## Let Your Conscience Be Your Guaido

As of this morning, Nicolas Maduro remains as President of Venezuela. The generals remain behind him and there is, as yet, no indication a "colonel's mutiny" – in the past a favorite regional formula for a revolt from within the officers' ranks – is forming.

Nonetheless, in what may be a signal of a significant change, the military attaché at the Venezuelan Embassy in Washington, broke with Maduro on Friday and urged the officer corps to do the same.

Meanwhile, the deaths in the streets are rising as nationwide protests grow.

I have a personal slant to the unraveling situation. On Friday, I was able to talk with three of my contacts in-country, two at state oil company PDVSA and one member of the political opposition. The rest were not answering their phones or simply had them off the hook. By Sunday evening and Monday morning nobody was answering, or I received the recorded message beginning "El número que ha marcado…," indicating the line was "out of order."

More countries are recognizing Juan Guaido, the head of the country's National Assembly, as temporary head of state. The US did so immediately after Guaido invoked the provisions set in the national constitution – a document written by socialist firebrand Hugo Chavez, Maduro's predecessor and mentor.

Under the constitution, the office Guaido holds is called, confusingly, President of the National Assembly. In the case of a contested election (and that puts the chicanery carried out by Maduro in its mildest form), the Assembly president can occupy a temporary position as chief executive while new elections are called within 45 days.

Guaido took his action following Maduro's inauguration for a new term. Hence, the present situation in which Venezuela has two presidents.

Following the move by Washington, Maduro cut diplomatic ties with the US and gave American personnel 72 hours to leave the country. He has since backed off from that position and is currently (and apparently) giving the matter 30 days.

It is impossible to gauge accurately what is likely to happen next. But behind all the blind commentary now underway is the status of Venezuela's oil assets. To say that the export of crude oil is the foundation of its national economy is an understatement. This is its lifeblood, the source of virtually all economic and financial survival.

## Double Secret Inflation

Under the mismanagement of Maduro (and before him Chavez) Venezuela has descended into a basket case. It is the best example of what we used to call a “failed state,” referring to a central government that cannot administer within its own borders or provide a local market.

The currency (the bolivar) has collapsed, with inflation reaching well beyond the “hyper” category. There is not a term coined yet for where it is going. It declined 80,000% in 2018. Some estimates suggest that the dive may reach more than one million percent in 2019.

Banks in Caracas have not exchanged the bolivar into US dollars for some time. The last I could find still allowing such transactions was six months ago. Then, the exchange level had to be set dozens of times each day to keep up with the collapsing currency. Locals had resorted to barter and black-market rates well before that.

Food riots became epidemic. These have since lessened only because there is little left to riot over.

Caracas has defaulted both on its sovereign debt and paper issued by PDVSA. The debt problem was compounded by the Maduro government: (1) insisting on subsidizing domestic staples and fuel from PDVSA export revenues; then (2) collateralizing sinking sovereign bonds with PDVSA bonds; then in a desperate attempt to keep financially afloat (3) using crude oil export cargoes and internal oil field and processing facilities to back additional loans from Russia and China. And then lastly, about 11 months ago, (4) introducing the even more frantic move of the “Petro,” a cryptocurrency the underlying “value” of which was tied to the oil exports already used to collateralize the other three debt venues.

What has resulted is a cratering of Venezuelan oil value and the economy dependent upon it. However, the current political crisis has revealed an even greater problem.

## Taking an EM

At Torre La Castellana, in the Chacao municipal district of Caracas is located the following building:


Source: elcooperante.com

This is Evrofinance Mosnarbank (EM). Established jointly in 2012 by Russia and Venezuela to finance joint energy projects and "related activities," it has had two primary functions of late.

One is to hold the rising number of Venezuelan oil assets coming under the control of Russian interests as the national debt destruction intensifies. Of particular note are those holdings leaving the purview of PDVSA and being acquired by Russian state oil major Rosneft.

The other is to facilitate a bypass of US sanctions for "off the book" cash transactions. An increasing amount of these transactions employ the spurious Petro cryptocurrency. None of my sources can provide a realistic hard value amount for these transactions. Remember, the value of the coin is subject to the actual value of Venezuelan oil in export. This even though such oil value has already been consigned at least once previously, either to support flagging debt paper, or in the account ledgers of the government's desperate attempt to supply the domestic consumer market… most likely both.

As a banking enterprise, EM is a losing proposition. It is, therefore, hardly surprising that Russian state banks VTB and Gazprombank are said to be negotiating to sell EM positions. Each had a 25% holding in the capitalization of the bank.

However, the rumored investors apparently eager to gobble them up are of great interest. These include no Venezuelans but several Russian oligarchs and trading companies having significant operations outside Russia.

There is no question that as a conduit to expand Russian influence and control over the Venezuelan energy sector, EM is central. That places a major hurdle in the way of any move by Washington to place sanctions directly upon PDVSA or the Venezuelan Ministry of Energy and Oil.

Because hitting Caracas by accelerating the collapse of its oil industry is also directly punishing Moscow. There is yet another vexing situation. PDVSA still controls most of the CITGO network of refineries and retail locations in the US.

And Rosneft controls PDVSA's CITGO debt exposure via EM.

The other major provider of funds to Venezuela has been China. In the case of Beijing, the flow of loans has continued, with additional funds provided in the fourth quarter of 2018. Chinese interests have acquired additional positions in Orinoco projects (as have Russian oil majors). But here the approach is a bit different.

It is the latest application of a strategy I witnessed firsthand when advising in Ecuador and later in Brazil. China's initial foray into acquiring international oil assets involved capturing volume produced abroad for shipment back to its own thirty domestic economy.

That changed with Ecuador. There the Chinese interest became controlling the revenue stream from a country's oil exports abroad as repayment for loans made both to a central government and its state-owned oil producers.

China is applying the same approach in Venezuela. It does not care where the oil is shipped so long as proceeds from the sales return to China.

You guessed it, another bank sprouted up in Caracas.


Source: *China Daily*

This is the representative office of the China Development Bank, located in real estate also acquired by the bank in the center of Caracas at Fuerte Tiuna. Through this bank Chinese loans have flowed into the country while Venezuelan proceeds from foreign oil sales have moved back to Beijing.  This has been going on since 2014.

As such, any US move against Venezuelan oil must weigh the Chinese response as well.

## About the Author

Dr. Kent Moors is an internationally recognized expert in oil and natural gas policy, risk management, emerging market economic development, and market risk assessment.

He serves as an advisor to the highest levels of 27 countries, including the U.S., Russian, Kazakh, Chinese, Iraqi, and Kurdish governments, to the governors of several U.S. states, and to the premiers of two Canadian provinces. He's served as a consultant to private companies, financial institutions and law firms in 29 countries, and has appeared more than 2,300 times as a featured radio-and-television commentator. He appears regularly on ABC, BBC, Bloomberg TV, CBS, CNBC, CNN, NBC, Russian RTV, and the Fox Business Network.

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