

Venezuela rushes to mend Iran relationship as US sanctions loom

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- Companies

PUNTO FIJO/CARACAS/HOUSTON, March 12 (Reuters) - Iran and Venezuela are trying to patch together an oil alliance that began to fray last year, according to six people familiar with the matter, after the South American country fell behind on oil swaps that had boosted crude exports and helped stem domestic fuel shortages.

The expected April return of U.S. sanctions on Venezuela's oil industry will make the Iran alliance critical to keeping its lagging energy sector afloat. Washington last year temporarily relaxed sanctions on Venezuela's promise to allow a competitive presidential election, something that has not happened.

The situation is growing dire. A review of shipping data and documents from Venezuela's oil company PDVSA show that Venezuela fell behind in payments to Iran, a shortfall that worsened when the U.S. began to issue licenses in late 2022. Those authorizations prompted the state firm to reassign cargoes originally planned for Iran to cash-paying customers.

To salvage the partnership, Venezuela is rushing to fulfill terms of a three-year-old alliance that has involved hundreds of millions of dollars in [oil swaps](#) and contracts. The nation is trying to settle pending debt by accelerating deliveries of heavy crude and fuel cargoes to Iran.

Venezuela also is striving to renegotiate dozens of unfinished projects from agriculture to car manufacturing before Iranian President Ebrahim Raisi visits Caracas in the coming months, the people said.

Two prior Iranian delegations that traveled to Venezuela since mid-2023 left without significant agreements announced, on the promise that Venezuela would catch up on payments.

"Despite encountering challenges, particularly in terms of payments by Venezuela, both nations remain resolute in their commitment to fortify their relationship and enhance their energy partnership in the face of American pressure," said a senior Iranian official.

Venezuela's oil minister Pedro Tellechea in February acknowledged the tattered relationship, saying PDVSA would conduct its own maintenance for refineries and petrochemical plants this year, something that was a key part of the 20-year deal with Iran.

"We are completing the maintenance programs with our workers," he said at a briefing at a fuel distribution plant in central Carabobo state.

The home-grown work follows the completion of a [110-million-euro](#) overhaul by Iranian technicians at Venezuela's smallest refinery that was to be [replicated](#) last year at the country's largest refining complex, Paraguana. That would have brought in much needed new processing equipment from Iran and China to replace aged, U.S.-made gear.

Venezuela's and Iran's Foreign Affairs ministries and PDVSA did not reply to requests for details on the status of the relationship between the countries.

CASH OVER OIL SWAPS

Minister Tellechea also said last month PDVSA has learned to deal with U.S. sanctions and is better prepared to handle any scenario with a stable of qualified workers and improved operational facilities.

PDVSA's lack of vessels, frequent export terminal power outages and poor-quality crude oil had left Venezuela struggling to complete its side of the Iran bargain at the planned pace. More recently, the easing of U.S. sanctions has increasingly led Caracas to prioritize selling its oil to other nations, cutting into its swaps with Iran.

The original agreement from 2021 required PDVSA to deliver to Iranian state companies at least two barrels of oil for every one received. Iran last May stopped sending cargoes to Venezuela, according to a review of PDVSA's shipment documents, after PDVSA fell behind. Caracas has since committed to sending at least one-cargo a month to Iran to reduce the shortfall.

Iran's supply of crude and condensate to Venezuela between 2022 and 2023 fell 44% to some 41,300 barrels per day (bpd), while Venezuela's crude and fuel supply to Iran, which was supposed to be twice as much as it received, fell a larger 56% to 39,400 bpd, according to a Reuters review of PDVSA's documents detailing cargoes from mid-2021 through February 2024.

The total volume exchanges fell by half last year as Venezuela struggled to recover lost oil output, solve quality and infrastructure issues, and fulfill supply commitments with all of its customers.

Since the second half last year, PDVSA has slowly amortized debt by delivering one large cargo of heavy crude per month. But Iran has not resumed its supply, forcing the state company to look for other sources of oil including Russia, shipping data and the PDVSA's documents showed.

The Venezuela-Iran agreement had also included giving Iranian state-owned refiner NIORDC responsibility for a [revamp of PDVSA's massive 955,000-barrel-per-day Paraguana Refining Center](#), set to involve worker training in Iran, the construction of temporary housing for Iranian technicians in Venezuela and joint budget planning for equipment imports.

But the project never progressed beyond the initial stages as PDVSA's insufficient payment capacity and the deep deterioration of infrastructure found in inspections created new obstacles to overcome an already weakened relationship. PDVSA is now considering other companies, including from Brazil, for later refinery repairs, leaving the planned NIORDC-led overhaul in a drawer, two of the sources said.

NIORDC did not comment on the matter.

COOPERATION CUT SHORT

The Iran-Venezuela pact projected up to \$25 billion in trade and investment since 2022 in key areas for both countries.

Even though top officials have traveled in recent months in an effort to reinvigorate joint businesses, the value of ongoing business represents less than \$10 billion in total, one of the sources said.

"We have lost time," said another source, referring to an audit in October showing a 168-day delay in key projects involving 18 companies that have yet to be completed.

"The revisions that parties are now making of everything are mandatory," the person said, referring to project inspections by Venezuelan and Iranian workers and officials ahead of the Iranian President's visit.

"Everything related to Iran has faded. We only see companies authorized by the U.S. to do business in Venezuela. Some imported spare parts are arriving, but they are American," a refinery worker said.

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