

# Despite claims, problems plague Venezuela's oil industry

**Venezuela claims to be at the top of its oil game, but the reality for the world's fifth largest exporter, punctuated by refinery fires and doubts over production, may be far more sobering.**

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**CARACAS** - The state-owned Petróleos de Venezuela SA oil company pumps up its future on its website, touting creation of the "New PDVSA" and boldly declaring it will reach 5.8 million barrels per day of production by 2012.

But the reality, punctuated by refinery fires, electricity blackouts and doubts over production, may be something far more sobering for the world's fifth largest exporter and one of the top suppliers of crude to the United States.

Projections aside, production seems stagnant. While the Venezuelan government claims PDVSA produces 3.3 million barrels per day, the U.S. government, OPEC and the Paris-based International Energy Agency all say the company is producing somewhere in the range of 2.6 million barrels.

Meanwhile, the refineries troubles cannot be hidden. The latest mishap occurred last Friday when PDVSA had what it called an "operational event" at its Amuay refinery. PDVSA did not clarify what that meant, but a local newspaper reported an explosion.

It wasn't the first incident at the troubled refinery that has come to symbolize the problems the company has had since a national strike to force President Hugo Chávez from power in 2002 and 2003 led to the dismissal of at least 19,000 workers.

## **FATAL EXPLOSION**

In March, an explosion at Amuay killed a worker and injured four more. In July, another fire knocked out a 74,000-barrels-per-day distillation unit.

"We're lucky something worse hasn't happened," Oswaldo Caibett, the head of the PDVSA labor union, FEDEPETROL, told The Miami Herald by telephone.

Caibett's public complaints are something of an aberration in Venezuela's politically charged atmosphere just before Sunday's presidential election in which Chávez is seeking another six year-term.

Under Chávez, who was first elected in 1998, PDVSA hasn't been especially forthcoming about its problems -- in part because Chávez's image and, possibly, his political survival are inexorably linked with PDVSA's.

In this way, Chávez is not too different from his predecessors. Since its creation in the mid-1970s, PDVSA, one of the country's largest employers and the government's largest source of revenue, has been the symbol of the Venezuelan government's efficiency or lack thereof, as well as its cash cow for social programs and large-scale subsidies.

However, Chávez seems to have taken his relationship with the company one step further, using PDVSA muscle at home and abroad. Chávez has spent billions of PDVSA dollars on popular health, education and housing projects. He heavily subsidizes gasoline sales here -- a gallon cost about 10 U.S. cents -- and has given oil at discount rates to Cuba and several other Central American, South American and Caribbean nations to further his aim of unifying an anti-U.S. trading bloc.

Since the national strike, the Chávez administration also has created what it calls the "New PDVSA," which has goals remarkably similar to the old PDVSA - - the company that ran all oil operations in this country until the early 1990s, when the country opened up the industry to foreign oil companies.

But, in contrast to the old PDVSA, the "New PDVSA" includes upper management that must be in line with Chávez's policies and his push toward greater state control over the country's natural resources as well as the goal of extracting higher royalties and billions of dollars in back taxes from foreign oil companies.

## **DISSENT NOT ALLOWED**

PDVSA now has 51 percent stake in all oil fields.

Political dissent is not allowed. A recent video, filmed secretly during a company meeting and provided to the press by opposition forces, showed PDVSA president and minister of mines and energy, Rafael Ramírez, declaring the company's allegiance to Chávez.

The "New PDVSA" is also highly secretive and appears to be discriminatory in its hiring practices. Hiring seems to be based on politics rather than expertise or experience. This, says Caibett and some analysts, has hurt the company and is contributing to the accidents. In addition to the accidents, PDVSA has had power outages and pipeline ruptures.

"Having lost all those people, the company has struggled," said Roger Tissot, an oil analyst at PFC Energy.

Analysts like Tissot and workers like Caibett said the government seems to be realizing it needs better personnel and help with its problems. PDVSA has reportedly called in outsiders such as U.S. chemical company DuPont, to help with safety issues.

PDVSA also has launched an ambitious proposal to invest \$56 billion for exploration and production.

"What's at stake isn't the ideological well-being of the company," said Mazar alShereidah, a professor of petroleum economics, and advocate of Chávez's recent changes in government policy. "What's at stake is the economic well-being of the country."