

Oil Industry Is Fading Away in Land of the World's Richest Reserves; Venezuela sees its production dwindle after decades of graft and mismanagement under Chávez and Maduro regimes, and now the burden of U.S. sanctions. The last drilling rig in the country has shut down.

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FULL TEXT

A driver pushes his car while in line to buy scarce gasoline in the Macaracuay sector of Caracas. PHOTO: Oscar B.Castillo for The Wall Street Journal

Venezuela's oil industry—rich in reserves, a crucial Allied resource in World War II, a founding member of OPEC—is grinding toward a halt.

Venezuela has greater oil stores than any other country. But after years of corruption, mismanagement and more recently U.S. sanctions, its oil output has dropped to a tenth of what it was two decades ago.

From Lake Maracaibo in the west to the Orinoco oil belt in the east, abandoned wells rust in the sun as looters scavenge the metal. The last drilling rig still working in Venezuela shut down in August. The country is on course, by the end of this year, to be pumping little more oil than the state of Wyoming.

"Twenty percent of the world's oil is in Venezuela, but what good is it if we can't monetize it?" said Carlos Mendoza, an ambassador under the late socialist president Hugo Chávez, who enjoyed an oil bonanza when prices were high but starved the industry of investment and maintenance funds.

"We're entering a post-oil era," Mr. Mendoza said.

While petroleum is under stress world-wide from climate-change concerns and the rise of wind and solar power, what is happening to oil in Venezuela goes far beyond the global industry's troubles. It is an existential crisis for a country long dependent on oil for nearly all of its hard-currency earnings.

This year, Venezuela's oil income will probably fall below the limited funds coming in from other sources such as gold mining and overseas workers' remittances, said Luis Vicente León, an economist and pollster. Venezuela's economy is likely to shrink more than 30% this year from the oil collapse plus the pandemic, says Ecoanalitica, a Caracas business consulting firm.

For the long-suffering citizenry, the prospect is for more misery, in a place where 96% of people already live below the poverty line, according to a study by three universities. Five million Venezuelans have fled their country over the past five years, by a United Nations count.

On Margarita Island, where Juana Herrera lives, there is no gasoline to power her car. Venezuelan refineries are so decrepit they produce almost no propane, meaning her family can't use their gas stoves. The cooking-fuel shortage is a problem for four of five households in the country, said Julio Cubas, head of the Observatory on Public Services, a nonprofit that studies Venezuelans' access to basic utilities.

Ms. Herrera, 55, relies on wood. "It's like the community on this island is just slowly dying away," she said.

Similar stories can be heard across the Caribbean nation as the refineries' near-paralysis, which is partly due to a lack of imported supplies, ripples across to other industries from food to transportation.

David Bermudez, an egg wholesaler in the southern state of Bolivar, said deliveries he used to receive from farms every two days now arrive only every two weeks, as farmers hoard scarce motor fuel. The result is to deprive residents of the mostly rural state of what is normally a low-cost protein source.

Luciano Avila, 76, is pushed home by wheelchair from a Caracas hospital where he had been treated, after no ambulances had fuel. In the background, motorcyclists wait for a chance to buy gas. PHOTO: Oscar B.Castillo for The Wall Street Journal

Calls seeking comment from the Venezuelan Information Ministry and state oil giant Petróleos de Venezuela SA, known as PdVSA, weren't returned.

Diosdado Cabello, an ally of President Nicolás Maduro who is seen as the country's second-most-powerful politician, said in a television appearance Wednesday that "Venezuela hasn't received formal income from the oil industry since October."

He praised the government's resilience. "This battle isn't easy," Mr. Cabello said. "But the other option was just giving up."

Chevron Corp. is the last American oil giant still operating in Venezuela, the rest having left after Mr. Chávez rewrote contracts more than a dozen years ago. Chevron hung on, struggling with whether it was risking damage to its reputation but knowing a pullout could endanger the government's finances .

After working in Venezuela for 94 years, Chevron is forced to wind down most of its operations by Dec. 1, when a waiver from the U.S. sanctions that bar companies from doing business with the Venezuelan government expires and the Trump administration aims to ratchet up pressure on Mr. Chávez's socialist successor, Mr. Maduro.

The U.S. decision also applies to four international oil-service companies that until now have played important roles in helping Venezuela pump its crude: Schlumberger Ltd., Halliburton Co., Baker Hughes Inc. and Weatherford International Ltd.

At the start of this year, 25 drilling rigs were still searching for new oil deposits in Venezuela, according to Baker Hughes. In August, Nabors Industries, a contractor to Chevron, pulled out the last rig.

As recently as 18 months ago, Venezuela was producing nearly a million barrels of crude a day. Now the figure is around 300,000 barrels, and some analysts foresee it sliding to just 200,000 daily barrels by the end of this year.

That would leave the government with perhaps \$4 billion in annual oil revenue, an amount it took in every two weeks in the last boom year of 2012, said Giorgio Cunto, an economist with Ecoanalitica.

The collapse has had little effect on world oil markets because other OPEC producers more than compensate for Venezuela's shrunken output. And American refineries, which had long been Venezuela's biggest buyer, aren't hurt by its falloff because of the sharp rise in U.S. oil production in recent years.

While U.S. sanctions have undoubtedly made matters worse for the Venezuelan industry, economists say most of the fault lies with the two decades of incompetence and graft under the Chávez and Maduro governments, which included making foreign business partners unwelcome.

Venezuela's oil story began in 1922 with the country's first successful well. Before long, Venezuela was the second-largest oil producer in the world, after the U.S., with output exceeding even that of Saudi Arabia and Iran. In 1960, Venezuelan Oil Minister Pablo Pérez Alfonzo spearheaded the founding of OPEC.

Venezuela was developing rapidly and attracting European immigrants by the 1970s, a decade when its government nationalized the oil industry. Oil made Venezuela the wealthiest country per capita in Latin America by the late 1970s. But the country also had large pockets of poverty and a corrupt ruling class. Its dependence on oil left it vulnerable to disruptions such as price shocks. Mr. Pérez Alfonzo prophesied that the reliance on what he called "the devil's excrement" would one day bring ruin.

Long lines of vehicles wait to buy gasoline in Caracas. PHOTO: Oscar B.Castillo for The Wall Street Journal

When Mr. Chávez, a revolution-minded former army captain, rose to power in 1999, vowing to close the wealth gap in Venezuelan society with socialist policies, he put an end to the operational independence enjoyed by PdVSA, the state oil company.

PdVSA had earned a reputation for efficiency. Mr. Chávez fired its top management after an industry strike aimed at

toppling his leadership. He began using the company to build housing, distribute chicken to slum dwellers and organize Socialist Party rallies. Venezuela left gasoline virtually free for its citizens. It also sold cut-rate oil to leftist allies in the region such as Cuba.

In 2006, Mr. Chávez ripped up contracts with the international companies that were doing much of the oil-field work, forcing them to cede majority operational and financial control of projects to PdVSA. One by one, oil majors such as Exxon Mobil Corp. quit the country. Investment declined, and so did output.

At first, few in Venezuela noticed or cared. Oil's price, driven by a rising Chinese economy, was surging. The price spike bought the government a bounty, which Mr. Chávez spent on programs such as food and other subsidies rather than maintaining the oil industry. By the time he succumbed to cancer in 2013, Venezuela's crude oil production was about half the level of when he took over.

In addition, billions of dollars of oil revenue were diverted into discretionary funds controlled by the president with little accounting. Unchecked spending allowed regime insiders to plunder the state coffers and enrich themselves. The graft spawned a leftist bourgeoisie in Venezuela that splurged on luxuries from opulent Miami lofts to castles in Spain.

Diego Salazar, an oil executive and cousin of a longtime oil czar, became a gatekeeper at PdVSA. Mr. Salazar is accused by Venezuelan prosecutors of charging foreign companies multimillion-dollar bribes to operate in the country. Friends said he sometimes handed out Rolexes at parties, earning the moniker Mr. Wristwatch. After a falling-out with Mr. Maduro, Mr. Salazar was jailed in 2017 on corruption charges. His family has likened the arrest to a kidnapping. Mr. Salazar couldn't be reached for comment. He hasn't had court hearings.

Lower-level executives also took advantage, according to company records and court documents. At one joint venture, managers stole hundreds of millions of dollars by routinely inflating the cost of oil-field supplies such as office equipment by more than 100-fold, according to charging documents and purchasing invoices reviewed by The Wall Street Journal. The operator of a company that supplied office equipment pleaded guilty and was sentenced to house arrest.

Transparency International, which calls itself a global movement with the mission of promoting accountability and integrity, ranks Venezuela as one of the world's most graft-ridden countries in its "corruption perceptions index." The years of theft, combined with endless subsidy spending and neglect of infrastructure, have left Venezuela's economy with little to show for the more than \$1 trillion in oil revenue it collected in 22 years of socialist rule. Nearly a third was lost to malfeasance, former allies of the government have told the Journal.

The party ended when global oil prices abruptly started dropping in the autumn of 2014. Venezuela's economy, deprived of revenue, went into freefall. The Maduro government tightened political control to stay in power, sidelining the country's legislature and having protesters beaten, arrested or shot.

What little of the oil industry survived the self-inflicted wounds has come under sanctions by the Trump administration over the past two years. The goal of the U.S. administration, which recognizes opposition leader Juan Guaidó as the legitimate president of Venezuela, is to choke off revenue to push from power a Maduro regime widely accused of both electoral fraud and human-rights abuses.

U.S. officials, after taking punitive measures to stop the trading and transport of Venezuelan oil, promise tougher sanctions. One option is to further hamper Venezuela's ability to exchange crude oil for diesel and other refined fuels. Despite the short supply of these products in the country, the Maduro regime still ships cut-rate oil products to allies such as Cuba, said Elliott Abrams, special U.S. envoy for Venezuela.

"Maduro has consistently shown he does not care about the lives of Venezuelans," Mr. Abrams said. "If there is a diesel shortage, the easy way to alleviate it is to end the colonial relationship between Cuba and Venezuela."

Millions of barrels of Venezuelan crude oil produced over past months are stuck in maxed-out storage facilities or tankers on the sea, with few buyers willing to risk defying the U.S. ban on Venezuelan oil trading. Iran sent Venezuela 1.5 million barrels of motor fuel this spring and summer in defiance of the ban, but that was only enough for a few weeks of demand.

Venezuela's oil refineries once turned its crude oil into 600,000 barrels of gasoline a day, meeting local demand and

sending about half for export. Today they struggle to turn out 30,000 to 40,000 barrels a day, according to the refinery workers' union. U.S. sanctions have hampered the refineries' ability to import needed chemicals and components. Venezuelan drivers now wait in line, sometimes for days, to fill up.

"Permanent anguish, that's what I feel," said Irelis Martinez, a 63-year-old pensioner in Caracas, who blames the shortages in part on American sanctions. "You just pray that all sides can come to some solution. With more and more blockades, the only ones that I see suffering are average Venezuelans like me," she said.

Mr. Maduro calls himself the victim of imperialist aggression and blames the U.S. for destabilizing the state oil company. "Donald Trump has waged a war on PdVSA," he said in a recent televised address.

With so little oil income coming in, Mr. Maduro has done something his predecessors didn't dare. In June, the Venezuelan government started charging almost market prices for gasoline. The price went to \$2 a gallon overnight, a shock in a country where free gas was seen as practically a birthright.

Caracas, where traffic for decades was considered among the worst in the hemisphere, now has relatively unclogged highways and roads. Rush hour is a thing of the past.

Share Your Thoughts

What should Venezuela do about its oil industry? Join the conversation below.

Earlier this year, the Maduro administration acknowledged some errors in its oil management and unveiled plans to overhaul the industry, promising greater control and better profit-sharing terms for foreign companies. Given U.S. sanctions that bar companies from any country from working in Venezuela, the changes have had little effect.

Gilberto Morillo, a former PdVSA director, waxed nostalgic about how oil was once a ticket to modernity and stability. "A hundred years ago, we started from zero," he said. "And now it's like we have to restart the path, with an unproductive country in ruins."

An abandoned gas station in Caracas PHOTO: Oscar B.Castillo for The Wall Street Journal

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