US Takeover of Venezuela's Oil Sector – Impact on India

Mains: *GS II – International Issues*

Why in News?

Recently , Donald trump announced that the US will take over the oil sectors of the Venezuela.

What is the recent conflict between US and Venezuela?

- **Capture of Venezuelan tankers** – The U.S. Coast Guard tried to intercept the *Bella 1,* a stateless tanker under U.S. sanctions, for past Iranian oil shipments.
- The Coast Guard also stopped and detained the *Centuries,* a Panamanian-flagged vessel carrying Venezuelan oil for a China-based trader.
- **Military actions** – The U.S. military said a strike in the eastern Pacific targeted a boat that had been transporting drugs along known trafficking routes.
- Over several days, the U.S. military intensified operations in the Caribbean, sending multiple C-17 transport flights from bases across the country and Japan to Puerto Rico.
- In the first known U.S. operation inside Venezuela, the C.I.A. carried out a drone strike on a port facility sometime during the fourth week of December.
- **Capture of Venezuelan president** – The US army has arrested and deported the Venezuelan president Venezuela's President Nicolás Maduro.
- **Announcement from US** – Soon after Maduro's capture, US President Donald Trump said Washington would take control of Caracas's oil sector.
- He also said that American companies would pump in billions of dollars to revive the struggling Venezuelan oil industry and fix its broken oil infrastructure.

What is the status of Venezuelan oil sector?

- **Oil reserves** – Venezuela has the largest oil reserves globally, estimated at over 300 billion barrels or a fifth of the proven oil reserves all over the world.
- **Oil production** – Venezuela produces around 1 million barrels per day (bpd) of crude, while global output is over 100 million bpd.
- It accounts for less than 1% of global oil production.
- The world's largest oil exporter, Saudi Arabia, is second to Venezuela in terms of proven oil reserves.
- **Reason for low production** – The relatively insignificant oil production by Venezuela, despite massive potential, is a result of a combination of factors that include:
    - US sanctions on the country's oil and gas sector constraining its energy exports,
    - Severe economic crisis in Venezuela

- A debilitating lack of investment in the country's oil and gas infrastructure.

How these changes have an impact on India?

- **Minimal impact** – As for India, the country appears to be well-shielded from any direct impact in the near term, as Indian refiners do not import Venezuelan crude.

  India, is the world's third-largest consumer of crude oil and depends on imports to meet over 88% of its oil needs.

- **Flow of oil to the market** – If the US and Venezuela's new leadership can negotiate an easing or suspension of sanctions, it could open the doors for Venezuelan oil to flow more freely in the international market, including to India.
- **Recovery of dividends** – It could also pave the way for ONGC Videsh, to recover over $500 million worth of stuck dividends from its shareholding in two Venezuelan oil and gas projects.
- **Investment opportunities** – It could also create opportunities for more Indian investment in Venezuela's oil and gas sector.

  ONGC Videsh is the overseas investment arm of the state-owned Oil and Natural Gas Corporation (ONGC).

- **Chevron model** – ONGC wants to operate projects in Venezuela under the so-called *"Chevron model",* which allows foreign oil companies to operate in the country after receiving specific approvals from the US.
  - The model is referred to as the Chevron model in the oil industry because the US major Chevron was the first to operate in sanctions-hit Venezuela through this route.
- **Past transactions** – India, specifically private sector refining giant Reliance Industries (RIL) was a regular buyer of Venezuelan crude prior to the imposition of US sanctions on Caracas in 2019.

What impact it could have on US and global market?

- **Inflowing of US companies** – Trump now wants the American oil majors to get into the game so that more Venezuelan oil can be pumped into the global market including the US and to the benefit of American corporations.
- **Expert's opinion** – According to experts, if Trump's intentions for Venezuela's oil industry turn into a concrete plan that is implemented, Venezuela could emerge as a significantly larger oil supplier than it is now.
- **Increased investment** – It could also open up the country's oil sector for more investments, not just from American companies, but from other countries' corporations, as well.
- **Increased oil supply** – More oil supply in the international market should translate into downward pressure on oil prices in the long run.

What lies ahead?

- Given Washington's sanctions on the Latin American country's oil and gas sector, companies cannot use American banking channels, services, and US dollars for these projects, unless they have a specific license from the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury.
- The specific license for this type of operation usually gives foreign companies major control over finances, operations, production, and marketing of oil from Venezuelan projects, despite Venezuela's state-owned oil major Petróleos de Venezuela, SA (PDVSA) being the majority shareholder.
- ONGC Videsh holds 40% stake in the San Cristobal project and 11% in Carabobo 1.

Reference

[The Indian Express| US Takeover of Venezuelan Oil]

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