

**From:** Jose Cardenas <JC@thecormacgroup.com>  
**Sent:** Thursday, May 30, 2024 8:33 AM  
**To:** Elliott Abrams  
**Subject:** Thanks for meeting...

Dear Elliott, thanks as always for taking the time to meet to discuss VZ.

As a follow up, the case is so friggín' complicated and had so many twists and turns that I was hoping the 4 articles pasted below would give you the background we discussed.

Please let me know if these are good — or if you have any questions.

Best,  
José



## A tale of setbacks as Venezuela's Citgo heads to US auction

HOUSTON, Oct 22 (Reuters) - For the past four years, the United States protected oil refiner Citgo Petroleum from creditors seeking to seize Venezuela's foreign crown jewel for billions of dollars in claims. But on Monday, a U.S. judge will kick off an auction expected to place the Houston-based company in the hands of rivals or investors. The auction could start a new chapter for the 113-year-old company, which has been owned by Venezuela for almost 40 years. An unknown is whether Biden administration's decision last week to [ease energy sanctions on Venezuela](#) could allow the country to repay creditors and end the lawsuit.

A senior U.S. State Department official in Washington last week said in a briefing the sanctions easing should not affect the auction. The U.S. separately [extended Citgo's protection](#) from creditors until January.

Reuters has tracked the court case for more than a year and has spoken with nearly two dozen people including employees, investors, board members, attorneys, U.S. officials, rivals and creditors involved with the company. The story they tell is one of miscalculations and a federal judge determined to make Venezuela pay its debts. Citgo likely will end up next year in the hands of one or more of the largest refiners operating in the U.S., potentially leaving Venezuela with nothing, according to the people most closely involved.

Washington and Venezuela's political opposition wanted Citgo to anchor the country's economic future under a democratically elected government. But both have failed to break Venezuelan President Nicolas Maduro's grip on power since a disputed 2018 re-election.

Now, the forced auction, which involves a parent whose only asset is the refining firm, offers potential for raising some \$13 billion to pay a small number of a [long list of Venezuela-linked creditors](#), according to official estimates. Few companies are expected to be able to bid for the entire business: three refineries, six pipelines, and 4,200 independent gasoline retailers.

The sale could become the biggest court auction ever held. Bidders are expected to include Marathon Petroleum, Saudi-owned Motiva Enterprises, Valero Energy and Koch Industries. Infrastructure investors might also place bids, according to people close to the matter.

Motiva, Valero and Citgo's ultimate parent, Venezuela's state oil company PDVSA, did not reply to requests for comment. Marathon, Citgo and the U.S. Treasury Department declined to comment.

The price tag and anti-trust concerns will limit the pool of bidders for the entire company, said Matthew Blair, managing director for refining research at financial firm Tudor, Pickering, Holt & Co.

"We expect it will have to be broken up," he said. In addition, "the assets come with some wholesale/retail gasoline exposure, which could make it tough for foreign buyers," Blair said.

Venezuela's chance of retaining some stake in Citgo is very slim, according to experts. When offered for sale in 2014, the company was valued at nearly \$12 billion, and its sharply improved profitability since then likely will draw higher bids. But the nation's [foreign debt](#) surpasses \$90 billion.

"Citgo will be lost. It is now just a matter of how long the auction will take. We won't be able to even find the leftovers," said Venezuela's former attorney general Jose Ignacio Hernandez.

## DETERMINED JUDGE

U.S. District Court Judge Leonard Stark in Delaware in 2019 [found PDVSA was the alter ego](#) of Venezuela, a rare court ruling that opened the door for Crystallex International to pursue shares in one of Citgo's parents, PDV Holding, to recoup losses from Venezuela's expropriation of its assets.

Venezuela had believed it was shielded from creditors' advances because U.S. courts generally treat corporations as separate from their owners. Since Citgo severed ties with PDVSA in 2019, the U.S. government has recognized a series of supervisory boards appointed by Venezuela's opposition-led National Assembly and its former head Juan Guaido.

"It was helpful to have the ad-hoc board," said Natalie Shkolnik, a litigation partner at law firm Wilk Auslander who has written about the finding. "It just wasn't enough to avoid the alter ego finding."

Venezuelan President Nicolas Maduro fought the boards' appointments, and recently said Citgo had been "kidnapped" by the U.S.

Stark, 54, methodically laid the groundwork for Monday's auction by hiring an investment bank and naming a court official to deal with U.S. agencies that protect Citgo.

His 2018 alter ego ruling for the first time tied PDV Holding to Venezuela's debts, a ruling Venezuela's lawyers continue to fight before the U.S. Supreme Court. The appeal is pending.

Stark declined to hand off the case to another judge after being promoted in 2022 to an appeals court. He this year hired investment banker Evercore Group to put financial data together and market the company.

Evercore is soliciting a stalking horse bid, or an initial bid, that could be disclosed this week. Such a bid could include [firms with large arbitration awards](#), including [ConocoPhillips](#).

Conoco said it is "pursuing all available legal avenues" to collect its three awards. Exxon declined to comment. Stark early on recognized the case had broader reach than Citgo. He sent a court officer to the U.S. Treasury Department's Office of Foreign Assets Control, which has long blocked claims against Citgo, and received pre-clearance for the auction.

Stark did not reply to a request submitted to the court to be interviewed. Bidders are expected to submit confidential offers to Evercore.

"This auction is not an equitable or fair process. Only the first ones to arrive would be paid through the destruction of an asset," said Horacio Medina, who leads one of the boards overseeing Citgo. "The game is not over," he told Reuters, saying talks with creditors to reduce the auction's scope are ongoing.

## PROFITABLE BUSINESS, DASHED HOPES

Carlos Jorda, Citgo's well-respected CEO who was appointed in 2019 by Venezuela's congress, tackled years of poor maintenance that had been ignored by its Caracas-based parent, cut debt and improved finances.

Its three refineries ran at an average 98% of capacity in the last four quarters. Over that same period, the company's cumulative net income totaled \$4.92 billion, compared to his first year, when it earned \$246 million. Jorda declined through a spokesperson to be interviewed.

But if Citgo and its boards fail to [reach payment agreements](#) before the winner bidders are declared next year, Venezuela, which bought Citgo to pursue an international strategy, will wind up empty-handed.

Citgo's 807,000 barrel per day refining network, which is geared toward processing Venezuela's heavy crude, is as critical today as when PDVSA acquired the company.

"Citgo will be strategic for Venezuela in the next 20-25 years, not only as a refining company, but with an expanded role," director Medina said. The company one day might compete with PDVSA by operating as a vertically integrated oil company with production assets in Venezuela.

Today, that appears a slim hope.

"Citgo's loss will cause a big moral damage to Venezuelans and will not bring benefits to many, except to a handful of lucky creditors that might squeeze into the auction," former attorney general Hernandez said.

<https://www.reuters.com/business/energy/tale-setbacks-venezuelas-citgo-heads-us-auction-2023-10-22/>

**Forbes**

# Venezuela Faces The Loss Of Citgo

**Daniel Markind** Contributor @

*I am an attorney who writes about energy issues and our world.*

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Apr 18, 2024, 09:24am EDT



LEMONT, ILLINOIS - FEBRUARY 01: Smoke rises from a refinery owned by Citgo, a subsidiary of PDVSA, ...

[+] GETTY IMAGES

Ever since strongman Hugo Chavez assumed power in Venezuela in 1999 and began moving the country toward an authoritarian, socialist model, the collapse of the economy has been offset by income generated from the presence of huge oil reserves in the country, and the billions of dollars contributed by the refiner Citgo, a subsidiary of the Venezuelan state oil holding company, PDV Holding, and indeed the only appreciable asset of that entity. In fact, Venezuela happens to control the largest proven oil reserves in the world, and Houston based Citgo, one of the ten largest American oil refiners, owns three US refineries and many oil storage terminals and pipelines, in addition to controlling a substantial retail distribution network in this country. Now, however, Citgo's financial condition has grown so weak that Venezuela may lose control over that company, with impacts nationally, if not internationally, that can only be imagined at this time.

Citgo's problems unquestionably go back to severe financial mismanagement under the leftist economics of, first Chavez, and then his successor, Nicolas Maduro. After decades of such mismanagement, including the near constant invasion of Citgo's revenue and overall assets to help fund Chavez and Maduro's socialist agendas, Venezuela's reserves of hard currency had finally dropped from \$30 billion just six years ago to only \$10.7 billion last year. Riding the same downward slope, PDV Holding became so strapped for cash itself that it sought and received \$1.5 billion in loans from Rosneft, an oil company whose majority stake is owned by the Russian government. When PDV ran through even that money and had no ability to repay its loans, Rosneft claimed that it had the right to take control of a 49.9% stake in Citgo.

This, of course, was untenable for the Biden Administration, which held the power to block Russian control of PDV Holding, a Delaware corporation, under either national security grounds or sanctions first put in place by the Obama Administration.

Stymied by these controls, and evidently based on both PDV Holding and Citgo's status as Delaware corporations, on November 30, 2023, Rosneft filed a lien with the Delaware Department of State, claiming that Rosneft would claim the 49.9% stake in Citgo due to Venezuelan defaults. That lien, in turn, set in motion the Delaware courts, which eventually provided an extraordinary ruling in a case called Crystallex International Corporation v. Bolivarian Republic of Venezuela that Citgo's parent, PDV Holding, is itself liable for the debts of the nation of Venezuela. Specifically, the Court ruled that PDV had become enmeshed in litigation following a series of insufficiently compensated nationalizations by the Venezuelan government. With Venezuela itself ending up facing judgments of over \$21 billion, a federal court in Delaware then authorized the auction of Citgo to satisfy the defaults of the South American country.

This latest ruling was truly extraordinary. While no firm information has arisen, there is suspicion in international energy circles that the United States State Department, if not other US government departments and agencies, may have been involved, as the US would most certainly not want to see Russia gain control of a major American oil refinery and its associated pipelines and other physical assets.

In January 2024, in a bankruptcy auction, a Delaware Bankruptcy Court Judge accepted \$20.8 billion in claims against Citgo from 17 creditors to settle claims relating to the prior nationalization of assets without proper compensation and debt defaults.

One of the surprise bidders in the bankruptcy auction was ConocoPhillips. Conoco is taking the position that it can bid with its own claims and not with cash. Should it win, the claims outstanding to Conoco would then be offset against the claims of all other participants. In February, the Bankruptcy Court narrowed the list of potential buyers in the bankruptcy auction from 30 to 12.

However, any way one looks at it, the result appears to be that Venezuela, the nation with the largest proven reserves of oil in the world, is about to lose control over its longstanding Houston-based refiner, Citgo. Aside from the obvious hit to Venezuelan national pride, this will no doubt be a massive financial blow to the troubled South American nation as well. For 2023, Citgo reported net income of \$2 billion. This money will be difficult to replace for Venezuela.

The bottom line is the cycle just keeps spiraling downward for Venezuela, and the history of that nation's troubles – mostly self-inflicted – teaches a lesson that other countries with similar ideological

inclinations would do well to avoid repeating. No matter how many natural resources or other assets a nation may possess, even entire countries must pay attention to the fiscal bottom line, and human incompetence can even overwhelm vast natural bounty, leaving only financial pain and ruin in its wake.

<https://www.forbes.com/sites/danielmarkind/2024/04/18/venezuela-faces-the-loss-of-citgo/?sh=34bf997133dd>

**Bloomberg**

# Why Venezuela Is About to Lose Its Oil Crown Jewel

- Parent of energy refiner will be sold to satisfy creditors
- Sale process launches Monday; auction is set for June 6



PDVSA Refinery Complex in Punto Fijo, Falcon State, Venezuela. *Photographer: Betty Laura Zapata/Bloomberg*

By [Fabiola Zerpa](#), [Nicolle Yapur](#), and [Jef Feeley](#)

October 23, 2023 at 11:01 AM EDT

*Updated on October 23, 2023 at 6:38 PM EDT*

- Parent of energy refiner will be sold to satisfy creditors
- Sale process launches Monday; auction is set for June 6

Venezuela is entering the final stage of a long legal battle in which its most valuable foreign asset, [Citgo Petroleum Corp.](#), will be auctioned off to settle claims against the government and its oil company.

The sale starts on Monday with the expected distribution of marketing materials to potential buyers, setting off a bidding process expected to last several months.

Citgo had been shielded by US sanctions against Venezuela that prevented creditors from seizing the refiner. But a US judge ordered the process for the sale of its parent company, [PDV Holding Inc.](#), to begin this month after Washington signaled it wouldn't stand in the way.

More than 20 plaintiffs are now seeking to collect on the auction, scheduled for June 6, while navigating legal roadblocks Venezuela has thrown up. They include bondholders, commercial lenders and companies whose Venezuela assets were taken over by former President Hugo Chavez, who died in 2013.

## 1. Who controls Citgo and why does Venezuela have to sell it?

The Venezuelan opposition currently controls the refiner. Citgo has been trapped in a battle between two political factions since 2019, following the US government's recognition of Juan Guaido as the country's legitimate president. Guaido's appointees were then authorized by the US to act as representatives of the company in US courts.

By then Venezuela's creditors — a varied group that holds a mix of arbitration awards, unpaid loans and defaulted bonds — had begun to seek compensation in the courts, and Citgo had emerged as the most valuable asset in the mix.

The sanctions bar any transfer or sale of assets belonging to Venezuela's state-owned energy company [Petroleos de Venezuela SA](#), or PDVSA, which owns PDV Holding, Citgo's parent. But the US said in [May](#) that it wouldn't block the court-ordered sale of PDV Holding or take action against companies participating in the process. That bolstered creditor optimism.

Read More: [Demand for \\$40 Billion Bond From Venezuela Snags Citgo Auction](#)

The Venezuelan opposition, which includes Guaido but is splintered, has tried to settle the most pressing claims, including by Canadian mining company [Crystallex International Corp.](#), but negotiations have been overtaken by the now imminent sale of the company.

The economic backdrop of the fight over Citgo includes Venezuela's seven-year recession and one of the longest bouts of hyperinflation in world history, which were sparked by a steep drop in oil prices and the tough US sanctions. The country's oil exports, responsible for more than 90% of its income, collapsed amid industry mismanagement, corruption and restrictions on international trade.

Even as Venezuela's oil industry crashed, Citgo thrived under better refining margins and as market conditions improved.

## 2. How do creditors line up for the sale?

Creditors seeking payment from the sale of the shares of Citgo's parent need to take a number of steps required by US Circuit Judge Leonard Stark, who is in charge of the process leading to the sale. He has favored a [first-come, first-served](#) basis for companies to participate in the auction, and all requirements must be fulfilled by May. More than 20 plaintiffs have filed for compensation, bringing the total claims to about \$20 billion.



Only Crystallex, which won a \$1.2 billion award against Venezuela, has completed all the requirements, from proving that Venezuela owes it money to obtaining a writ of attachment from the court against the shares of PDV Holding. The rest of the creditors have yet to complete all the steps. Some of them have had their proceedings slowed by Venezuela's [appeal](#).

### 3. How much is Citgo worth?

The value of Citgo, the parent company's sole asset, has increased in the past few years as crude prices soared during the pandemic and now amid high energy prices driven partly by the war in Ukraine. Experts have valued the firm from \$8.1 billion to \$23.5 billion. EMFI Securities estimates that Citgo is [worth](#) between \$13.3 billion and \$14 billion. Citgo has said it could tap its \$3 billion cash pile to settle claims.

Under these valuations, the share sale would be enough to satisfy at least the most immediate creditors, including Crystallex. But Venezuela has about \$160 billion in outstanding debt, including defaulted bonds, loans and arbitration awards.

### 4. Who might buy Citgo?

The purchase of Citgo could be an attractive proposition for various potential buyers.

The refiner owns three refineries and has 38 fully or jointly owned terminals, as well as a network of about 4,200 gas stations. Its assets were highly profitable last year, with each site earning between \$1.6 billion and \$3 billion, and are "highly competitive" in North America, with two ranking in the second 25% in 2022, said Alan Gelder, an analyst for refining markets at the consultancy Wood Mackenzie.

It could interest buyers seeking to expand their businesses or as a financial investment, according to [Jorge Piedrahita](#), the chief executive officer of Gear Capital Partners in New York.

Companies such as [Marathon Petroleum Corp.](#) and [Valero Energy Corp.](#) would be in the first group, Piedrahita said, while private equity funds may be interested because of Citgo's competitiveness and ability to generate cash. Independent refiners might be interested, too.

Given the sanctions, any share transfer will require a [license](#) from the US Treasury. The buyer would have to pass government scrutiny as well.

## 5. What's the timeline for Citgo's sale?

An initial schedule set in July by Special Master [Robert Pincus](#) was modified on Monday, the launch date, nearly a week after US sanctions on Venezuela were eased. Pincus changed the selling procedure from a so-called stalking horse bidder to a traditional two-round bidding process, customary for merger-and-acquisition sales "in an effort to increase competition among potential bidders." Creditors must complete some steps to be eligible to bid by Jan. 12, and first round of bids is set for Jan. 22. The second one is to be determined. The final hearing to approve the sale is set for July 15. The new key dates reflect a less restrictive calendar compared to the one approved in July of this year.

Remaining litigation could slow the process.

Last week, the Biden administration issued a set of [licenses](#) to suspend some sanctions against Venezuela's oil and gas sector, bonds and gold. US Treasury also extended a protection on Citgo which prevents holders of the PDVSA 2020 bonds from seizing the shares of the refiner's parent until after January 2024. However, as the US still doesn't recognize Maduro as Venezuela's legitimate ruler, the company remains under the opposition's control.

## The Reference Shelf

- US Justice Department officials [say](#) government wouldn't take sanctions enforcement actions against entities participating in the sale of Citgo's parent company
- PDVSA notes due in 2020, backed by a 50.1% stake in Citgo Holding, [jump](#) as a date for the auction of Citgo's parent is set
- New York hedge fund [Tenor Capital Management](#) is [set for a big win](#) after investing in Crystallex
- Federal judge sets date to [launch](#) the sale process
- The US [suspends](#) sanctions on Venezuelan oil, gas and gold production and lifted some restrictions on bond trading

<https://www.bloomberg.com/news/articles/2023-10-23/why-venezuela-is-about-to-lose-its-oil-crown-jewel>

## Venezuelan debts mount against Citgo as auction nears, clouding the Houston refiner's future

By [Amanda Drane](#), Staff writer

Updated Nov 22, 2023 5:16 p.m.

Marketing efforts behind the scheduled July [sale of Citgo Petroleum's parent company](#), ordered by a U.S. District Court judge in Delaware to reimburse companies whose energy and mining assets were nationalized by Venezuela in 2007, kicked off last month. But the refining business [is at a crossroads](#), and analysts said that dynamic may force a structural change in the offering.

A court-appointed special master plans to auction off shares in Citgo's Houston-based [parent company, PDV Holdings](#), which is wholly owned by Venezuela's state-owned oil company PDVSA. The court aims to use the proceeds pay back billions of dollars in expropriation judgments against the Venezuelan government that have been mounting since it seized the foreign assets.

Houston's [ConocoPhillips alone is seeking to recover](#) more than \$11.8 billion through the process, court documents show, raising questions about how much of the more than \$20 billion sought by Venezuela's creditors can reasonably be squeezed from Citgo at a time when the future of refining — already a tight-margin business — remains uncertain. Refiners are [preparing for a projected decline](#) in gasoline demand within the decade as the transition to electric vehicles accelerates. Smaller refineries and those in need of extensive repair have been [shuttering in recent years](#) as owners decide their prospects aren't enough to justify large investments.

"On a very high level folks have questions about what's the true terminal value of assets like this. That's typically why refineries trade at relatively low multiples," said Matthew Blair, managing director of refining, chemicals and renewable fuels at investment bank Tudor Pickering Holt. "It's not like these assets are going to be worthless in 10 years, but that's certainly a theme in the overall marketplace."

Preliminary bids are due in January, yet the refiners that would be expected to serve as industry consolidators don't appear very interested, according to third-quarter earnings calls. Marathon Petroleum executives said they weren't interested in the Citgo auction. Valero CEO R. Lane Riggs said "never say never," and that his company would assess whether it made sense or not. PBF Energy CEO Matthew Lucey said adding Citgo's refineries to its portfolio would have to offer return to investors that was "much more attractive" than share buybacks.

Citgo's refinery in Lake Charles, La., is the seventh-largest refinery in the country. It also owns refineries in Corpus Christi and in Lemont, a suburb of Chicago.

Refiners have become more disciplined with their spending and focused on returning cash to shareholders in the years since the pandemic first roiled oil markets and accelerated the transition away from fossil fuels, Blair said. Changing that disciplined tune and suddenly buying assets while slowing buybacks "would really hurt a lot of goodwill that they've built up with investors."

Also hindering interest in the auction is the rumored Citgo valuation, Blair said. He said the rumored valuation between \$30 billion and \$40 billion was "quite rich." Publicly traded PBF is similar in size and refining capacity, he said, and its current market value is around \$5.5 billion. Rumors of the valuation have caused some companies to balk.

"I anecdotally have read articles where the valuations, if they're true, they're exorbitantly more than what PBF is being valued today," Lucey said earlier this month during an earnings call, according to a transcript provided by S&P Capital IQ.

Analysts said Citgo's refineries would likely need to be auctioned separately in order to attract serious buyers. That's the most likely course of action, said Andy Lipow, president of Lipow Oil Associates in Houston. Blair said breaking up the assets would "bring more bidders to the table and probably result in a higher overall valuation."

But Citgo remains adamant that the company would remain intact and that the auction would not result in a breakup. "To say otherwise is inaccurate and damaging for our stakeholders, including suppliers, clients and employees," it said in an email.

Robert Pincus, the court's special master overseeing the auction, said in a Oct. 23 filing that he planned to pursue "a traditional two-round bidding process" scheduled to conclude with a sale in July. He also reserved the right to change his strategy "in response to changing circumstances" and "feedback" from interested parties.

The auction is an offshoot of a 2017 suit filed by Canadian mining company Crystallex to collect the remainder of a \$1.4 billion award it won through a World Bank arbitration court. Crystallex, Conoco and other creditors targeted Citgo, which employs about 3,300 workers in the U.S., because it is the largest U.S. asset of the Venezuelan government and operates three top-tier refineries, including two along the Gulf Coast.

Houston-based Conoco is the largest creditor in the process, according to recent court filings, which show the Houston oil giant is looking to recover \$11.8 billion in arbitration awards, including interest and legal fees, related to the expropriation of its oil production assets in Venezuela.

"ConocoPhillips is committed to pursuing all available legal avenues to protect our rights and obtain a full and fair recovery of the awards in recognition of our fiduciary responsibility to our shareholders," the company said Tuesday in a statement.

A federal judge ruled in 2019 that the country's tight rein over PDVSA [rendered it an "alter ego" of the government](#), meaning assets of one could be used to pay the debts of the other. The rare ruling made PDVSA responsible by proxy for Venezuela's seizure of foreign energy and mining assets in 2007.

The order led a mob of companies hungry to recoup their Venezuelan losses to Citgo's gates, said Mark Jones, a fellow at Rice University's Baker Institute specializing in Latin American studies. Citgo's refinery in Lake Charles, La., is the seventh-largest refinery in the country. It also owns major refineries in Corpus Christi and in Lemont, a suburb of Chicago.

"Now they have this juicy orange they can squeeze," Jones said.

<https://www.houstonchronicle.com/business/energy/article/citgo-conocophillips-auction-venezuela-refineries-18499158.php>

Best Regards,

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