

Venezuela Assumes Control of Its Oil Fields

Analysts Question State Firm's Readiness for Move

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CARACAS, [Venezuela](#), April 30 -- President Hugo Chavez's government will take control Tuesday of what might be the world's richest oil fields, a huge swath known as the Orinoco Belt that Big Oil has spent a decade and nearly \$20 billion developing.

In the past two years, Venezuela, like energy-rich countries from [Russia](#) to [Bolivia](#), has exerted increasing control over its oil. But now, Chavez's administration will take its biggest leap yet, with the state oil company assuming a 60 percent stake in four projects previously run by multinationals, including ExxonMobil, ConocoPhillips and Chevron.

The shift is being greeted with revolutionary fervor. "For the country's workers, it's a day to celebrate," Energy Minister Rafael Ramírez said recently.

[Ramírez declared that the Orinoco fields had reverted to state control just after midnight, the Associated Press reported. Television showed oil workers in hard hats raising the flags of Venezuela and the national oil company over a refinery and four drilling fields in the Orinoco River basin.]

Despite the pomp of the occasion, many oil analysts question whether the state company, Petroleos de Venezuela, is prepared to oversee the development of projects in the country's north that, if fully exploited, could give Venezuela the largest certified oil deposits in the world.

The firm, which previously had a minority stake in each of the projects, will now be better positioned to make key decisions on production and refining, and on how to manage the workforce. It will also assume more responsibility for investments. But the fields contain a heavy, molasses-like oil that is highly expensive and problematic to refine -- and the state company could face severe financial and technical challenges, analysts say.

On the surface, PDVSA, as the company is best known, appears stronger than ever. It is among the world's top five oil companies and exports to the United States, Europe and distant [China](#). Last year its revenue, including refineries and the Citgo retail arm in the United States, topped \$100 billion.

PDVSA has also become a tool for social change in the president's self-styled revolutionary government, spending nearly \$12 billion last year to alleviate poverty and helping run programs from home building to literacy training.

But oil analysts say the pace and scope of the expenditures on social programs, up from \$549 million in 2003, are hitting the company hard, leaving it vulnerable.

Company filings and interviews with oil analysts show that PDVSA has failed to invest in infrastructure and is unable to ratchet up production. If prices tumble -- unlikely in the near term, but almost certain in a historically volatile industry -- the company would have difficulty making up for the shortfall, troubling for a country that depends on PDVSA for three-quarters of its export revenue.

"I think the consensus is that the company is in a very weak position," said David R. Mares a Latin America expert at the University of California at San Diego and co-author of a study of the firm. "For PDVSA, that's a particular problem because it means that with their inefficiencies, with higher prices, it's difficult for them to explore and to do more. They have multiple points where they're significantly weaker."

Francisco J. Monaldi, an oil expert at the Institute of Superior Administrative Studies in Caracas, said that a fiscal crisis could take time to materialize, given the huge financial reserves the government has accumulated because of high oil prices. But he said the government could be in trouble if the price falls below \$50 a barrel for more than a year.

"The current rate of increase in public expenditures is not sustainable," he said. Monaldi argued that a significant drop in oil prices would leave the government with two difficult options, cutting social programs or raising production. "If Venezuela wants to increase production, it will be hard, very hard, because it will require a lot of investments, \$7 billion or \$8 billion a year," he said, noting that investment has fallen fall short of that.

Venezuelan officials heatedly reject such arguments, although they are common among oil analysts in the United States and Latin America.

"Of course, it's prepared," Bernardo Alvarez, Venezuela's ambassador to Washington and a former vice minister of energy, said in reference to PDVSA's expanding responsibilities. "PDVSA is very solvent, and it is one of those companies that has a great capacity to carry out big projects, internally or internationally."

PDVSA was considered one of Latin America's few well-run state energy companies, producing about 4 million barrels of oil and derivatives a day in the late 1990s. But by 2002, angered by what they saw as government meddling in the company, thousands of white-collar workers had joined the ranks of an opposition movement that launched a protracted strike in December 2002 to topple Chávez.

The government fired 18,000 workers, saying that the company had been run by elites beholden to the corrupt practices and politicians, not to the Venezuelan people. Now, government officials say, PDVSA is a company of the people that is helping extricate Venezuelans from grinding poverty.

"You don't have a company that gives the shoulder to the country," Alvarez said, "but one that is instead crucial to the development of the country."

The new PDVSA, under control of the president's allies, produces from 2.3 million to 2.5 million barrels a day, according to oil analysts and figures from the Organization of the Petroleum Exporting Countries (OPEC), of which Venezuela is a founding member. (Venezuelan officials insist they produce more than 3 million barrels daily.) Chávez is OPEC's leading price hawk, and his policies have helped sustain the historically high prices that have proved a bonanza to producers.

Still, Venezuelan officials frequently talk about increasing production to as much as 5.8 million barrels a day by 2012.

Many analysts dismiss that as unrealistic, noting that production has been declining for nearly a decade. Indeed, one sign of PDVSA's lower capacity is that it has far fewer operating wells than in the past, and its plans call for fewer exploratory wells than were used in the Orinoco. "My impression is that PDVSA is not in a free fall, like some opponents say," Mares said, "but there are signs that the company is not capable of realizing investments, and it's fallen a lot."

One sign of PDVSA's limitations is that the company is disputing the value of the four projects in the Orinoco, which the multinationals say now top \$30 billion. While the companies and Venezuelan officials remain in talks over compensation and PDVSA's exact role in day-to-day operations, the Chávez government has signaled that it will probably pay book value for Big Oil's investments, possibly in oil or by forgiving taxes. That would save PDVSA from having to come up with billions of dollars that analysts say it doesn't have.

The government says such a move is only fair, because until Chávez hiked royalties and taxes, the multinationals had enjoyed a virtual tax holiday in the Orinoco.

"Don't anyone try to abuse our good faith," Chávez warned at a recent news conference. "We know the exact cost of every meter of pipeline, every installation that's been made, every investment made."