 2). The utilization of Suezmaxes was limited and remained relatively constant.





Source: Vortexa

What will happen now that Chevron will stop operating in Venezuela? Similar to Chevron, several European oil companies were also granted authorizations to operate in Venezuela's oil sector. The IEA, in their latest Oil Market Report, suggested that the Europeans will likely also wind down their operations.

The impact on Venezuela will be immediate. Without Chevron, Venezuela will lose access to the U.S. market. Over the last three months they exported 300,000 b/d on average to the U.S. Exports to Europe will also stop or be reduced. Venezuela will also have to find new suppliers of diluent, needed to blend the extra heavy crude that Venezuela produces. Currently western oil companies provide nearly all Venezuela's diluent (primarily naphtha). The IEA expects that Venezuelan production (and exports) will be down 200-250,000 b/d this year. Like before, most of the remaining barrels will likely go to China. Since this is sanctioned oil, the increase in VLCC movements to China will require the use of the "dark fleet" and not benefit mainstream VLCC owners.

The other immediate impact on the tanker market will be a reduction in Aframax demand on the Venezuela – USG route. Vortexa estimates that this trade employed a total of 18 Aframaxes, recording an average 12 voyages per month. Since Chevron (and others) will need to replace the Venezuelan barrels, some of these vessels will remain employed in the Atlantic. Previously, Chevron sourced heavy crude from Mexico, Brazil and the Middle East. Mexico's production of heavy crudes has been declining, and they are subject to potential Trump tariffs, so other alternative sources are more likely. Since these are further away from the U.S. Gulf than Venezuela, ton-mile demand could pick up, although it could benefit Suezmaxes and VLCCs more than Aframaxes.