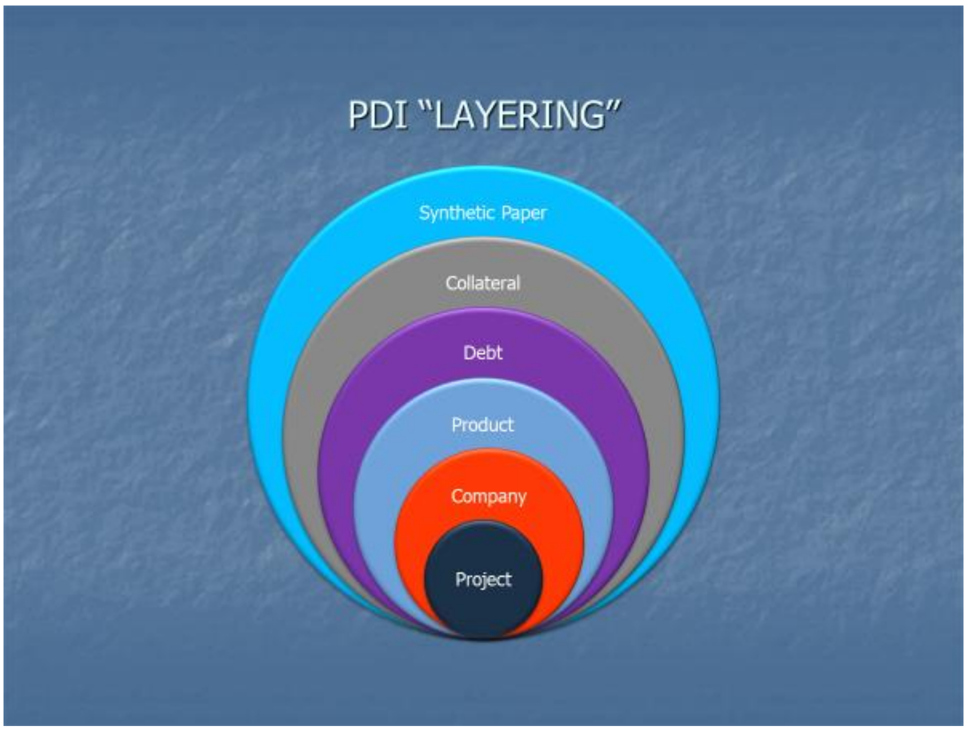
50 Ways to Fund Your Project

Over the past two years, more of my advising time has found its way into a network of global private direct investment (PDI) types. More frequently, the interest among the "well-heeled" has been to hedge by entering a strategy of multiple investments I developed to spread out the risk in what used to be insular moves. I call this approach "layering" and have figuratively displayed it as follows:



The strategy employs separate components in investment in what used to be a project-company target to involve control over more of the operations, product, asset value (both fixed and otherwise), debt, and a myriad of intermediary "trading paper" emerging from a series of weighted transactions. It is a sequence of proprietary algorithms that determine those all-important "weights."

Increasingly, it is the geographic sourcing and venues through which funds are moved that determine the application of the approach. Put simply, some conduits emerge as better for investments than others.

As such, I am apprised of the investment utility conveyed by "unusual" avenues of movement in global money. Some of these are simply a result of some places being more amenable to transactions than others. Others are suspect from a legal, banking, or policy perspective.

This can become a shadowy world at times.

Well, a new development in this world emerged last week. Upon my return from the annual Windsor Energy Consultation at the castle outside London, I was drawn in (yet again) to an ongoing situation involving Venezuelan state oil company PDVSA. This story began last year and specifically addresses the curious path taken by “disappearing” proceeds from export oil sales.

Some of those funds (or at least access to them) are now leeching into the PDI network I advise.

Oil For Food—What Could Go Wrong?

Some background is in order. In the last half of 2018, it became manifest that PDVSA had been moving proceeds from oil export sales into banks abroad. At least €800 million ($898 million at current exchange rates) is believed to have been moves through banks in Bulgaria and Switzerland, while other transfers were orchestrated using financial entities located in Caracas but actually controlled by Russian and Chinese banks.

This latter category has become a pipeline into a much wider audience and is beginning to have an impact (usually through intermediaries) among the houses acting as middle brokers for PDI players controlling billions in investment funding.

The usual way of “folding” PDVSA clandestine transfers into revenue streams is an increasingly complicated system of double billing, “phantom” barrels, discounted volumes, and other attempts to either cut value on one end of the transactions or inflate the bottom line on the other.

Much of the artificial nature of such transfers is heightened by the deliberate over charging of payments made in kind for oil exports. This has been facilitated by public decisions made in Caracas.

For years, PDVSA has been required by the Venezuelan central government (first under Hugo Chavez and then under Nicolas Maduro) to use proceeds from foreign oil sales to purchase, and then import, food and consumer goods for the domestic market. It became a ready-made way to orchestrate intentional overbilling to keep more of the revenue abroad.

Not all of it was simply resulting from corruption in PDVSA and related government officials. Some was deliberately withheld from money transfers to the government as a way of providing sources to guarantee salary payments and service provisions (like medical care) to workers, capital for the purchase of needed equipment, and funds to meet company payments to maintain export storage at various Caribbean terminals.

This has been going on for years. As early as 2014, contacts of mine in PDVSA inquired what I could do to facilitate such evasive transfers. I understood why they needed to do this (and even sympathized with the reasons) but declined. Such off-the-book exercises have a way of morphing into matters less savory. That is what has happened in this case.

Corrupto-Currency

As the financial and political crisis in Venezuela has spiraled out of control, what may have started out of necessity has devolved into a massive sea of corruption.

Some other aspects have also emerged. As the national plight intensified, so also did a web of illegal profit seeking. Since 2015, US authorities have been cracking down on bribes paid to PDVSA officials in return for service/equipment or discounted oil sales contracts. Such actions remain widespread in jurisdictions that do not have a statutory equivalent of the American Foreign Corrupt Practices Act.

All of this has been accentuated by the recent huge court judgment providing US major Conoco a multi-billion judgment against PDVSA, actions to impound Venezuelan crude already in international transit, attempts to move against US-based assets of CITGO (controlled by PDVSA), and increasingly desperate attempts by the Venezuelan oil company to barter its oil in evasion of US sanctions.

The move by Maduro last year (one I commented on here in ECRG Intelligence at the time) to introduce a cryptocurrency (the “Petro”) backed by PDVSA proceeds in a separate attempt to avoid the sanctions, simply further exacerbated the problem. It has, however, provided another way for the transfer of PDVSA proceeds aboard, largely along the banking lines already used.

As the collapse in Venezuela accelerates, PDVSA funds are working into the PDI network. Usage of discounted values for both oil and revenues are increasing, making the genuine return on investments using them even greater.

Corruption has a way of doing that.

Of course, these are funds that belong to the Venezuelan people. And that makes any ouster of Maduro and his allies now controlling PDVSA a certain impetus for one nasty series of international court battles.

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.

A prolific writer and lecturer, his six books, more than 2,700 professional and market publications, and over 650 private/public sector presentations and workshops have appeared in 47 countries.

ENERGY CAPITAL RESEARCH GROUP

Energy Capital Research Group,
16 W. Madison Street, Baltimore, MD 21201
Phone: 844.242.5850 or 410.878.3382