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CORRECTED-After U.S. Sanctions, Venezuela Seeks to Collect Some Oil Payments Via Rosneft

The cash-strapped government is becoming increasingly reliant on the Kremlin.

By Reuters

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Oil accounts for most of Venezuela's exports. **Pixabay / MT**

(Corrects April 18 story to make clear Reuters could not determine payments were made under the proposed arrangement, removes reference to Evrofinance Mosnarbank and clarifies that experts see no violation of sanctions)

Venezuelan state oil company PDVSA has asked at least two of its clients to make payments for Venezuelan oil via Russian state energy giant Rosneft, as it comes under pressure from U.S. sanctions, according to a PDVSA source and documents reviewed by Reuters.

The proposed payment mechanism is the latest sign of the growing proximity of Venezuela's cash-strapped government to Russia as the United States tightens a financial noose around Venezuelan President Nicolas Maduro, who it describes as a dictator.

Russia has publicly said the U.S. sanctions are illegal and it would work with Venezuela to weather them.

In response to Reuters' story, Rosneft has denied it has acted as an intermediary for payments to PDVSA.

Under the new approach described to Reuters, Venezuelan state oil company PDVSA has at least twice asked its clients to make payments to Rosneft for Venezuelan oil, according to the documents.

The PDVSA source said the company was proposing the new arrangements – known as 'factoring' – to allow PDVSA clients to receive oil without making direct payments to the Venezuelan state oil company in the wake of January's sanctions.

The arrangement would also allow the cash-strapped Venezuelan state company to receive faster payment, sometimes avoiding the usual 30-to-90 day timeframe for completing oil transactions. Rosneft would also make a profit by receiving an intermediation fee, the source and an internal PDVSA document said.

Rosneft, which has heavily invested in Venezuela under President Vladimir Putin, did not respond to a request for a comment before Reuters published its story on Thursday. After the Reuters story ran, Rosneft strongly denied the report, describing it as a 'blatant lie' and 'a provocation against Rosneft'.

Venezuela's oil ministry, its information ministry - which handles media for the government - and PDVSA did not respond to questions.

In one transaction, an executive from Rosneft's Geneva trading unit said PDVSA had given its approval for Rosneft to collect payment from trading firm BB Energy for the purchase of

525,000 barrels of fuel oil loaded on Jan. 3, according to an offer letter.

Related article: Rosneft Threatens to Ban Reuters in Russia Over Venezuela Report

The offer letter, seen by Reuters with its date redacted, said that Rosneft had agreed with PDVSA to pay BB Energy's $26 million debt to the Venezuelan state oil company and then to seek payment from BB Energy via a bank transfer or an equivalent oil cargo.

The PDVSA source said that Rosneft credited PDVSA the amount, minus an undisclosed fee, and then started talks with BB Energy to recover the sum it advanced PDVSA. Reuters could not independently verify that Rosneft ever made the advance payment to PDVSA.

Asked about Rosneft's offer and the fuel cargo payment, a spokesman for BB Energy said the company had not completed the transaction, under guidance from legal counsel.

“The money is in our account and as yet we have not paid anyone,” said the spokesman. He declined to provide further details.

According to an undated internal PDVSA document, India's Reliance Industries Ltd - PDVSA's largest cash-paying client – was also asked by PDVSA to pay Rosneft directly in April for oil sales under a long-term supply contract with the Venezuelan company.

Reliance has said that in September 2012 it signed a 15-year deal to purchase up to 400,000 barrels a day of heavy crude from PDVSA.

The internal PDVSA document reviewed by Reuters showed the Venezuelan state oil firm asked Reliance to pay for oil sales under the long-term contract via Rosneft Trading SA, the Geneva-based trading unit of the Russian oil giant.

The document also said that the payment by Reliance to Rosneft would also allow PDVSA to meet unspecified “contractual obligations” to Rosneft.

The internal PDVSA document said the sales “would allow the partial completion of the financial scheme of advanced payments” between PDVSA and Rosneft.

The document showed that PDVSA and Reliance would pay Rosneft a ‘marketing fee’ equivalent to around 3 percent of the sale price, split between them.

The PDVSA source said the agreement had received the consent of all three parties and was being executed. However, Reuters was unable to independently verify if the agreement was implemented and remains in force.

Responding to Reuters’ story, Reliance strongly denied making any payments via third parties to PDVSA. It said it had purchased Venezuelan oil from Rosneft that was provided by PDVSA to the Russian company in repayment of past loans, so no money

was flowing back to Maduro’s government.

Experts see no violation

Regardless of whether payments flowed directly to PDVSA or remained in Russia to pay down debt, the proposed approach appears to present no violation of sanctions by any of the entities because no U.S. citizens, currency, companies or financial institutions seem to be involved, according to four sanctions experts consulted by Reuters.

Three of the four experts said the U.S. Treasury had the latitude to act against companies or governments it deemed to be providing ‘material support’ to a sanctioned entity, like PDVSA. Still, the Office of Foreign Assets Control (OFAC), which enforces sanctions, has given no indications it would take that route.

The U.S. Treasury Department declined to respond to a request for comment. A State Department spokeswoman said: “We encourage companies, banks, and other institutions to refrain from providing services that support (Maduro’s) repressive practices.”

With its economy reeling from years of recession and a sharp decline in oil production,

Venezuela was already struggling to finance imports and government spending before Washington imposed tough restrictions on PDVSA in January.

Oil accounts for more than 90 percent of exports from the OPEC nation and the lion's share of government revenues. Maduro has accused U.S. President Donald Trump of waging economic war against Venezuela.

Russia has loaned Venezuela almost $16 billion since 2006, which is being repaid in oil shipments, and has also taken significant stakes in petroleum projects, meaning it already controls a large slice of the South American country's production.

PDVSA's contemplated payment agreement with Rosneft is part of a series of methods used by Maduro's government to gain access to cash, including selling Central Bank gold reserves.

The methods have frustrated Washington officials, who have in recent days questioned why sanctions have not had a more dramatic impact on Venezuela's finances.

Reliance

Following the publication of Reuters' report on Thursday, Reliance said in its statement that it had purchased Venezuelan crude oil from Rosneft long before the imposition of U.S. sanctions on PDVSA in January, as the Russian company received oil in return for a reduction in Venezuela’s debt.

“Since sanctions were imposed, Reliance has made such purchases with the full knowledge and approval of the U.S. Department of State (USDOS),” Reliance said. “Such transactions do not lead to any consequent payment to PDVSA and do not violate U.S. sanctions or policies.”

After the report was published, Reliance did not respond to further questions from Reuters about why the PDVSA internal document proposed Reliance pay Rosneft a marketing fee related to the supply of crude under the Indian firm’s long-term supply contract with PDVSA.

Reliance said in its statement its purchases of Venezuelan oil from Rosneft “do not lead to” any payments to PDVSA. The Venezuelan company’s shipping schedules showed that Reliance was loading a cargo from PDVSA as recently as April 20.

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