

# Shell's woeful August risks run as 2nd-largest oil major



Bloomberg /London: September 02 2019 12:38 AM

Big Oil has a new contender for the No 2 spot. Chevron Corp has almost displaced Royal Dutch Shell Plc as the second-largest oil company by market capitalisation.

It's been a particularly grim month for Big Oil, as a US-China trade war dimmed the picture for global economic growth, stymieing crude demand. The Stoxx Europe 600 Oil & Gas Index was headed for a 6.3% decline, among the largest monthly drops in nearly four years, which mirrors the slide in Brent prices.

But Shell had it worst. Its B shares in London have plunged more than 12% last month, a decline not seen since the 2008 financial crisis, which has knocked almost £26bn (\$32bn) off its market value. That's put chief executive officer Ben van Beurden's dream of being No 1 in the industry by every measure even further out of reach.

Shell established itself as the No 2 oil company following its

acquisition of BG Group Plc, narrowing its market cap gap with Exxon Mobil Corp. But its US competitor Chevron has now caught up with it again.

Blame earnings. Shell's net income slid in the second quarter and was far weaker than expected, falling short of the average analyst estimate by almost 30%. That was its biggest miss in more than two years, and pushed chief financial officer Jessica Uhl to acknowledge the company should probably find a way to better manage expectations.

"Shell's shares have suffered from an unwelcome relapse of earnings volatility," said Christyan Malek, head of European oil and gas research at JP Morgan Chase & Co. "While we view this as more of a bump in the road, together with the oil price correction – which Shell is more geared to – it has under-performed more than others."

Chevron, on the other hand, surpassed second-quarter analyst estimates by 21%. Its shares still fell in August, along with the rest of the industry, but its dip was only a third of Shell's. It's also traded in dollars, an advantage over sterling-denominated Shell B shares. The British currency has been pummelled by the Brexit process.

Both companies still trail Exxon by a large margin. The Irving, Texas-based oil giant's market cap is almost \$290bn, compared to Chevron and Shell's \$223bn.

---

## **Flaring, or why so much gas**

# is going up in flames



If you take a drive along the well-worn highways of West Texas, orange flames will punctuate your journey. Those are gas flares, and they're lighting up the skies above West Texas oilfields like never before as drillers produce crude faster than pipes can be laid to haul the attendant natural gas away. Oil drillers say flaring is the most environmentally friendly way to get rid of excess gas they can't sell. Environmentalists say that in many cases what flaring is friendly to is oil drillers' profits. They think regulators in states including Texas and North Dakota should be tougher on a practice that harms air quality and contributes to climate change.

## 1. Why do drillers flare?

When an oil well begins to spew, less-valuable natural gas comes up alongside crude. Pipelines can capture that gas, but

when they're not available, producers often get rid of the gas so they don't have to stop pumping oil. They do that by either igniting the gas, in the case of flaring, or releasing it directly into air, known as venting. Flaring is preferred because methane, an especially potent greenhouse gas, is burned off, though carbon dioxide is released into the air.

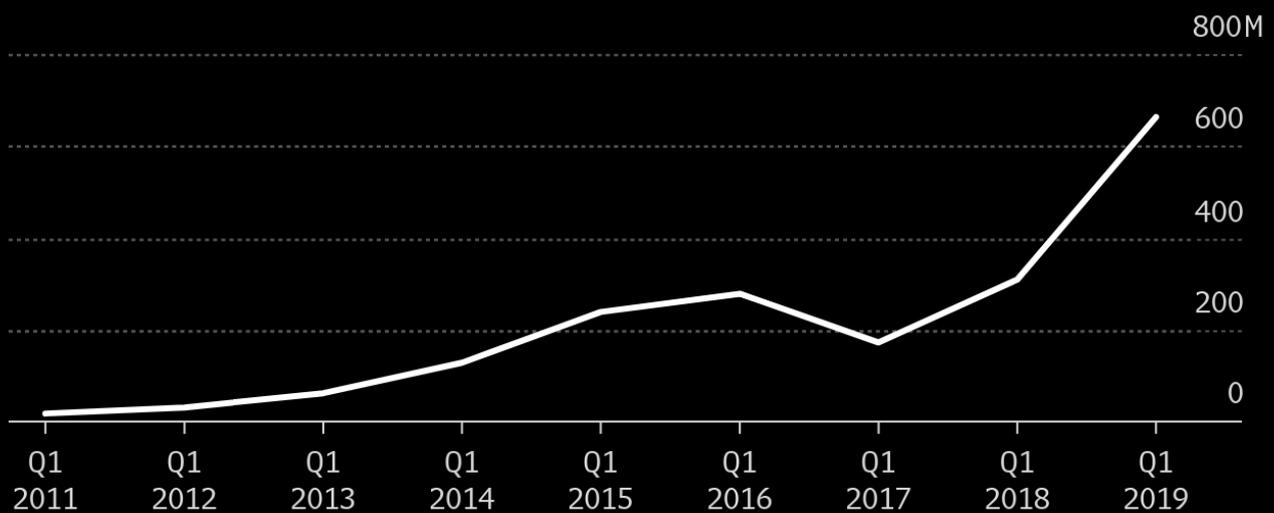
## 2. How much gas is flared?

A lot. The World Bank estimated that globally in 2018, 145 billion cubic meters of gas was flared, about as much as Central and South America use in a year. The amount is rising because of the oil boom in the U.S., which is fueled by the use of hydraulic fracturing – fracking – to unlock fuel from shale rock. Increased flaring in the U.S. is concentrated in the shale oil basins known as the Eagle Ford in Texas, the Permian in Texas and New Mexico, and the Bakken in North Dakota. Permian flaring rose about 85% last year, according to data from Oslo-based consultant Rystad Energy. The volume flared in Texas by the end of 2018 was greater than residential gas demand in the entire state.

## 3. What are the effects?

## Burned Off

Natural gas lost to flaring by oil producers in the Permian Basin, in cubic feet per day



Source: Rystad Energy

BloombergQuickTake

Gas flaring globally emits more than 350 million tons of carbon dioxide in a year, according to the World Bank. That's the equivalent of the carbon emissions from 90 coal-fired power plants. In the U.S., flaring accounts for an estimated 9% of the greenhouse gas emissions of the oil and gas industry. In addition, the practice spews particulate matter, soot and toxins into the air that have been shown to be hazardous to humans.

### 4. How does the U.S. regulate flaring?

Flaring is allowed when the gas could cause a safety concern due to high pressure in a well and when pipelines aren't in place to carry the fuel away. In either case, flaring spares drillers from having to suspend production, a costly move that can damage a reservoir's future output. The Texas Railroad Commission, the main oil and gas regulator in the state, has never denied a request for a flaring permit. In a controversial case, it granted one Aug. 6 to Exco Resources Inc. even though the company's wells were already connected to pipelines. Exco successfully argued that it would lose money paying to access the network.

## 5. Isn't the gas worth something?

The short answer is no, not in oil-dominated basins where what matters is the ability to keep pumping black gold. In the Permian, local gas prices have gone negative multiple times this year, meaning drillers were actually paying customers to haul their gas.

## 6. Will more pipelines help?

Yes, when prices justify the costs of capturing the gas and transporting it to markets. A new pipeline led by Kinder Morgan Inc. is expected to reduce the pressure to flare. At the same time, pipeline projects in Texas are beginning to attract public opposition, a more common phenomenon in the northeastern U.S. Landowners along the route of another Kinder Morgan line are fighting the project in court, arguing against the company's use of eminent domain to take private property. It's not clear whether the legal battle will affect the project, but the challenge portends a tone shift in a historically industry-friendly state.

## 7. Are there alternatives to flaring?

Apart from transporting gas to markets via pipeline, oil producers can use it on-site as an energy source or reinject it underground. Both options require investments, however. Russia requires oil drillers to make use of 95% of the gas they produce, while Nigeria prohibits flaring, yet the practice is common in both places. That suggests bans may not be sufficient without incentives to curb flaring.

To contact the reporters on this story: Ryan Collins in Houston at [rcollins74@bloomberg.net](mailto:rcollins74@bloomberg.net); Rachel Adams-Heard in Houston at [radamsheard@bloomberg.net](mailto:radamsheard@bloomberg.net)

To contact the editors responsible for this story: Simon Casey at [scasey4@bloomberg.net](mailto:scasey4@bloomberg.net), Lisa Beyer

# Iran official says US showing 'some flexibility' on oil sales



DUBAI (Reuters) – A senior Iranian official said on Saturday the United States had shown flexibility on the licensing of Iranian oil sales and this was a sign that Washington’s “maximum pressure” policy against Tehran had been defeated, state media reported.

French President Emmanuel Macron paved the way at a G7 summit a week ago for a potential diplomatic solution to a confrontation between the United States and Iran brewing since

President Donald Trump withdrew Washington last year from world powers' 2015 nuclear deal with Tehran.

"Macron met with ...Trump during the G7 meeting and the U.S. side has shown some flexibility in the licensing of Iranian oil sales," Iranian Deputy Foreign Minister Abbas Araqchi was quoted by the state news agency IRNA as saying.

"This is a breach in the U.S. maximum pressure policy and a success for Iran's policy of maximum resistance," he said.

Araqchi did not elaborate, and there was no immediate French or U.S. comment.

Since ditching the nuclear deal, calling it flawed to Iran's advantage, Trump has reimposed sanctions to strangle its vital oil trade and force Tehran to accept stricter limits on its nuclear activity, curb its ballistic missile program and end its support for proxy forces around the Middle East.

Araqchi said Iran and its European partners in the nuclear deal faced "difficult and complex" talks towards salvaging the pact. He said Tehran was determined to continue reducing its commitments under the accord until it received protection against sanctions on its oil sales and banking transactions.

Iranian President Hassan Rouhani urged his people on Wednesday to unite to overcome Washington's "economic war" while his government said it would use diplomacy to try to solve the standoff even though it distrusted Trump.

## **IRANIAN TANKER BLACKLISTED**

On Friday, the U.S. Treasury Department blacklisted the Iranian oil tanker Adrian Darya, with Secretary of State Mike Pompeo saying Washington had reliable information the vessel was headed to Syria, an ally of Tehran.

The ship was detained by Britain off Gibraltar in July due to

suspensions it was carrying Iranian oil to Syria in violation of European Union sanctions. It was released in mid-August after Iran gave assurances that its cargo was not destined for Syria.

Turkey said on Friday the ship was headed to Lebanese waters after changing course several times. Beirut said it was not informed of the plan, but Turkey's information suggested that a ship-to-ship transfer of cargo might be attempted once it nears the coast of Lebanon, which borders on Syria.

A senior Iranian military commander vowed that Iran would retaliate if any of its vessels was stopped in international waters, according to Fars news agency.

"Piracy against Iran can't be easily overlooked. It is natural for us to act when Iranian ships are stopped in any part of the world's waters. Iran's armed forces will certainly retaliate," Brigadier General Kiumars Heydari, the head of Iran's regular ground forces, told Fars.

Reporting by Dubai newsroom; Editing by Mark Heinrich

Our Standards: The Thomson Reuters Trust Principles.

---

# **Opec posts first 2019 oil output rise despite Saudi cuts: Survey**



LONDON (Reuters) – OPEC oil output has risen in August for the first month this year as higher supply from Iraq and Nigeria outweighed restraint by top exporter Saudi Arabia and losses caused by U.S. sanctions on Iran, a Reuters survey found.

The 14-member Organization of the Petroleum Exporting Countries has pumped 29.61 million barrels per day (bpd) this month, the survey showed, up 80,000 bpd from July's revised figure which was the lowest OPEC total since 2014.

The survey indicates Saudi Arabia is not deviating from its plan of restraining output by more than called for by an OPEC-led supply deal to support the market. Despite calls this year from U.S. President Donald Trump on OPEC to raise output, the producers renewed the supply pact in July.

OPEC's supply curbs should eventually start to support the price of crude LC0c1, which has fallen from a 2019 high above \$75 a barrel in April to \$61 on Friday on concern about slowing oil demand and economic growth, analysts at Commerzbank said.

“Even the moderate demand growth that can be expected is likely – given the considerable production discipline shown by OPEC – to result in an ongoing tightening of supply and to support rising prices,” Commerzbank analyst Eugen Weinberg said.

OPEC, Russia and other non-members, known as OPEC+, agreed in December to reduce supply by 1.2 million bpd from Jan. 1 this year. OPEC’s share of the cut is 800,000 bpd, to be delivered by 11 members and exempting Iran, Libya and Venezuela.

In August, the 11 OPEC members bound by the agreement, which now runs until March 2020, achieved 136% of pledged cuts, down from 150% in July, the survey found. Two of the three exempt producers pumped less oil.

The biggest supply boost of 80,000 bpd came from Nigeria, Africa’s largest exporter, which is seeking a higher OPEC quota and in August continued to produce above its target by the largest margin.

The second-largest rise of 60,000 bpd came from Iraq, which boosted exports from both its northern and southern outlets according to the survey.

Smaller increases came from Libya, where the country’s largest oilfield, El Sharara, resumed output on or around Aug. 8 following an outage. Kuwaiti output climbed slightly while remaining below its quota, the survey found.

Saudi Arabia, which in July cut supply even further below its OPEC target in a bid to reduce inventories, has kept output at a similar rate in August. The survey pegged Saudi production at 9.63 million bpd, down from its quota of 10.311 bpd.

Fellow Gulf producer the United Arab Emirates also kept output flat and below its target.

Among countries with lower output, Iran posted the largest

decline of 50,000 bpd.

The United States reimposed sanctions on Iran in November after pulling out of a 2015 nuclear accord between Tehran and six world powers. In a bid to cut Iran's sales to zero, Washington in May ended sanctions waivers for importers of Iranian oil.

In Venezuela, supply fell slightly due to the impact of U.S. sanctions on state oil company PDVSA and a long-term decline in production, according to the survey.

July's output was the lowest by OPEC since March 2014, excluding membership changes that have taken place since then, Reuters surveys show.

The Reuters survey aims to track supply to the market and is based on shipping data provided by external sources, Refinitiv Eikon flows data and information provided by sources at oil companies, OPEC and consulting firms.

Additional reporting by Rania El Ghamal; Editing by Edmund Blair

Our Standards: The Thomson Reuters Trust Principles.

---

## **Kuwait fans out to Australia and Canada in global gas push**



## Bloomberg/Kuwait

Kuwait plans to boost production from Canadian shale deposits by two thirds and increase output of natural gas in Australia as the Opec member ramps up efforts to find and develop overseas deposits of the fuel.

The international upstream arm of state-owned Kuwait Petroleum Corp sees output of almost 20,000 barrels of oil equivalent a day at its Canadian shale gas project by year-end, up from 12,000 currently, Sheikh Nawaf Saud al-Sabah, acting chief executive officer, said in a recent interview in Kuwait City.

“It will rise to about 60,000 or so once we fully develop it, which will be in the mid-2020s,” he said. “We’re just beginning to understand its potential.”

In Australia, the company known as Kufpec won exploration rights to three new blocks in February and April. It’s producing almost 40,000 barrels of oil equivalent a day in that country and aims to raise output and produce more liquefied natural gas for export, al-Sabah said, without specifying targets. Kuwait has long planned to increase its global capacity to produce gas as well as oil. The Gulf nation currently can pump as much as 3mn barrels a day of crude from its wholly owned fields, and KPC targets a daily capacity of

4mn by next year. As a member of the Organization of Petroleum Exporting Countries, however, Kuwait has pledged to cap its oil output as the group seeks to balance the market and prop up crude.

Like many energy producers, Kuwait sees gas as crucial to future growth. Gas use is seen rising faster than demand for oil and coal as policies shift toward lower carbon emissions. The amount of new gas-production capacity investments this year could set a record, according to consultant Wood Mackenzie Ltd.

In Alberta, Canada, Kufpec plans with its joint-venture partner Chevron Corp to start developing the Waskahigan and East Kaybob areas, drilling the first of more than 370 wells over 10 years. The areas are part of the Kaybob Duvernay project producing shale gas and natural gas liquids.

“We continue to look for gas prospects in Australia,” al-Sabah said. Kufpec partnered with Woodside Petroleum Ltd at one of its blocks there, and al-Sabah’s company is exporting gas via Woodside’s Wheatstone LNG facility. Kufpec sells half its production from there under long-term agreements.

“The other half is sold with a break clause that allows us to take those molecules to Kuwait if and when we need it,” he said. “Right now the LNG market is essentially a buyers’ market, so it doesn’t make sense for us to break a long-term contract” just to sell to KPC when it can get competitive pricing elsewhere, he said.

LNG producers have feared that a massive build-out of new export projects, which began a decade ago, will outpace consumption growth and leave cargoes looking for homes. Spot prices have already tumbled since last fall and are at a steep discount to LNG sold on long-term, oil-linked contracts.

Kufpec, known formally as Kuwait Foreign Petroleum Exploration Co, may supply KPC when the global market tightens, possibly by the mid-2020s, al-Sabah said.

The company has total assets of 3.4bn dinars (\$11.2bn) and is well-funded right now for its current plans.

---

# Kenya's first crude oil export sparks demands over revenue sharing



MOMBASA, Kenya (Reuters) – Kenya exported its first crude oil on Monday, amid pointed speeches by local leaders asking the government to stick to its commitment to share revenues from future shipments equitably.

Although commercial production is years away, the discovery of oil has heightened expectations that citizens, especially those living adjacent to the deposits, will benefit.

President Uhuru Kenyatta in March signed into law a long-awaited petroleum bill that regulates oil exploration and production and outlines how revenues will be shared between the government, local communities and companies.

Of the revenues due to the state, the law allocates 20% to local government, 5% to the communities living where oil was found and 75% to the central government. An earlier draft gave 10% to the communities.

The law also says parliament will review the percentages within 10 years.

The law is required for large-scale oil production but was delayed by tussles between layers of government and residents of Turkana, the impoverished northern region where the oil deposits were found.

As the first shipment left Kenya's port of Mombasa, three governors, an oil executive and the president compared carving up the profits to sharing a goat.

"When you slaughter a goat, the owner of the goat is left with the leg," Turkana County deputy governor Peter Emuria Lotethiro said. "Turkana want their leg."

Tullow Oil estimates that Kenya's Turkana fields hold 560 million barrels of oil and expects them to produce up to 100,000 barrels per day from 2022.

London-based Tullow said it and its partners had to date invested \$2 billion in Kenya.

"Having spent \$2 billion, the joint venture partners will be able to get a bit of that goat. There is much more investment to come which will create jobs across Kenya," Tullow Chief Executive Paul McDade said.

Mining and Petroleum Minister John Munyes said approval to pump water from neighboring West Pokot County to pressurize oil wells had been granted. The deal is crucial for next year's final investment decision on proceeding to commercial production.

"By 2020 we should have the plans to let us proceed with the

construction of the pipeline from Lokichar to Lamu," he said.

Monday's shipment was 250,000 barrels of oil. The crude was trucked to the port since there is no pipeline. The shipment's destination was not announced.

Tullow and partner Africa Oil discovered commercial oil reserves in Turkana's Lokichar basin in 2012. France's Total has since taken a 25% stake in the project.

About two weeks ago, Kenya and a group led by explorer Tullow picked trading company ChemChina UK Ltd to buy its first shipments. ChemChina UK's initial purchases are small-scale, with full commercial shipments due once the pipeline is built.

Writing by George Obulutsa; Editing by Kathariner Houreld and Dale Hudson

Our Standards: The Thomson Reuters Trust Principles.

---

**UBS sees some relief for oil before demand woes return in 2020**



NEW YORK (Capital Markets in AfricaA) – Oil prices will rise over the next few months as global inventories shrink, before declining in 2020 as trade-war induced demand woes return to haunt the market, according to UBS AG.

The Swiss bank sees Brent crude climbing to \$65 a barrel in three months, around 8% higher than current levels, it said in a note by analysts including Giovanni Staunovo. However, the global benchmark will drop to \$63 in six months and \$60 in 12 months, UBS said.

While seasonal supply-demand dynamics should support crude for the rest of this year, the U.S.-China trade dispute will re-emerge as the main price driver in 2020, the lender said. It cut its global gross domestic product growth forecast for next year to 3.4% from 3.6% and also lowered its estimate for oil consumption expansion to 1 million barrels a day from 1.2 million.

“If trade tensions escalate, oil demand growth could soften even more next year and pose downside risks to our new

forecasts,” the analysts wrote. “The three fragile oil-export countries (Venezuela, Iran and Libya) still may influence the outcome for 2020” in either a bullish or bearish way, they said.

UBS also cut its West Texas Intermediate projections by \$5 a barrel to \$58 in six months and \$55 in 12 months. WTI is currently trading near \$56 a barrel.

On the supply side, the lender sees the Organization for Petroleum Exporting Countries and its allies likely extending the production-cut agreement that runs through the end of the first quarter. But a small increase in non-OPEC output and the drop in demand growth mean the market will be oversupplied by around 500,000 barrels a day in 2020, it said.

Source: Bloomberg Business News

---

**Opec market share sinks, but no sign of wavering on supply cuts**



LONDON (Reuters) – OPEC’s share of the global oil market has sunk to 30%, the lowest in years, as a result of supply restraint and involuntary losses in Iran and Venezuela, and there is little sign yet producers are wavering on their output-cut strategy.

Crude oil from the Organization of the Petroleum Exporting Countries made up 30% of world oil supply in July 2019, down from more than 34% a decade ago and a peak of 35% in 2012, according to OPEC data.

Despite OPEC-led supply cuts, oil has tumbled from April’s 2019 peak above \$75 a barrel to \$60, pressured by slowing economic activity amid concerns about the U.S.-China trade dispute and Brexit.

The decline in prices, should it persist, and erosion of market share could raise the question of whether continued supply restraint is serving producers’ best interests.

OPEC and its allies have a deal to limit supply until March 2020.

The group tried to defend its market share under the previous Saudi oil minister, Ali al Naimi, who sharply ramped up production in a pump war campaign in 2014.

Naimi was hoping to win the battle, arguing that OPEC's output was the world's cheapest and would allow the group to outdo other producers such as the United States.

As a result of his strategy OPEC's market share rose, while oil prices crashed to below \$30 a barrel, triggering many bankruptcies of U.S. oil firms and over-stretching the Saudi budget.

Riyadh and OPEC were forced to return to output cuts in 2017 to support prices, and sources within OPEC say there is no sign of any willingness to return to a pump war at the moment.

"Saudi Arabia is committed to do whatever it takes to keep the market balanced next year," a Saudi official said on Aug. 8. "We believe, based on close communication with key OPEC+ countries, that they will do the same."

OPEC, Russia and other producers have been restraining supply for most of the period since Jan. 1, 2017. The alliance, known as OPEC+, in July renewed the pact until March 2020.

While helping to boost prices, OPEC's market share has fallen steeply in the last two years. World supply has expanded by 2.7% to 98.7 million barrels per day, while OPEC crude output has fallen 8.4% to 29.6 million bpd.

While OPEC agreements apply to production, OPEC's exports are also falling as a percentage of world shipments, according to data from Kpler, which tracks oil flows. Iran has led the decrease in recent months.

Nonetheless, Swedish bank SEB said that for now OPEC+ still has room to act, as the countries making most of the voluntary curbs – Russia, Saudi Arabia, Kuwait, UAE and Iraq – are still

pumping at relatively high rates.

Venezuela and Iran, under U.S. sanctions and being forced to curb shipments, have delivered the bulk of the cuts. Venezuelan supply was already in long-term decline before Washington tightened sanctions this year.

“The active cutters are not very stretched at all,” SEB analyst Bjarne Schieldrop wrote in the report. “They have not lost market share to U.S. shale. Venezuela and Iran are the big losers.”

While Saudi Arabia holds the biggest sway in OPEC as its largest producer, some in the group are not convinced further OPEC+ action to support prices will happen or would work.

“I really doubt there will be further action,” an OPEC delegate said. “If it did happen, it will have a temporary impact because the driver is trade and the economy.”

Additional reporting by Rania El Gamal; Graphics by Alex Lawler and Ahmad Ghaddar; Editing by Dmitri Zhdannikov and Jan Harvey

Our Standards: The Thomson Reuters Trust Principles.

---

**Rosneft becomes top  
Venezuelan oil trader,  
helping offset US pressure**



MOSCOW (Reuters) – Russian state oil major Rosneft has become the main trader of Venezuelan crude, shipping oil to buyers in China and India and helping Caracas offset the loss of traditional dealers who are avoiding it for fear of breaching U.S. sanctions.

Trading sources and Refinitiv Eikon data showed Rosneft became the biggest buyer of Venezuelan crude in July and the first half of August.

It took 40% of state oil company PDVSA's exports in July and 66% so far in August, according to the firm's export programs and the Refinitiv Eikon data, double the purchases before sanctions.

Three industry sources said Rosneft, which produces around five percent of the world's oil, is now taking care of shipping and marketing operations for the bulk of Venezuelan oil exports, ensuring that PDVSA can continue to supply buyers.

Rosneft used to resell volumes it bought from PDVSA to trading

firms and was less involved in marketing.

Now it has started supplying some PDVSA clients – Chinese and Indian refineries – while trading houses such as Swiss-based Trafigura and Vitol have walked away because they fear they could breach secondary U.S. sanctions, according to six trade sources.

Trafigura and Vitol declined to comment.

Rosneft and PDVSA did not respond to requests for comment.

Oil accounts for more than 95 percent of Venezuela's export revenue and Washington has warned trading houses and other buyers about possible sanctions if they prop up Caracas.

The United States and some Western governments have recognized Venezuelan opposition leader Juan Guaido as the country's rightful head of state and are seeking to oust the current socialist President Nicolas Maduro.

A State Department spokesman said the United States "has put foreign institutions on notice that they will face sanctions for being involved in facilitating illegitimate transactions that benefit ... Maduro and his corrupt network.

"We will continue to use the full weight of U.S. economic and diplomatic power to complete the peaceful transition to a once-again free, prosperous and stable Venezuela."

Moscow is one of Maduro's closest allies and has provided military support to his government as well as billions of dollars in loans and equipment.

"Rosneft has been dealing with Venezuela's crude directly, fixing vessels and offering it to end users", a source with an oil trading firm said.

Rosneft is not in breach of U.S. sanctions, because it takes oil as part of debt servicing agreements after lending Caracas

money in previous years.

PDVSA lowered its outstanding debt to Rosneft to \$1.1 billion by the end of the second quarter this year from \$1.8 billion at the end of the first, the Russian company said on Wednesday.

The sources said most deals between the two do not involve cash. Those that do are processed in euros rather than in U.S. dollars to cover Venezuela's debt to Rosneft.

Russia and China have called U.S. sanctions against Venezuela unilateral and illegal.

Last week, Washington imposed new sanctions on Venezuela, threatening to take measures against any firm "materially assisting" Maduro's government.

## **SUPERTANKERS TO ASIA**

According to PDVSA's loading export schedules, Rosneft has chartered four super-tankers (very large crude carriers or VLCCs) and three smaller Suezmax tankers for Venezuelan crude oil loadings in the first half of August.

All operations are being conducted by Rosneft's trading office in Geneva, according to three trading sources.

Rosneft has been selling Venezuelan crude to two main destinations – China and India – according to the sources, PDVSA's loading data and Eikon Refinitiv shipping data.

Rosneft delivered two super-tankers with 280,000 tonnes of oil each to Shandong in eastern China in July and August, and the oil went to an independent refinery, according to Refinitiv crude analyst Emma Li and two trading executives.

This is unusual, because oil has been imported only by state giant Petrochina under term contracts with PDVSA.

Rosneft delivered a separate cargo of 140,000 tonnes to a state-run oil firm, also to Shandong, in mid-August, Refinitiv's Li said.

The new sales came after Rosneft stepped up marketing efforts in May. It visited several independent refiners in Shandong, said a purchasing executive with one independent refiner who met Rosneft officials.

Rosneft has also become an active supplier of Venezuelan crude oil to India. The company has increased Venezuelan oil sales to India's refiners Nayara Energy, which it partly co-owns, and Reliance this year. As a result the refiners decreased direct purchases from PDVSA.

Nayara Energy and Reliance declined to comment.

According to data from OPEC, Venezuelan oil output has collapsed to around 0.7-1.0 million barrels per day (bpd) from as much as 3 million at the turn of the century due to a lack of investments and sanctions.

The United States, India and China were Venezuela's biggest customers prior to the sanctions.

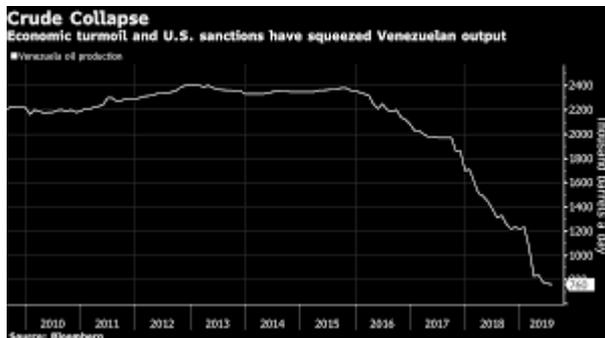
Reporting by Marianna Parraga, Aizhu Chen, Nidhi Verma, Gleb Gorodyankin, Olga Yagova; Editing by Dmitry Zhdannikov and Mike Collett-White

Our Standards: The Thomson Reuters Trust Principles.

---

## **Half of Venezuela's oil rigs**

# may disappear if US waivers lapse



(Bloomberg) – A looming U.S. sanctions deadline is threatening to clobber Venezuela’s dwindling oil-rig fleet and hamper energy production in the nation with the world’s largest crude reserves.

Almost half the rigs operating in Venezuela will shut down by Oct. 25 if the Trump administration doesn’t extend a 90-day waiver from its sanctions, according to data compiled from consultancy Caracas Capital Markets. That could further cripple the OPEC member’s production because the structures are needed to drill new wells crucial for even maintaining output, which is already near the lowest level since the 1940s.

A shutdown in the rigs will also put pressure on Nicolas Maduro’s administration, which counts oil revenues as its main lifeline. The U.S. is betting on increased economic pressure to oust the regime and bring fresh elections to the crisis-torn nation, a founding member of the Organization of Petroleum Exporting Countries and Latin America’s biggest crude exporter until recent years.

Venezuela had 23 oil rigs drilling in July, down from 49 just two years ago, data compiled by Baker Hughes show. Ten of those are exposed to U.S. sanctions, according to calculations by Caracas Capital Markets. The Treasury Department extended waivers in July for service providers to continue for three

more months, less than the six months the companies had sought.

Most other government agencies involved in the deliberations opposed any extension, a senior administration official said last month, adding that another reprieve will be harder to come by.

“Almost half the rigs are being run by the Yanks, and if the window shuts down on this in two months, then that’s really going to hurt Venezuela unless the Russians and the Chinese come in,” said Russ Dallen, a Miami-based managing partner at Caracas Capital Markets.

### Output Risk

A U.S. Treasury official said the department doesn’t generally comment on possible sanctions actions.

More than 200,000 barrels a day of output at four projects Chevron Corp. is keeping afloat could shut if the waivers aren’t renewed. That would be debilitating to Maduro because the U.S. company, as a minority partner, only gets about 40,000 barrels a day of that production.

The departure of the American oil service providers would hurt other projects in the Orinoco region, where operators need to constantly drill wells just to keep output from declining. The U.S.-based companies are also involved in state-controlled Petroleos de Venezuela SA’s joint ventures in other regions such as Lake Maracaibo.

### Limiting Exposure

Halliburton Co., Schlumberger Ltd. and Weatherford International Ltd. have reduced staff and are limiting their exposure to the risk of non-payment in the country, according to people familiar with the situation. The three companies have written down a total of at least \$1.4 billion since 2018

in charges related to operations in Venezuela, according to financial filings. Baker Hughes had also scaled back before additional sanctions were announced earlier this year, the people said.

Schlumberger, Baker Hughes, Weatherford, PDVSA and Venezuela's oil ministry all declined to comment.

Halliburton has adjusted its Venezuela operations to customer activity, and continues operating all of its product service lines at its operational bases, including in the Orinoco Belt, it said in an emailed response to questions. It works directly with several of PDVSA's joint ventures, and timely payments from customers are in accordance with U.S. regulations, it said.

Hamilton, Bermuda-based Nabors Industries Ltd. has three drilling rigs in Venezuela that can operate for a client until the sanctions expire in October, Chief Executive Officer Anthony Petrello said in a July 30 conference call, without naming the client.

The sanctions carry geopolitical risks for the U.S. If Maduro manages to hang on, American companies would lose a foothold in Venezuela, giving Russian competitors such as Rosneft Oil Co. a chance to fill the void. Chinese companies could also benefit. Even if the waivers get extended, the uncertainty hinders any long-term planning or investments in the nation by the exposed companies.

Rosneft's press office didn't respond to phone calls and emails seeking comment on operations in Venezuela.

—With assistance from David Wethe, Debjit Chakraborty and Dina Khrennikova.

To contact the reporters on this story: Peter Millard in Rio de Janeiro at [pmillard1@bloomberg.net](mailto:pmillard1@bloomberg.net); Fabiola Zerpa in Caracas Office at [fzerpa@bloomberg.net](mailto:fzerpa@bloomberg.net)

To contact the editors responsible for this story: Tina Davis at [tinadavis@bloomberg.net](mailto:tinadavis@bloomberg.net), Pratish Narayanan, Joe Ryan

For more articles like this, please visit us at [bloomberg.com](https://www.bloomberg.com)

©2019 Bloomberg L.P