



Venezuela's PDVSA on the Verge of Collapse, Deepening the Country's Economic Crisis

OE Watch Commentary: Oil production in Venezuela has historically accounted for half of the country's revenue and there are reports that oil facilities in Venezuela are crumbling and production is plummeting. The excerpted article from *Página Siete* discusses how Venezuela's state-owned oil company, Petróleos de Venezuela, better known by its Spanish acronym PDVSA, teeters on the brink of collapse amid severe mismanagement and lack of transparency. Venezuela's oil crisis could potentially further destabilize a nation and government facing dire recession, soaring inflation and unbridled crime, as well as gas, food and medicine shortages.

When energy prices started to collapse several years ago, Venezuela and other oil-dependent nations suffered in tandem. The difference now is that oil prices are rising and others in the oil business are on the mend. However, this is not the case in Venezuela despite the fact it has the largest proven oil reserves in Latin America and, possibly, in the world. This idea is further reiterated by the fact that at the end of 2017, PDVSA was operating at 20 percent capacity with only 76 of its 84 plants operational.

Worse still is that the company nearly defaulted on loans in November 2017, leading to the analysis that Venezuela is at the cusp of an imminent financial collapse despite having the oil resources to at least provide the nation with some sort of salvation. The situation is so grave that people in Venezuela are looking at any and all ways to simply survive, including selling subsidized Venezuelan gas to Colombians along the border, as discussed in the excerpted article from *El Vistazo*, but even this is no longer an option as the government is actively cracking down on this practice.

The article from *Crónica Uno* notes while operational, PDVSA profits supported Venezuela's social programs and helped to provide its citizens with basic necessities such as food, medicine and gas. However, that is no longer the case as essential medicines such as antibiotics have disappeared from pharmacy shelves and citizens are forced to wait in line for gas and food for hours. With a potential financial collapse looming, Venezuela is doing all it can to salvage what is left. As noted in the article from *Infobae*, the government recently signed a 10-year restructuring loan with Russia and is also working with China to deal with credit issues, but these measures will only keep the country afloat in the short term leaving Venezuela's oil imperium to be scooped up by Russian and Chinese backers ready to exploit the crisis. **End OE Watch Commentary (Fiegel)**

“...it is not only fuel that is lacking...there are also shortages of diesel, petroleum and kerosene, among others.”

Source: “Crítica situación de PDVSA en Venezuela (Critical Situation of PDVSA in Venezuela)”, *Página Siete*, 07 May 2017. <http://www.paginasiete.bo/inversion/2017/5/7/critica-situacion-pdvsa-venezuela-136811.html>

During recent decades, a large number of governments to include Venezuela have used state-owned oil and gas (NOCs) enterprises for their own personal gain. In the case of Venezuela, extreme politicization has created a precarious future for the oil industry even though the country has the largest proven oil reserves in Latin America and maybe in the world. However, PDVSA is not run transparently and provides little to no information on financials making it hard to analyze. What is known is that production is at extreme lows and that Venezuela has been forced to import natural gas from Colombia in recent years due to lack of investment in the countries' own resources and infrastructure.

Source: “Limitan venta de gasolina en seis estados de Venezuela (The Government Set Ceilings for the Sale of Gasoline in Six States in Venezuela)”, *El Vistazo*, 26 December 2017. <http://diarioelvistazo.com/limitan-venta-gasolina-seis-estados-venezuela/>

The Venezuelan government set ceilings for the sale of gasoline in the west of the country to prevent smuggling, which they attributed to the recent fuel shortage. A communication from the Ministry of Petroleum ordered distributors to sell a maximum of 30 liters to cars, and up to 35 liters to trucks and some freight vehicles.

Source: “Problemas financieros de PDVSA dejan a Caracas sin combustible (PDVSA's Financial Problems Leave Caracas Without Fuel)”, *Crónica Uno*, 20 September 2017. <http://cronica.uno/problemas-financieros-pdvsa-dejan-caracas-sin-combustible/>

It is very common in cities across the country to see long lines of cars waiting at gas stations with the hope of getting something to put in their tanks as many have closed due to lack of fuel. And it is not only fuel that is lacking... there are also shortages of diesel, petroleum and kerosene, among others. This situation affects both the public and private sector as it makes travel impossible. It also signifies large spread outages of electricity coupled with shortages of other basic necessities such as food and medicine.

Source: “La peligrosa influencia de China y Rusia en una Venezuela envuelta en la crisis (China and Russia's Dangerous Involvement in Dealing with Venezuela's Crisis)”, *Infobae*, 17 August 2017. <https://www.infobae.com/america/venezuela/2017/09/09/la-peligrosa-influencia-de-china-y-rusia-en-una-venezuela-envuelta-en-la-crisis/>

The government signed a 10-year restructuring deal with Russia in November 2017 for a little over \$3 billion in official debt, but observers say that will at best this will help resolve some payments in the short-term. Caracas has only \$9.7 billion in foreign reserves and needs to pay back at least \$1.47 billion in interest on various bonds by the end of the year, and another \$8 billion in 2018. Russia and China are the two main creditors and allies of Venezuela, which owes them an estimated \$8 billion and \$28 billion, respectively.