2024 CROSS-COUNTRY RISK ASSESSMENT REPORT

Comparing Iran & Venezuela

G6 CONSULTANCY GROUP

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INTRODUCTION

2024 has already proven to be a tumultuous year for global energy markets. With the continuation of the war in Ukraine and the recent escalations surrounding the war in Gaza, it is safe to assume that the world might experience more uncertainty regarding the supply and the price stability of hydrocarbons. As soaring energy prices will hamper economic growth within the global economy, it remains the task of petroleum companies to promote a steady flow of hydrocarbons and seek new oil and gas reserves that can mitigate the energy price volatility that the world has been facing since the beginning of 2022.

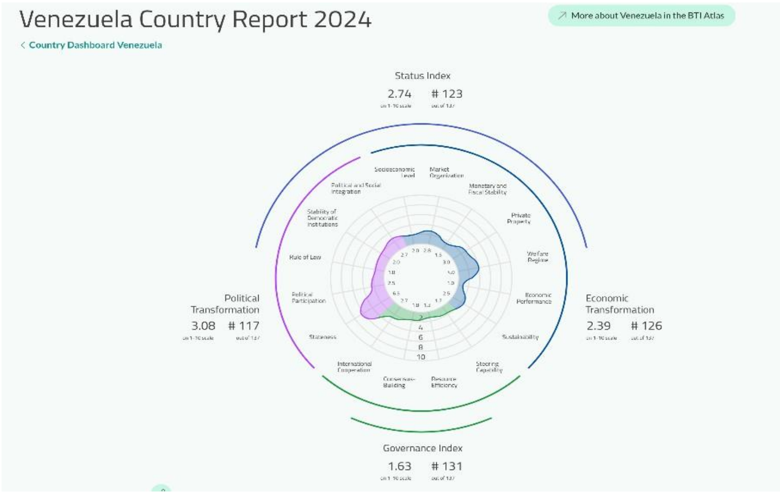
Considering the pursuit of new oil reserves, this report examines the potential for PetroChina to establish new business relationships with countries that possess substantial oil reserves but have not maximized their export capabilities. The aim is to boost global oil demand and diversify PetroChina's sources of oil suppliers. As such, Group 6 Consultancy have analyzed the political, economic, and sovereign risks that are associated with establishing business relations with Venezuela and Iran.

As both countries are members of the Organization of the Petroleum Exporting Countries (OPEC) and have large oil and natural gas reserves, these countries provide a great opportunity to establish new business relations with. However, both countries also suffer from international sanctions that were imposed by the United States (U.S.) due to either geopolitical conflicts or domestic civil unrest. Yet, as the world is becoming increasingly multilateral and has started to diverge from the global North's global economic paradigm, these countries offer a great opportunity to invest in as there is little to no competition from major competitors from the global North.

By considering the unique positions of Venezuela and Iran within the global energy landscape, this report aims to provide strategic insights for PetroChina to navigate the complexities of international sanctions and geopolitical challenges, ultimately fostering a more diversified and resilient supply chain in an increasingly volatile global market.

CHAPTER I: POLITICAL AND SOCIAL RISKS IN VENEZUELA AND IRAN

1.1 Venezuela Country Assessment



Source: BTI Transformation Index, Venezuela Country Risk Report 2024

1.1.1 Political Stability, Corruption, and Western Sanctions

From 1998 until 2013, Venezuela was considered one of the most promising emerging economies in Latin America. Under former President Hugo Chavez, the country built up a strong social welfare state funded by Venezuela’s petroleum-based economy. Yet, after the death of Chavez in 2013 and with the oil prices falling in late 2017 early 2018, the country has experienced hyperinflation, increased social unrest, rising levels of emigration, and democratic backsliding. After a failed coup d’état by Venezuela’s opposition in 2019, the Maduro regime imposed stricter measures in order to maintain its grip on power, resulting in a more centralized government regime. After the centralization of power conducted by the Maduro regime, the country endured the attenuation of its separation of powers, resulting in the depletion of the country’s checks and balances. With Maduro’s Socialist Party now controlling all branches of power, Transparency International concluded that Venezuela ranks 177 out of 180 countries, meaning that it is one of the most corrupt countries worldwide. This does not only affect Venezuelan citizens but also impacts foreign investors attempting to establish business operations in the country. A recent study conducted by the Bertelsmann Stiftung stated that setting up business operations in Venezuela requires having a strong connection with the government in Caracas.

Ensuing the erosion of Venezuela's democracy and the humanitarian crisis that followed thereafter, the United States (U.S.) and the European Union (EU) have imposed sanctions on the country's political and economic elite. The most prominent of these sanctions are: Asset Freeze and Transaction Ban. Financial Sanctions: Executive Order 13884 also limits the access to U.S. financial markets by entities supporting the Maduro regime. In addition, Executive Order 13835 prohibits the purchase of assets hold by PDVSA by an American entity. Oil sector sanctions: The U.S. has renewed its sanctions on the country's petroleum sector. This entails the restriction of PDVSA to access U.S. financial markets. Nonetheless, in October 2023, the Biden administration renewed Chevron's license to import crude oil from its Venezuelan subsidiary. In conclusion, the sanctions imposed on the country due to its autocratic regime primarily focus on its political and economic elite. While the U.S. has restricted Venezuela's access to American financial markets, it has recently relaxed sanctions that impede Venezuela's ability to export crude oil to the U.S. However, if the country persists in its undemocratic practices, it can anticipate stricter sanctions in the future. With the continuation of the oppression of the political opposition and with the ongoing humanitarian crisis that the country has faced since 2019, it becomes less likely that the Western sanctions will be lifted. Instead, a re-imposition of sanction can be anticipated soon.

1.1.2 Venezuela's Relations with Other Global and Regional Players

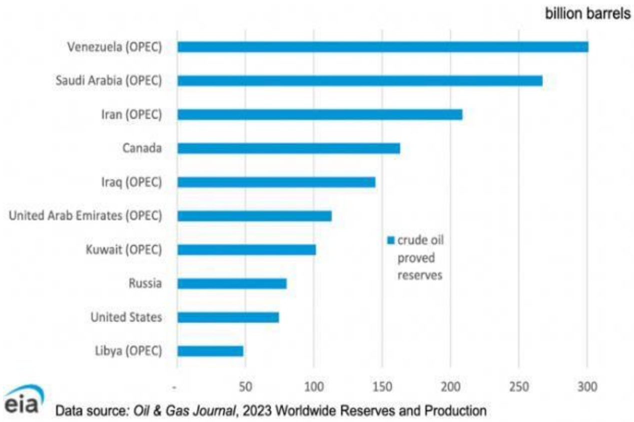
After the erosion of Venezuela's democracy under President Maduro and the failed coup attempt that followed in 2019, the country experienced deteriorating relations with its neighboring states. Yet, whilst powerful Latin American countries such as Colombia, Argentina, and Brazil have broken ties with the Maduro regime in 2019, they have recently started to restore its diplomatic relations with the government in Caracas. Moreover, the sanctions that were enforced by the West have strengthened the country's ties with Russia, Cuba, Iran, and China. Out of these newly acquired allies, Russia and China appear to be the country's most important trading partners, with both parties accounting for 25 per cent of the country's foreign debt.

The CCP views Venezuela as a strategically important trading partner due to its access to other countries in the Western hemisphere and its abundance in natural resources such as oil and gas. As a result, China aims to establish a presence in the Latin American energy sector by providing Venezuela with cheap loans, development financing, and the freedom to greatly expand its state balance sheet. Chinese investments in the country have therefore been promoted via so-called loan-for-oil agreements. In other words, if Venezuela cannot repay its debt to Chinese financiers, oil is substituted as a collateral. In line with China's efforts to secure a steady flow of crude oil, its investments in

Venezuela have also resulted in successful projects in the mining and energy sectors, as well as lesser-known manufacturing investments by companies like Huawei Technologies and Chery Automobile.

Despite being considered a pariah state during its domestic political turmoil in 2019, Venezuela has forged new alliances with geopolitical powers like Russia and China. Additionally, the Maduro regime has succeeded in normalizing relations with its neighboring countries. However, ongoing tensions regarding discussions to annex Guyana's Essequibo region highlight the volatile political stability of the region. If Venezuela proceeds with its plans to invade its Eastern neighbor, it could face further international sanctions and a deterioration of diplomatic relations with neighboring states.

1.1.3 Oil Infrastructure and Skilled Labor



Whilst Venezuela has one of the biggest oil reserves in the world, its oil infrastructure has been severely hit by years of economic mismanagement and due to the Western sanctions, that have limited the oil export to U.S. and European markets. According to the U.S. Energy Information Administration (EIA), the five oil refineries in the country operate under PDVSA and were collectively expected to have a processing capacity of 1.46 million

barrels a day in 2022. Yet, economic mismanagement such as the dismissal of nearly 20,000 highly skilled workers in the early 2000s, coupled with a reported preference for hiring based on government loyalty rather than technical expertise, continues to impact operations, leading to a shortage of high-level expertise. Consequently, this has led to a decreasing crude oil production and operational refining capacity of PDVSA, which resulted in widespread shortages of gasoline, diesel, and other oil products in the domestic market. that Venezuela's refinery throughput has been less than 300,000 barrels a day, accounting for less than a fifth of what that country could potentially produce. With over 6 million Venezuelans having fled the country owing to the humanitarian crisis since 2015, it shall remain challenging to find the necessary workforce to enhance the country's oil refinement production. The EIA estimates that Venezuela's refinery throughput has been less than 300,000 barrels a day, accounting for less than a fifth of what that country could potentially produce. With over 6 million Venezuelans having fled the country owing to the humanitarian crisis since 2015, it shall remain challenging to find the necessary workforce to enhance the country's oil refinement production.

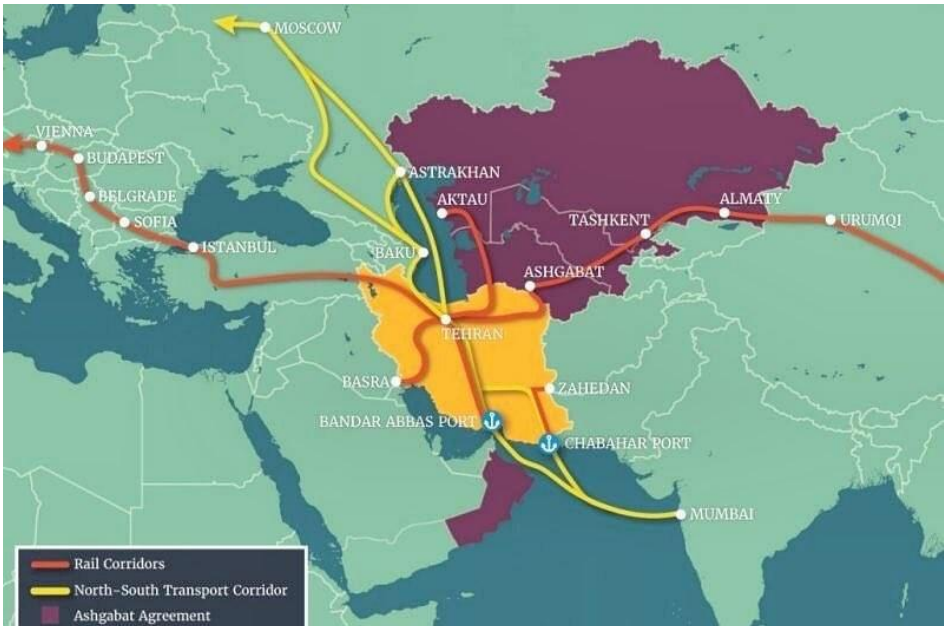
1.2 Iran Country Assessment

Investing in Iran, a country rich in natural resources but plagued by political instability and international sanctions, presents complex risks and opportunities. It is important to consider the infrastructure, geopolitical situation, and sanctions, outlining the landscape for PetroChina in view of potential investments.

1.2.1 Infrastructure in Iran

Iran boasts an extensive infrastructure network, including roads, railways, ports, and gas pipelines, essential to support economic activities and promote regional growth. However, challenges like congestion and inadequate maintenance require significant investments for upgrades. Similarly, the railway system suffers from outdated technology and lack of electrification, hindering its efficiency in supporting high-speed and cargo transport. However, recent initiatives aim to modernize and expand the railway network, with plans to double track mileage by 2025. Ports, particularly the Qeshm Oil Terminal, play a critical role in Iran's economic strategies, serving as major conduits for oil exports. The development of strategic initiatives like the Qeshm Oil Terminal underscores the sector's importance in facilitating international trade and promoting economic growth. Additionally, Iran's extensive gas pipeline network, fueled by the world's largest natural gas reserves, is vital for both domestic consumption and international export.

The Chabahar port, strategically positioned on a major intercontinental corridor, exemplifies the integration of urban infrastructure with international transportation demands. As a key node in the North-South Transport Corridor, Chabahar plays a crucial role in connecting India, Iran, and Russia, facilitating trade and economic cooperation between these countries. Efforts to expand and enhance road, rail, and port facilities in Chabahar aim to reduce congestion and improve safety, enhancing the city's capacity to handle the burgeoning demands of international trade. The Chabahar-Zahedan railway project, once completed, will significantly improve connectivity between Chabahar and Afghanistan, further strengthening regional trade ties.



Source: Chabahar port and transregional transit map, The Jamestown Foundation

A petroleum company could benefit from investing in Iran, particularly in the Chabahar region mainly for oil and gas resources since Iran holds huge reserves of oil and natural gas, with extensive undiscovered fields. Investing in oil exploration and production projects in the Chabahar region could provide a petroleum

company access to these resources and exploit them for profits. Secondly the strategic location where Chabahar is strategically situated on the shores of the Sea of Oman and the Indian Ocean, offering direct access to international maritime routes. This makes it an excellent location for importing and exporting oil and gas to global markets. Thirdly the port infrastructure of Chabahar region is undergoing intensive infrastructure development, with the construction and expansion of ports and terminals. A petroleum company could benefit from these existing or developing infrastructures to facilitate the transportation and storage of its commodities. In conclusion, investing in the Chabahar region in Iran could offer significant strategic, financial, and operational advantages for a petroleum company looking to expand its operations in the Middle East and South Asia.

1.2.2. Geopolitical Situation

Iran's geographical position, controlling the Strait of Hormuz, makes it a key geopolitical player in the Middle East. However, regional instability in areas like Syria, Iraq, and the Red Sea undermines the country's internal and external stability, complicating foreign investments due to increased security risks. Known factors, such as Iran's intent to exert geostrategic control over the Hormuz chokepoint, the strait at the heart of the Persian Gulf through which over 20.5 million barrels of oil pass daily, or 21% of total global exports, about one-fifth of the global trade in liquefied natural gas, and a dense array of derivative products, are well-documented.

1.2.3 Sanctions

Iran is also fostering and increasing regional and international alliances: the country continues to build economic and diplomatic ties with BRICS nations and regional entities to bolster economic cooperation and trade. This commitment on behalf of Iran could represent an opportunity for PetroChina – since it's an oil company based in China. In conclusion the Iranian environment offers both significant opportunities due to its huge natural resources and strategic location, as well as considerable challenges due to political instabilities, sanctions, and corruption issues. For a company like PetroChina, it is crucial to conduct careful assessment and develop risk mitigation strategies, collaborating with local and international entities to successfully overcome this complex environment.

CHAPTER II: ECONOMIC & ENVIRONMENTAL RISKS

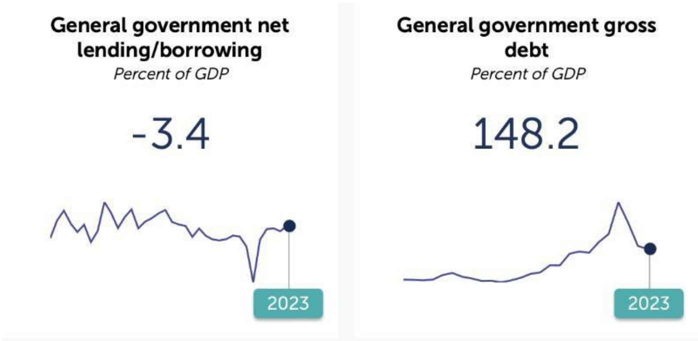
2.1. Venezuela Risk Assessment

2.1.1 Venezuela's Economic Risks

Source: International Monetary Fund, World Economic Outlook

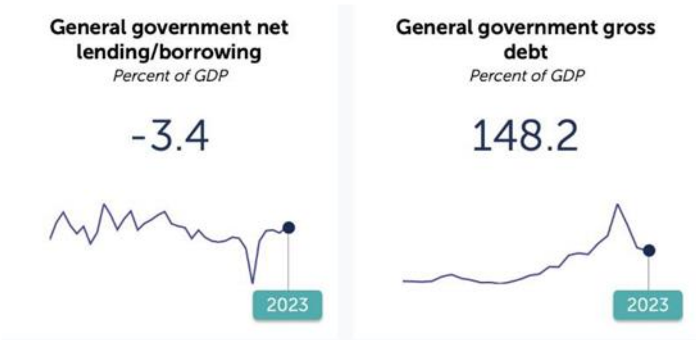
Venezuela continues to face severe hyperinflation, with the IMF projecting a decrease from 220% in 2023 to 150% by 2024 according to the *International Monetary Fund, World Economic Outlook.* This persistent hyperinflation significantly escalates operational costs in the oil industry, undermining profitability and disrupting supply chains. Measures like de facto dollarization have only partially offset these challenges, as noted by Bertelsmann Stiftung and FocusEconomics in 2024. Additionally, the instability of the Venezuelan bolívar, exacerbated by economic mismanagement and international sanctions, disrupts the economic landscape, particularly affecting the oil industry due to sharp devaluations and market distortions between official and black-market rates.

Venezuela's economic health is heavily tied to oil revenues, leading to financial vulnerabilities and fiscal instability. Extensive government subsidies and control over oil revenues, coupled with borrowing and money printing, have worsened hyperinflation and fiscal instability. This situation is reflected in the 2023 fiscal data of IMF, showing a government net lending/borrowing at -3.4% of GDP and a gross debt at 148.2% of GDP, highlighting the substantial fiscal burdens that complicate economic stability and policymaking.



Source: International Monetary Fund, World Economic Outlook

The country's GDP is expected to grow by 4% in 2024, driven by increased oil production and relaxed U.S. sanctions, as reported by the IMF and GlobalData. However, Venezuela's market remains highly volatile due to its dependency on fluctuating oil prices and historical governmental price controls, which further destabilize the economy and deter foreign investment. Measures like de facto dollarization provide temporary relief but do not address the underlying economic disparities and structural issues (Bertelsmann Stiftung, BTI 2024 Country Report — Venezuela).



Source: International Monetary Fund, World Economic Outlook

2.1.2 Venezuela's Environmental Regulations and Risks

Due to the poor maintenance of oil infrastructure, there is a high risk of environmental incidents such as oil spills, which can cause significant ecological damage and potentially result in hefty fines and cleanup costs. These events can disrupt production and tarnish PetroChina's reputation as a responsible stakeholder in the global market. Additionally, Venezuela’s outdated technology in oil production results in high levels of carbon emissions, which could expose PetroChina to increased scrutiny and compliance costs under international environmental standards. Adapting to global pressures to reduce emissions may require additional investments in cleaner technologies or carbon offset strategies.

The combination of economic instability marked by hyperinflation and infrastructure deterioration, alongside environmental risks from outdated technologies, presents significant challenges for

PetroChina. The economic risks are particularly acute, as they directly impact the cost- efficiency and reliability of oil imports from Venezuela. Environmental concerns, while also critical, primarily pose reputational risks and potential future compliance costs.

2.2 Iran Risk Assessment

2.2.1 Iran's Economic Risk

The recent announcement regarding the launch of the largest Izomax unit in the Middle East, situated at the Abadan refinery, signifies a significant stride towards enhancing Iran's oil and refining sector. This development accentuates a substantial investment in advanced equipment and technology, indicative of a strategic commitment to bolstering equipment reliability and minimizing downtime. The implementation of state-of-the-art isolation technology, exemplified by the Izomax unit, promises improved equipment reliability. This advancement is poised to yield substantial cost savings by curbing maintenance expenses, augmenting operational efficiency, and streamlining production processes. Furthermore, modernized equipment reliability serves as a defense against the disadvantageous effects of unplanned shutdowns or disruptions, thereby ensuring uninterrupted production and consistent revenue generation for the refinery.

Furthermore, the expansion of refining capacity along with the improvement in equipment reliability and operational efficiency, is anticipated to catalyze an upsurge in oil production volumes across Iran. This surge in production volumes holds the potential to fortify economic stability by bolstering government revenues, fostering employment opportunities, and catalyzing economic growth through heightened investment and augmented export earnings. Additionally, plans to diversify the fuel basket, including the conversion of methanol to gasoline, stand to further enlarge Iran's energy resilience and economic sustainability.

Iran's market mechanisms encounter serious complications originated from stringent regulations, inadequate protection for minority investors, and underdeveloped financial markets. The economy operates within a monopolistic power structure characterized by entrenched state-business-military relationships, often described as a "monopolistic, religious-commercial system" or a "capitalist state with a paramilitary polity and theocratic rule." Consequently, Iran deals with common challenges such as mismanagement, nepotism, corruption, brain drain, and capital flight, which persist at internationally elevated levels. This structure confines the institutions from competition, distorting the principles of a free market. Entities within this system enjoy privileged treatment, including tax exemptions and exclusive access to lucrative government contracts. Moreover, U.S. extraterritorial and SWIFT sanctions have severed Iranian banks' ties to the global financial system, isolating them since 2010. This gap widened after the internationally significant regulations introduced in response to the 2008/2009 global financial crisis. Despite efforts to bolster monetary policy and increase government spending to stabilize exchange rate markets, the inflation rate is projected to decline from 40% in 2023 to 30% in 2024. However, these measures may not fully address the structural challenges facing Iran's economy, perpetuating its vulnerability to economic shocks and further widening the gap between its financial system and global standards.

Figure 1. Iran's Macroeconomic Forecast

	Real GDP growth (annual % change)	Inflation rate, average consumer prices (annual % change)	Unemployment rate (%)	Government Budget Deficit (as % of the GDP)	Current Account Balance (as % of the GDP)	Public Debt in relation to GDP
2021	4.72%	40.13%	9.18%	-3.90%	0.7%	42.4%
2022	3.02%	39.99%	9.38%	-4.2%	1.6%	34.17%
2023	2.05%	40%	9.65%	-6%	1.5%	31.9%
2024	2.05%	30%	9.9%	-6.45%	0.8%	32.16%
2027	2.05%	25%	10%	-7.33%	0.3%	35.98%

Data Source: International Monetary Fund World Economic Outlook[1]

Iran experienced a GDP growth rate of 2.05% in 2023 and 2024 generating a stable economic expansion thanks to government spending, increased foreign direct investment, diversification of economic sectors and the ties with new Asian partners. Even though foreign investors were dissuaded after the 2018 sanctions imposed by the US, in 2022 the total number of foreign investments increased. Its projected GDP growth is lower than in previous years because of high inflation and the new export competition arising from the Russia-Ukraine war, that has led to Russian oil being discounted, increasing its access to the Chinese market.

2.2.2 Iran's Environmental Risk

Iran has more than 154.8 billion barrels of recoverable reserves of crude oil and gas condensate, equivalent to 11% of the total crude oil reserves in the world, making it the third largest oil reserve in the world. The severe ecological crises faced by Iran, including environmental degradation, are driven by misguided policies and then exacerbated by climate change, which directly impact the country's economy. These crises give rise to economic challenges, public health issues, social disruption, and political protests, all of which have implications for the stability and performance of Iran's oil industry. Prolonged droughts and shortsighted water management practices have led to nearly depleted groundwater resources. The inefficient agricultural sector and rapid population growth intensify the water demand, hence contributing to water scarcity. Groundwater depletion contributes to advancing desertification in Iran, leading to forest dieback, reduced biodiversity, and increased land subsidence. Desertification also results in elevated air pollution levels, particularly in major cities, posing health risks and necessitating the closure of schools and offices. Decades of misguided government policies have worsened Iran's environmental crisis and fueled public discontent over socioeconomic challenges.

CHAPTER III: IRAN AND VENEZUELA SOVEREIGN RISK

Investing or purchasing oil in Iran or Venezuela, countries renowned for their political and economic instability, requires a meticulous evaluation of the inherent sovereign risks. Sovereign risks are defined as the likelihood of default on debt obligations, and it is associated to the broader risk of investing or doing business with or in a specific country.

3.1 Business Accessibility in Venezuela

If on one hand Venezuela ranks at the bottom (188/190) in the “Ease of Doing Business” Ranking, China, on the other hand, constitutes a central trading partner for the south american country. Indeed, more than 23% of Venezuela’s exports head to China, compared to 18% of imports coming from the latter. Furthermore, similarities in political doctrines also translate into closer commercial ties, allowing companies like PetroChina to have access, if not privileged compared to Western competitors, at least facilitated. After all, China is Venezuela’s largest creditor, giving it significant negotiation power in practice, regardless of the legal framework theoretically applicable to oil exchanges.

A closer look at institutional control reveals that, given the substantial weigh of the oil industry in the Venezuelan economy, the legal framework governing this sector is subject to stricter regulations than in other sectors and falls under government oversight. Foreign investments are monitored by various institutions such as the Cartagena Agreement Commission, the Ministry of Finance’s foreign investment superintendency, the Investment Fund of Venezuela, and the central bank which oversees and registers all foreign investment transactions. Moreover, since the passage of the 2001 Hydrocarbons Law in Congress, all validation, transportation, and storage of oil are carried out by state-owned entities such as Petróleos de Venezuela SA or through public-private partnerships.

3.2 Business Accessibility in Iran

In response to accusations of terrorist conspiracies, Iran has faced numerous financial sanctions, which have directly impacted its debt levels and inflation rates. For example, in 2012, SWIFT expelled more than 30 Iranian financial institutions, including the Central Bank, as the country was accused of transferring funds to terrorist groups like Hezbollah. In 2018, President Trump withdrew from the JCPOA (Joint Comprehensive Plan of Action), an agreement that ensured Iran's nuclear program would remain peaceful while lifting some economic sanctions. His "maximum pressure" campaign led to new sanctions on all countries and companies trading with Iran, rendering the JCPOA provisions null. This significantly affected Iran's financial system, with gross official reserves dropping from $70 billion in 2017 to $4 billion in 2020 not to talk about the frozen reserves abroad, making it difficult to service debt and invest in the oil industry. The drop in Iran's foreign exchange rates and increased liquidity in the market led many to withdraw their capital from the country due to deepening inflation, further depreciating the national currency.

3.3. Central Bank Policies: Analyzing the independence of the central bank and its monetary policies

Even though the Constitution (Art 2) mentions that the Central Bank is autonomous in the elaboration and implementation of monetary policies, as of 2016 its independence was nullified as several reforms engaged by the institution, were considered unconstitutional This absence of autonomous central bank poses significant concerns regarding the adequateness of the monetary policy conducted. The Venezuelan Central Bank's policy as served as a conduit for the regime's propaganda rather than a catalyst for inflation and currency stability – two crucial factors to pounder when thinking about doing business with a country. Printing money to finance its budget deficits as only has only exacerbated even more inflation. On the other hand, to increase its exports and thus improve its balance of payments, the government has proceeded to currency devaluations which once again affect the stability and trust on the Bolívar.

We naturally advise PetroChina to use the dollar or the RMB to protect against inflation risk. Both currencies are stable, globally accepted, and help avoid sanctions associated with the bolivar. Additionally, contracts in dollars or RMB are easier to enforce than those in bolivars.

3.4. External Debt: Examining the level of external debt

Currently, China (followed by Russia) is the main bilateral creditor of Venezuela's sovereign debt, accounting for more than a quarter of the country's external debt, which now stands at 150% of GDP. Venezuela's debt surge began in 2010.Under Hugo Chávez significant debt was accumulated to fund social programs in healthcare, education, housing, and nutrition, relying on high oil prices. When oil prices collapsed in 2014, the economy slowed, and concerns about default arose. Maduro's government denied the default, refusing to renegotiate PDVSA's debt or restructure the sovereign debt, which shook investor trust. In 2015, the situation worsened with increased borrowing and rampant inflation. By November 2017, S&P declared Venezuela in selective default as the country began missing debt payments. Juan Guaidó's brief tenure in 2019 brought hope for debt restructuring, but it faltered as Maduro regained power.

3.4.1 Chinese collateralization of Venezuelan debt: Leveraging PDVSA's daily inflow of oil income

Out of all Chinese lines of credit to Latin America, nearly 64% are directed towards Venezuela (between 2010 and 2013). Although the share towards Venezuela currently stands bellow 18% of the total credits extended to the region, China still maintains a grip on Venezuela having as main collateral key strategic assets like oil.

Indeed, with the aim of safeguarding themselves against potential default on the debt, Chinese banks prefer to secure Venezuelan oil as collateral through what are commonly known as "loan-for-oil deals". The system is rather straightforward: the Chinese purchase the oil they need from Venezuela through the state-owned company PDVSA. With the proceed from these sales, Venezuela gradually repays China with daily oil supply. The problem with using PDVSA's proceeds as collateral to repay external debt, instead of reducing public spending and diversifying the economy, has limited reinvestments in PDVSA's operational capacity affecting all stakeholders: the country, the government, investors and buyers.

3.5 Iran restricted access to international financial markets forces increased monetary supply, fueling inflation amid debt servicing constraints.

"Since August 2021, money printing has grown by 115 percent. Since the time of the Achaemenid dynasty until August 2021, the entire printed money was 5.19 quadrillion rials. But in the past two and a half years, you have printed 6 quadrillion rials. Therefore, one of the main reasons for inflation and the increase in the exchange rate is this extensive money printing by the thirteenth government. Don't look for other reasons. Much of this inflationary pressure and the pressure of the rising exchange rate is due to this extensive money printing of the thirteenth government."

Abdolnaser Hemmati, former governor of the Central Bank of Iran

The latest Middle East and Central Asia regional economic outlook by the IMF provides a comprehensive view of the significant challenges facing the country's public finances. The report reveals a nation grappling with soaring debt, a reality that the Central Bank seeks to address through an increase in money supply which leads to increased inflation that impacts among other things the price of oil in the market. Concerning Iran, the country's political tensions with the United States and the latter's sanctions significantly influence the sovereign risk profile of Iran and their grading in international credit ratings which limits the capability of the country to attract investments and accessing international financial markets to modernize or finance new refineries infrastructures and service the already high existing debt. This reality has led Iran to rely heavily on Chinese and Russian borrowings. In the report, IMF forecasts an increase of public expenditures notably in government and state-owned companies' debt to an amount that represents more than a quarter of Iran's economy (118 billion$). This increased liquidity has led to a depreciation of the Iranian Rial and an intensification of inflation at more than 38%.

Adding to the complexity, the IMF report overlooks the discounts Iran provides to Chinese refineries, estimated by Reuters at approximately $13 for each barrel. This situation presents a challenge for Iran's ability to finance its budget deficits while simultaneously providing Chinese companies with a favorable profit margin and competitive advantage over foreign competitors where oil is sold at higher prices.

CONCLUSIONS

After a deep analysis on Iran and Venezuela from a political, economic/environmental and sovereign risks point of view. **Iran** appears to offer a more stable investment environment compared to Venezuela despite the sanctions. Iran's strategic geographic location, ongoing infrastructure projects, and the potential easing of sanctions could provide more sustainable long-term benefits for PetroChina. While **Venezuela**, rich in oil reserves, presents considerable risks due to its political instability, economic volatility, and the high level of government control over the oil sector, which might pose too high a risk despite the potential high rewards. Based on these considerations, we strongly suggest to PetroChina to focus on Iran as a best choice for buying oil, given its slightly more stable economic conditions, strategic partnerships, and the potential for infrastructural and economic improvements that could mitigate some of the geopolitical risks.

RECOMMENDATIONS

For PetroChina's potential refinery project in Venezuela, it is crucial to develop a robust risk management framework to mitigate political, economic, and operational uncertainties. Engaging closely with local communities, government entities, and environmental organizations will be essential to foster good relations and facilitate smooth operations. Investing in advanced refining technologies will improve efficiency and compliance with stringent environmental standards. Additionally, diversifying investments into alternative energy sources and other petroleum sectors can help stabilize revenues against volatile oil prices. Regular training and audits for regulatory compliance are also recommended to maintain high operational standards and avoid legal issues.

These strategies will help PetroChina navigate the complex investment landscape in Iran effectively. By focusing on these areas, PetroChina can effectively manage the complexities of purchasing oil from Iran while minimizing risks and maximizing the reliability and profitability of their oil supply chain.

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