

U.S. ties easing of Venezuela sanctions to direct oil supply

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HOUSTON/WASHINGTON, March 8 (Reuters) - U.S. officials have demanded Venezuela supply at least a portion of oil exports to the United States as part of any agreement to ease oil trading sanctions on the OPEC member nation, two people close to the matter said.

U.S. President Joe Biden on Tuesday banned U.S. imports of Russian oil in retaliation for the invasion of Ukraine, ramping up economic pressure on a key Venezuelan ally.

U.S. diplomats have worked to find energy supplies worldwide that can help compensate for disruption to Russian oil and gas exports caused by sanctions or war. U.S. officials met Venezuelan President Nicolas Maduro in Caracas for the first bilateral talks in years on Saturday.

Venezuela has been under U.S. oil sanctions since 2019 and could reroute crude if those restrictions were lifted.

U.S. officials made clear their priority was to secure supplies for the United States, the people told Reuters. The officials told their Venezuelan counterparts that any relaxation in U.S. sanctions would be conditional on Venezuela shipping oil directly to the United States, the sources said.

The United States had not previously made stipulations about the specific destination of cargoes permitted under waivers to sanctions.

The U.S. Department of State and Venezuelan state run energy company PDVSA did not immediately reply to requests for comment.

Chevron Corp

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, the last U.S. oil producer still operating in Venezuela, could be the first beneficiary if a deal is reached with Maduro's administration. Chevron has been barred from shipping Venezuelan oil from its joint ventures since 2020 and has pushed to overturn the ban.

A Chevron spokesperson declined to comment on the U.S. discussions. The company operates "in compliance with the current sanctions framework provided by the U.S. Office of Foreign Assets Control," he said.

The California-based company has a special license that allows it to maintain a low-level presence in the country, only to ensure the maintenance and safety of its facilities.

With that license due to expire in June, Chevron has sought authorization from the U.S. Treasury Department to trade Venezuelan oil cargoes for debt repayment through a revamped exemption, Reuters has reported. Chevron wants the revised permit so it can recoup hundreds of million dollars in unpaid debt and late dividends from its joint ventures with PDVSA.

If Washington decides to ease sanctions, Chevron could be in position to partially recover production in Venezuela and resume exports to its own and other refineries on the U.S. Gulf Coast, one of the sources said, replacing Russian barrels.

Chevron had no immediate comment.

Little progress was made in the weekend talks as Washington sought to gauge prospects for peeling Maduro away from his alliance with Russian President Vladimir Putin. But the parties agreed to further talks.

The sides established what one person familiar with the matter called "maximalist" negotiating positions. Washington pressed for free presidential elections and for the release of Americans jailed in Venezuela, while Maduro asked for a wide lifting of sanctions.

But the most pressing topic was energy. The parties discussed returning Venezuelan oil to markets hit by disruptions of Russian supplies and a workaround for PDVSA to temporarily access international bank transfers, according to the sources.

The meeting sparked strong reactions on Capitol Hill, where New Jersey Senator Robert Menendez and other U.S. lawmakers criticized the outreach to Maduro, who is under U.S. sanctions for human rights abuses.

The U.S. engagement comes as Venezuela's financial lifeline to Russia is fraying under sanctions on Moscow following its bombardment of Ukraine. Venezuela's funds held in Russian banks blacklisted by Washington have been frozen.

Oil prices rose another 5% on Tuesday to \$128 per barrel on the U.S. import ban on Russia - which accounted for 670,000 barrels per day in 2021. Britain said it will phase out Russian imports by year end.

Venezuela's oil production last year recovered from free fall and averaged 636,000 bpd. Officials have said it can boost output and exports, but analysts believe there is little room for further increases without massive new spending.

However, many refiners in the U.S. Gulf Coast that were importing Russian barrels could potentially resume processing Venezuelan heavy oil and fuel, among their preferred feedstock for specialized units.

Before sanctions, U.S. Valero Energy

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, Citgo Petroleum, Chevron and PBF Energy

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were among top U.S. buyers of Venezuelan oil.

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