

Interview with Francisco Monaldi

Question 1:

What are the main obstacles facing the Venezuelan oil industry in the current context?

Francisco Monaldi:

Amid sanctions and financial restrictions, it is obviously very difficult to develop the Venezuelan oil industry. Without a credible government and institutions capable of attracting massive private investment and restructuring the state-owned company Petróleos de Venezuela (PDVSA), this will not be possible.

Question 2:

How has President Trump's energy policy influenced the Venezuelan oil industry?

Francisco Monaldi:

President Trump's energy policy has signaled that the development of the oil sector is a priority. This is positive for both Citgo and the future of the Venezuelan oil industry. Obviously, his primary focus is on increasing oil production in the United States. Now, for this to happen, relatively high prices are required. Production costs in the U.S. are higher than in Venezuela. With a better institutional framework and greater efficiency, Venezuela's relative advantages would be even more pronounced. Therefore, the fact that President Trump wants to develop the oil industry ensures that he also has an interest in maintaining prices that would be attractive for the development of the Venezuelan oil industry.

Question 3:

What impact does the increase in U.S. oil production have on OPEC and the global market?

Francisco Monaldi:

If the U.S. significantly increases production, the question then arises as to how OPEC and OPEC+ countries, including Russia, will respond, and how the sanctions on Iran and Russia will evolve. Otherwise, this could lead to a drop in oil prices, complicating business and investment in the industry. However, as I mentioned earlier, it seems that President Trump has an interest in keeping prices neither too high, as that would affect gasoline prices in the U.S., nor too low, as that would hinder investment in the U.S. oil industry. Consequently, U.S. foreign policy during the Trump administration will pressure allies like Saudi Arabia to collaborate in maintaining the market stability he seeks and needs.

Question 4:

How has the international oil market changed with U.S. shale oil production?

Francisco Monaldi:

Shale oil production in the United States has significantly transformed the international oil market, making the U.S. one of the key global players again. This has forced OPEC countries to seek alliances with Russia and influence the production of non-OPEC countries. OPEC has to counterbalance U.S. and Canadian production growth, as well as that of Brazil, Guyana, and others.

Moreover, shale oil production has introduced a different dynamic because it can respond much more quickly to price changes. The investment cycle is shorter, allowing production to ramp up faster, unlike large conventional oil projects, such as deepwater drilling. This has been a major industry shift. As I mentioned before, for low-cost producers like Venezuela, U.S. shale production must be profitable for Venezuelan production to be viable as well.

Additionally, it appears that shale production may no longer grow as rapidly as it has in the past. Today, the U.S. produces 22% of global oil—a remarkable figure. If we add Canada, North America is a colossal player. However, geological limitations seem to be capping further expansion, which could help sustain relatively high oil prices in the next decade.

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I believe Citgo's management in recent years has been very positive. It is important to recall the company's prior situation, when its management had significantly deteriorated, with ongoing corruption investigations by the U.S. Department of Justice. PDVSA had ordered Citgo to issue debt to pay dividends, effectively extracting as much value as possible from the company and preventing reinvestment. Due to Maduro's government's desperate need for resources, Citgo was left in an extremely vulnerable position.

Additionally, when the new board appointed by PDVSA ad hoc took control and began reviewing debt management, Citgo, as a PDVSA subsidiary, was also under sanctions. It required a license from the U.S. Office of Foreign Assets Control (OFAC) to operate, which complicated debt restructuring and credit relationships with banks. Citgo was also cut off from Venezuelan crude, one of its main refining supplies, due to sanctions.

Under these difficult circumstances, the new management had to navigate the challenges, and then the COVID-19 pandemic hit, causing a collapse in refined product demand at the worst possible time for the company. Fortunately, the new management was able to overcome this crisis and position the company to benefit from the post-pandemic refining market recovery.

Question 6:**What have been the main challenges in defending Citgo's assets against creditors?****Francisco Monaldi:**

Defending assets from creditors has been one of the greatest challenges faced by PDVSA ad hoc's board and Citgo itself. The situation was further complicated by difficulties in hiring legal counsel, securing the necessary resources for the defense, and governance issues. That said, significant efforts have been made under very difficult circumstances, going against the tide. The U.S. Treasury Department has provided protection through OFAC licenses. Considerable work has been done to defend the company's interests in various courts, but the challenge remains uphill.

Question 7:**What role should Citgo play in a potential restructuring of Venezuela's debt?****Francisco Monaldi:**

In a restructuring process, Citgo, as one of Venezuela's most important foreign assets, must be an integral part of negotiations with creditors. It is a potential key source for monetizing Venezuela's oil reserves by exporting to its most natural and attractive market—the United States. This could help restore the company's profitability and generate revenue flows to support debt repayment.

Question 8:**What conditions are necessary to restore the Venezuelan oil industry?****Francisco Monaldi:**

The Venezuelan oil industry cannot recover without two basic conditions. First, the normalization of Venezuela's relations with the international community, leading to the lifting of sanctions. Second, political and institutional change that creates the credibility necessary to attract massive international investment in the oil sector. We are talking about an investment of over \$80 billion just to add one million barrels per day of production capacity, let alone returning to the over three million barrels per day Venezuela produced two decades ago.

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Question 9:**Is PDVSA privatization necessary for industry recovery?****Francisco Monaldi:**

Rather than discussing the privatization of PDVSA, we should focus on creating conditions to attract massive private investment in the oil sector. It is clear that PDVSA, burdened by enormous debt, financial insolvency, years of sanctions, and corruption investigations, is not in a position to lead the industry's recovery. Even if restructured, the process would take time. The Venezuelan state's limited resources have other pressing needs, whereas the oil sector can be funded with private capital.

Question 10:**How has PDVSA's management under Chávez and Maduro impacted the current state of the industry?****Francisco Monaldi:**

Unfortunately, PDVSA's management since Chávez took office, especially after the mass layoffs following the 2001-2003 political crisis, has severely deteriorated the company. The Venezuelan oil industry did not collapse immediately, but PDVSA was in freefall.

Two factors masked the company's decline. First, the sharp rise in oil prices from 2003 onward meant that despite falling production and declining efficiency, Venezuela still received more revenue due to price increases. Second, production from private partnerships established during the oil opening under President Rafael Caldera contributed an additional one million barrels per day, partially offsetting PDVSA's decline.

Question 11:**What is the long-term viability of Venezuela's oil reserves?****Francisco Monaldi:**

Venezuela has the world's largest proven oil reserves, but most are extra-heavy crude with high carbon intensity. Many official reserves would not qualify as "proven" under international standards. Given their vast size, it is likely that much of Venezuela's oil will remain untapped before oil ceases to be a major global energy source. Therefore, Venezuela must seize the remaining window of opportunity to develop these reserves and significantly boost production.

The views expressed by Dr. Monaldi are personal and do not necessarily reflect the position of the company.

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