The “Chevron Model”: The New Venezuelan Oil Industry Without Transparency

The Elephant In The Room

- While the discussion has been centered on reasons in favor or against the general and individual oil licenses granted by the OFAC, one topic has not been properly addressed: the incompatibility of the new oil business model with Venezuelan Law and transparency standards.

- General License 41, to Chevron, can only be applied in the oil industry through contracts not covered by the current regulations.

- Individual oil licenses have followed a similar path.

The Venezuelan Oil Regulation

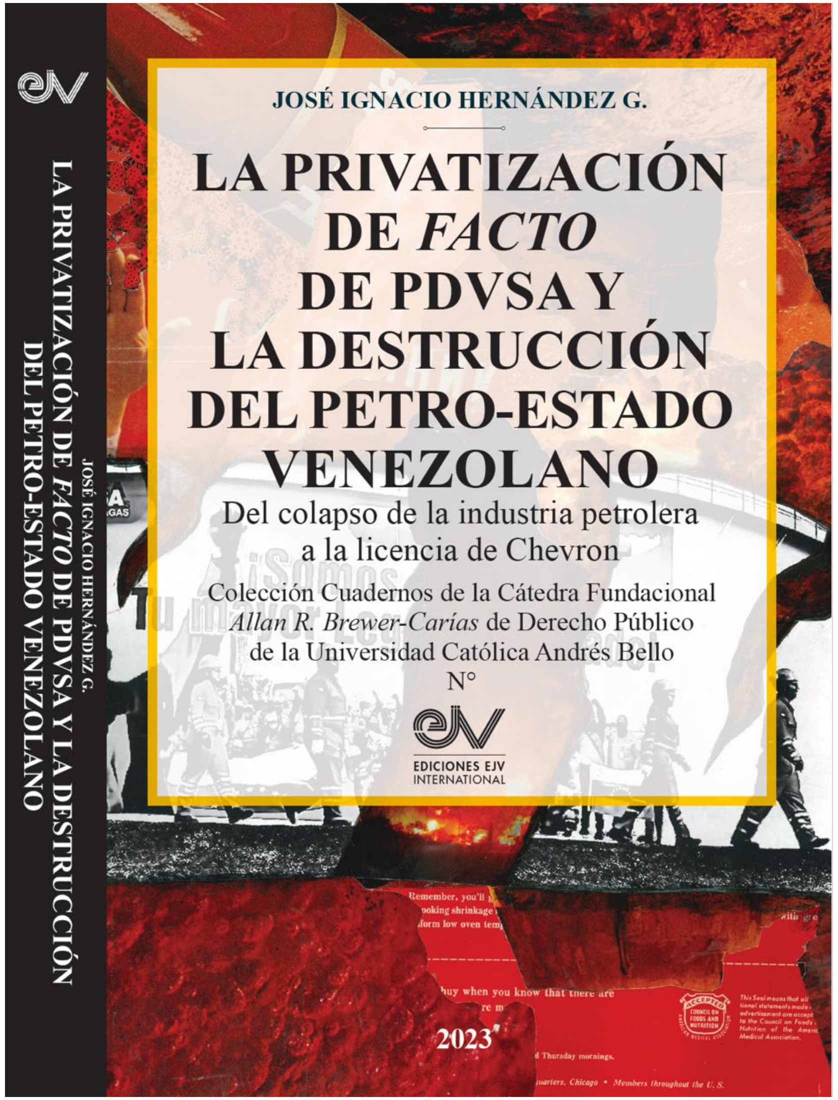
- According to Articles 302 and 302 of the Constitution and 9, 22 and 57 of the Hydrocarbons Organic Law, only SOEs or JVs under PDVSA´s control can undertake upstream activities.

- That restriction was reinforced in 2006, with new regulation promoting the migration of operative contracts signed during the "apertura petrolera" to the JV model.

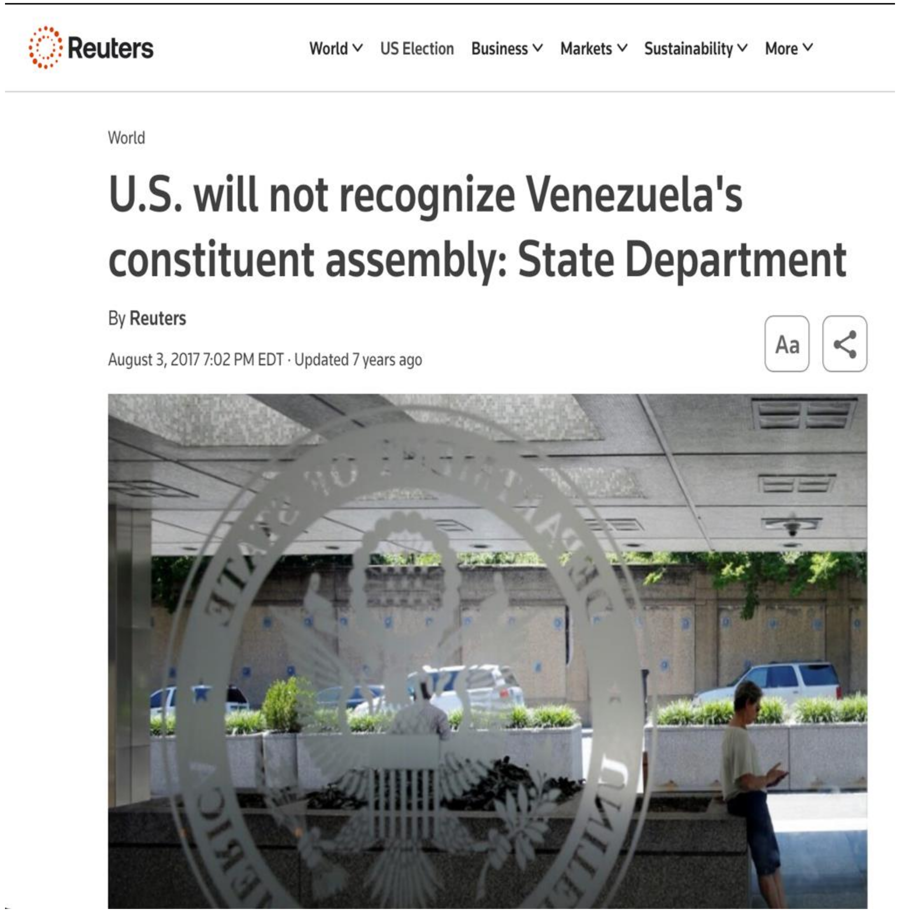
- The JV cannot enter into any contract that, directly or indirectly, transfers oil rights.

A De Facto Oil Privatization

- **2013**. Due to its over-indebtedness and politicization, PDVSA could not finance itself, so it heavily relied on the JV´s minority partner.
- **2018.** Under the economic emergency, the Presidency abolished PDVSA control. PDVSA then signed "oil services agreements" that unlawfully transferred oil rights to private investors.
- **2020.** The Executive approved a new oil emergency framework. The 2017 constituent assembly approved the Anti-Blockade Law, allowing PDVSA to enter into confidential oil agreements.
- **2020-2022.** PDVSA signed new oil agreements that unlawfully transfer red oil rights to private investors, increasing informality in the oil industry to avoid sanctions.



The Chevron Model: GL41



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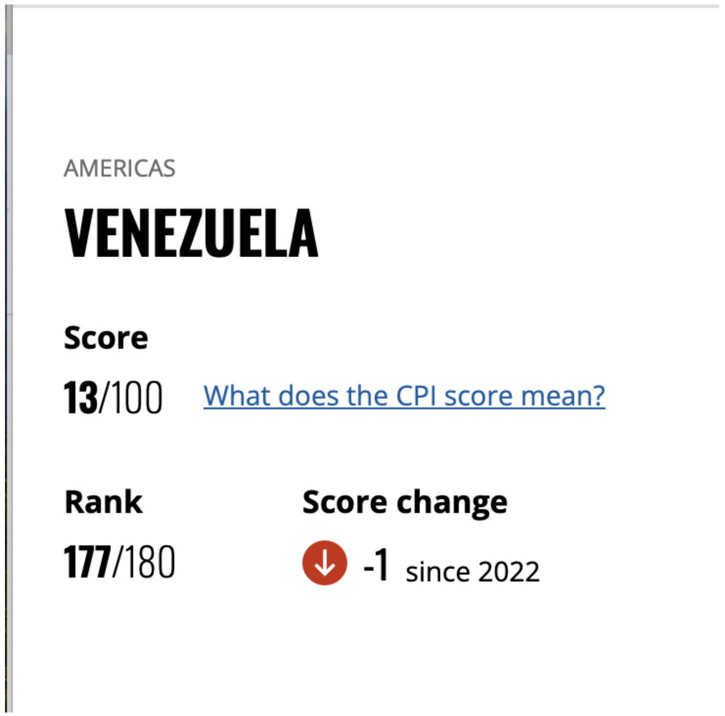
- GL41 authorizes Chevron to produce and sell oil exclusively in the U.S.
- However, under Venezuelan Law, Chevron cannot produce or sell oil; those activities can only be undertaken by the JVs.
- GL41 was designed for Chevron´s operation under oil agreements covered by the Anti-Blockade Law. Individual licenses replicate those conditions.
- The new model is the “productive participative agreement” (CPP), a confidential oil contract that is not ruled by oil regulation but by the unconstitutional Anti-Blockade Law.
- The Chevron model has favored the ongoing de facto privatization of the oil industry without transparency and accountability.

The Mystery of the Government Take

- GL41 prohibits "the payment of any taxes or royalties to the Government of Venezuela". But this prohibition is misleading.
- Chevron does not pay the government take to the Government only the JVs have that obligation.
- Because of the confidential conditions, there is no information about how oil revenues are distributed.
- According to several reports, Chevron exports oil to the U.S. and, on behalf of JVs, pays the royalty and extraction tax to Maduro´s Government in VEF.
- Chevron also compensates its debt (based on financial agreements entered in 2013). The debt restructuring process is not transparent.
- The main conclusion is that Maduro´s Government is capturing oil rents (between 33,3% and 66%) without transparency and accountability due to the Anti-Blockade provision.



Conclusions

- Maduro´s oil policy significantly differs from Chávez´s "Full Sovereignty Over Oil".
- Because Maduro does not have support to modify the oil regulations, he relies on the Anti-Blockade Law to circumvent controls established in the Constitution and the statutes.
- GL41 consolidated an oil agreement model that the Venezuelan Law does not support.
- Because of its confidential provisions, the new oil activities cannot comply with ESG or EITI standards.
- Opacity in the management of the oil revenues increased corruption risks.
- Under the present conditions, the "Chevron model" does not contribute to the democratization process in Venezuela.
- Private investment will be at risk without property rights, and international investment protection may not be enough to mitigate those risks.
- The economic benefits of oil licenses should be considered together with its democratic and transparency costs.