

# Venezuela seizes last private oil fields

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BARCELONA, Venezuela -- President Hugo Chavez's government took over Venezuela's last privately run oil fields Tuesday, intensifying a power struggle with international companies over the world's largest known single petroleum deposit.

Newly bought Russian-made fighter jets streaked through the sky as Chavez shouted "Down with the U.S. empire!" to thousands of red-clad oil workers in the Orinoco River Basin, calling the state takeover a historic victory for Venezuela after years of U.S.-backed corporate exploitation.

"The nationalization of Venezuela's oil is now for real," said Chavez, who declared that for Venezuela to be a socialist state it must have control over its natural resources.

Chavez accused foreign oil companies of bad drilling practices due to their hunger for quick profits, and said Venezuela could sue them for causing lasting damage to oil fields.

While the state takeover had been planned for some time, BP PLC, ConocoPhillips, Exxon Mobil Corp., Chevron Corp., France's Total SA and Norway's Statoil ASA remain locked in a struggle with the Chavez government over the terms and conditions under which they will be allowed to stay on as minority partners.

All but ConocoPhillips signed agreements last week agreeing in principle to state control, and ConocoPhillips said Tuesday that it too was cooperating.

The companies have leverage with Chavez because experts agree that Venezuela's state oil company, Petroleos de Venezuela SA, cannot transform the Orinoco's tar-like crude into marketable oil without their investment and experience.

"They're hoping ... that as time passes Chavez will realize he needs them more than they need him," said Michael Lynch, an analyst at Winchester, Mass.-based Strategic Energy and Economic Research. He predicted most oil companies - with the possible exception of Exxon Mobil - would stay.

Patrick Esteruelas, an analyst at the New York-based Eurasia Group, said the companies are likely to stay, but in the meantime, the turmoil could cause production to fall at the operations, which export much of their output to the United States and other countries.

State-run PDVSA "is going to be assuming control as an inefficient and cash-starved company and is probably going to drag production down," he said.

Multinationals pumping oil elsewhere in Venezuela, one of the leading suppliers of oil to the United States, submitted to state-controlled joint ventures last year because they were reluctant to abandon the profitable operations.

Esteruelas said since those takeovers, Venezuela's overall output has declined by close to 4 percent, or 100,000 barrels a day, with some companies complaining they have not been paid for the crude they have been pumping. "I expect to see a repeat of that in the Orinoco," he said.

Venezuela denies production problems and says it is on track to lift output in the coming years.

Chavez says the state is taking a minimum 60 percent stake in the Orinoco operations, but he is urging foreign companies to stay and help develop the fields. They have until June 26 to negotiate the terms.

The stakes are high for both sides. The Orinoco River basin, though not yet fully explored, is recognized as the world's single largest known oil deposit, potentially holding 1.2 trillion barrels of extra-heavy crude.

If Venezuela is able to recover much of that, it would surpass Saudi Arabia as the nation with the most reserves. If the big oil companies were to leave, Chavez says state firms from China, India and elsewhere can step in, but industry experts doubt they are qualified.

Pulling out would be damaging for the companies. They have invested more than \$17 billion in the projects, now estimated to be worth \$30 billion. Venezuela has indicated it is inclined to pay the lesser amount for taking over control - with partial payment in oil and, some experts suspect, tax forgiveness.

Chevron's future in Venezuela "will very much be dependent on how we're treated in the current negotiation," said David O'Reilly, chief executive of the San Ramon, California-based company. "That process is going to have a direct impact on our appetite going forward."

Venezuela may still prove enticing because three-quarters of the world's proven reserves are already controlled by state monopolies.

Nationalization of the oil industry has been tried in Venezuela before, though with a different tack. Venezuela shut companies out of the oil sector completely between 1976 and 1992 before beginning a series of partial privatizations, which Chavez is now rolling back.

Chavez is also nationalizing electricity companies and the country's biggest telecommunications company, and has threatened to take over private hospitals if they continue raising prices for care. He says radical changes are needed to help the poor.

U.S. State Department spokesman Sean McCormack said Tuesday that Venezuela's negotiations with oil companies "will proceed as they will" but said Chavez's broader actions - including a move to pull out of the World Bank and International Monetary Fund - were digging Venezuela into a hole.

"I think he's digging a hole for the Venezuelan people," McCormack told reporters in Washington. "You can't take the shovel out of the man's hand. He just keeps on digging. And sadly, it's the Venezuelan people who are victimized by this."