THE U.S.-VENEZUELA OIL DEAL: A GEOPOLITICAL LOSS FOR CHINA

by
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Following U.S. Operation Absolute Resolve which resulted in the capture of Venezuelan President Nicolás Maduro, the United States and the interim Venezuelan government, led by former vice president Delcy Rodríguez, have been working to reach an accommodation that would see Venezuela begin to democratize and U.S. interests represented. On August 28, an agreement materialized which transferred oil fields that had primarily been operated by Chinese and Russian companies into American hands.

Details of the Deal

The decision by the interim Venezuelan government grants the U.S.-backed North American Blue Energy Partners (NABEP) a 100-year concession to take over operations of 17 oil fields, five of which were operated by the Chinese state-owned firms, China Petroleum & Chemical Corporation (Sinopec) and the China National Petroleum Corporation (CNPC). The private China Concord Resources (CCRC), sanctioned since 2019 due to its activities with Iran, has also been pushed out of their Venezuelan investments under the parameters of this agreement.

The oil fields, divided nearly evenly between the Lake Maracaibo Basin in Venezuela's far western corner and the Orinoco Belt, which stretches across central and northeastern Venezuela, have approximately 65 billion barrels of oil, or one fifth of Venezuela's total crude. The agreement stipulates that NABEP will pay $200 billion in royalties and taxes over the first 25 years. The U.S. will be responsible for purchasing 20 percent of oil annually at production cost, while holding the right to refuse to purchase the remaining 80 percent.

The CEO of NABEP, the controversial Alejandro Betancourt, has agreed to an initial commitment of $100 billion to modernize Venezuela's oil sector, which has suffered from years of mismanagement and underfunding. With the United States buying a 35 percent stake in NABEP's parent company, held by the Pentagon's Office of Strategic Capital (OSC), the arrangement gives the U.S. government direct access and leverage to guide NABEP through the complex political and economic environment surrounding this agreement. The scale of NABEP's rise is immense. Through this deal, it will go from producing 200,000 barrels per day (bpd) to an estimated 1.5 million bpd. Currently, Venezuela as a whole produces 1.25 million bpd. If successful, NABEP will produce 5.4 times more barrels per day than Brazil's Petrobras and 12 times more than Mexico's Pemex, two of Latin America's largest oil companies.

Along with NABEP, Chevron Corp. has signed deals to significantly expand the operations of two large oil fields in the Orinoco Belt. The American firm GE Vernova Inc. has also been contracted to improve the Venezuelan electricity grid, while the Italian Eni S.p.A. will provide additional assistance to American field expansion plans.

Chinese Response

China has issued a statement condemning U.S. actions in Venezuela. Chinese Foreign Ministry spokesperson Mao Ning stated on September 1 that "Cooperation between China and Venezuela is protected by international law and the laws of both countries, has nothing to do with third parties and should not be subject to interference by any third party," and that China's "legitimate rights and interests" in Venezuela must be protected.

There is little that China can do to reverse this agreement. U.S. Energy Secretary Chris Wright, who has been spearheading American efforts in Venezuela, explicitly stated that China would not have any claims on the revenue expected to begin anew under American-led companies, referencing the $10-15 billion outstanding debt Venezuela still owes China.

Implications for China

While this setback is not detrimental to Chinese energy security, given that Venezuela provided close to 5 percent of Chinese seaborne energy imports, it does leave China with both domestic industrial concerns and a geopolitical failure. Domestically, China's 'teapot' refineries operate under the assumption that they, as private companies, will be able to purchase discounted crude and refine it. They then sell the refined crude to power various provinces within China. Venezuela has been a long-standing exporter of discounted crude to China, as this was part of its repayment of the cumulative $100 billion loan from China beginning in the early 2000s.

While the loss of Venezuelan crude is an inconvenience, it does not detrimentally affect China's domestic oil sector. As the Iran War continues into its sixth month, these companies have been ramping up their purchases of sanctioned Iranian oil. As they cater only to the domestic Chinese market, there is no fear of international sanctions. The same strategy has been pursued by Chinese companies in the purchasing of sanctioned Russian crude.

Financially, the cumulative $100 billion loan provided to Venezuela by China follows a Chinese lending strategy that often targets resource-rich but politically isolated governments. This has been seen with copper and cobalt in Zambia, platinum and tobacco in Zimbabwe, and bauxite in Ghana. To explain the framework simply, a Chinese bank loans money to a borrower state, a contract is signed stipulating that the borrower will sell resources to a Chinese purchaser, with the proceeds going toward the repayment of the loan. Petróleos de Venezuela, S.A. (PDVSA), Venezuela's state-owned oil firm, repaid Chinese debts based on the revenue from its oil sales. Currently, Venezuela owes China $10-15 billion of the original $100 billion in debt.

The issue for Venezuela, the U.S., and China is how the debt is structured. As Beijing was being repaid directly from oil sales that go through Chinese accounts, this allows China to have veto power over standard bondholders in any future restructuring. China essentially has the last say in which re-payment plan will move forward. Should it feel compelled to refuse the plan, either due to financial losses or political reasons, the talks could stall for years. Moving forward, Venezuela will have to conduct a full audit of itself and release a debt sustainability analysis to have any hope of achieving a debt restructuring.
Instead, China's true loss is geopolitical. As Latin America has been experiencing a pronounced rightward shift over the past five years, many Chinese allies across the region have been voted out of office. Currently, China maintains healthy relations with only Cuba, Nicaragua, and Mexico, a far cry from the 'pink tide' era when over half of the governments in the region were China-friendly. With Cuba coming under immense pressure from the ongoing U.S. blockade and Nicaragua seemingly charting its own foreign policy path, while being careful not to antagonize the Americans for fear of a similar Nicolás Maduro-like operation occurring in Managua, China has a very weak strategic position across the Latin American region.

The humiliation of having state-owned companies unceremoniously and under dubious legal circumstances removed from oil fields, where they have been operating and investing a large amount of capital for over a decade, with the PRC unable to find any recourse but to issue notes of protests, is seen as an embarrassment for China. It must not be forgotten that this humiliation is similar to the meeting between former President Maduro and Chinese envoy, Qiu Xiaoqi, several hours before the U.S. operation that captured Maduro, where they discussed the strategic ties underpinning the Sino-Venezuelan relationship and building a "multipolar world of development and peace."

The Future of Venezuela
Nine months after the capture of President Maduro, there is a sense of slight optimism about the direction Venezuela is embarking on, albeit with immense awareness of the massive problems that will have to be addressed and tackled. Beginning around 2010 due to faltering oil prices in the wake of the 2008 Financial Crisis and economic mismanagement by the Bolivarian government, the ongoing economic crisis inside Venezuela has affected all aspects of life. Starvation, corruption, crime, and mass emigration have weakened the state structures to such a degree that parallel structures have risen to fill the gap. Large parts of the domestic economy are conducted through

the black market and organized crime groups lay claim to territory across the country. Paramilitary groups (Colectivos), which have had official government funding since 2006, remain well-armed, well-trained, and deeply entrenched in Venezuelan society. As government funding began decreasing due to the economic crisis, many of these groups have dropped their leftist ideologies and have shifted primarily into organized crime.

The legal uncertainty surrounding the oil agreement and the broader U.S. intervention casts a pall over the circumstances. Legally, PDVSA would be the only entity in the country able to grant contractual rights to outside companies. Additionally, NABEP's new role as a parallel oil company alongside PDVSA may cause issues with Article 303 of the Venezuelan Constitution which gives PDVSA exclusive authority to control the entire oil industry.

Adding to this, contradictions in the U.S.'s recognition of the interim government remain unresolved. The last government recognized by the U.S. in Venezuela was that of the 2015 National Assembly. Thus, Nicolás Maduro was not recognized as the previous president, and Delcy Rodríguez was not recognized as the vice-president. Rodríguez has also gone over the 180-day limit for the interim president to hold power. While Rodríguez was recognized by the U.S. due to her having de facto control over the Venezuelan government, for any long-term deal to succeed, a government legitimized by elections is necessary. However, the U.S. has been slow to push for elections, signaling the risk that a contentious election campaign could pose to national stability and U.S. interests.

For Venezuela, stabilization and a gradual improvement in daily life for the average citizen are key to ensuring that the domestic situation does not further deteriorate. Fortunately, the United States is totally in charge of the economic sanctions placed on Caracas and has already begun to selectively ease several sanctions related to the economic and oil sectors. Ensuring that food and medical aid address the chronic shortages that have been the primary cause of starvation and premature death is key to maintaining the goodwill and patience of the population. The risk also persists that outside actors, upset by American unilateral action, may seek to destabilize the country further by funding anti-U.S. groups and engaging in disinformation campaigns. The presence of heavily armed non-state actors across the country adds a level of unpredictability to an already fragile situation. These groups will have to be mitigated and disarmed to increase state security and foster a safer social environment for the majority of the population.

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