

## 2 Oil Firms Are Defiant in Venezuela

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HOUSTON, June 26 — [ConocoPhillips](#) and [Exxon Mobil](#) refused on Tuesday to meet [Venezuela](#)'s deadline to reach an agreement on ceding control of their major oil production ventures, in what could be their imminent separation from billions of dollars in investments.

The possible rupture with the two companies was viewed by oil analysts as a sign that President [Hugo Chávez](#) was pressing ahead with efforts to assert greater authority over some of the most coveted oil reserves in the Western Hemisphere. It came after months of negotiations in which several of the world's largest private oil companies tried to salvage some kind of minority ownership role in Venezuela, one of the largest sources of oil for the United States.

The possible exit of two major American oil companies from Venezuela may not have an immediate impact on American energy supplies, but any increase in oil prices that does result will only help Mr. Chávez finance his broadening government social policies.

A possible vacuum in expertise could eventually be filled by Chinese, Iranian or other state oil companies. In any case, most energy experts believe that the Venezuelan state oil company will be hard pressed to sustain production levels without American expertise.

Rafael Ramírez, the Venezuelan energy minister, made the announcement in Caracas. He concluded that the companies had not met the government's deadline to agree to terms under which the government oil company would take majority control over Conoco's investments of about \$3.5 billion and Exxon's investments, valued at \$800 million.

Venezuelan officials said that some foreign companies, including [Chevron](#), [BP](#), [Total](#) and Statoil, had agreed to cede controlling stakes in their oil ventures to [Petróleos de Venezuela](#), the country's government-owned energy concern. The projects included in the talks are in the Orinoco Belt, an area south of Caracas that is one of the most valued deposits of heavy oil.

“The partners who signed are betting on a secure future in our fatherland,” Mr. Ramírez told reporters.

Still, these companies’ acceptance of the new rules in Venezuela and the potential exit of Conoco and Exxon point to concern that developments in Venezuela may influence negotiations over oil and natural gas projects in other countries, from rising African oil producers like Angola to longtime members of the Organization of the Petroleum Exporting Countries like Iran.

“What happens in Venezuela is something the Russians will look at, and may have bearing on places like Iran, Nigeria and other countries,” said Amy Myers Jaffe, an oil analyst at the [James A. Baker III](#) Institute for Public Policy of [Rice University](#).

Oil is at the heart of a broader nationalization push that also includes large telecommunications and electricity companies. Mr. Chávez is trying to give his government a stronger hand in Venezuela’s economy even as the oil industry, by far the country’s largest source of revenue, struggles to maintain anemic production levels.

Michael J. Economides, an oil consultant in Houston, said Venezuela could benefit in the short term if fears over production translate into higher global oil prices. “If he produces 1 percent less,” Mr. Economides said in reference to Mr. Chávez, “the world market responds to that and he gets 20 percent more revenue over a period of time.”

Industry analysts put Venezuela’s output at about 2.3 million barrels a days, including more than 400,000 barrels a day from the heavy oil projects. Venezuela’s government says overall production is closer to 3.2 million barrels a day.

But with public spending surging under Mr. Chávez and with oil companies from Brazil, China and India hesitant to make major investments in Venezuela while legal uncertainty persists, energy analysts have cautioned that Venezuela’s government risks allowing prized reserves to remain underdeveloped.

“The Venezuelans have increased the cost of developing this resource,” said Roger Tissot, director for Latin America at PFC Energy, a consulting firm, in Washington. “At the end of the day, the Venezuelan people will pay the price for these decisions.”

Michael S. Goldberg, head of the international dispute resolution group at Baker Botts, a law firm here that represents major oil companies internationally, said he did not think Tuesday’s actions were “necessarily the end of the story.” He added, “The prospects of a deal are never over until a sale is made or an arbitrator reaches a decision.”

The investments at stake are large by any measure, with values ranging from \$2.5 billion to \$4.5 billion for Conoco if Venezuela takes ownership of its heavy oil projects. Exxon stands to lose about \$800 million. More than \$6 billion may be lost by other private companies, depending on how they are compensated.

“Although the company is hopeful that the negotiations will be successful, it has preserved all legal rights, including international arbitration,” Conoco said. Exxon also expressed hope that an agreement could be reached that would permit it to continue operating in an ownership role.

“Exxon Mobil is disappointed that we have been unable to reach an agreement on the terms for migration to a mixed enterprise structure,” the company said. “However, we continue discussions with the Venezuelan government on a way forward.”

Should the American companies leave, some of the other multinational companies that remain could eventually take their place. The Venezuelan government has been talking to government-controlled companies from China and other countries about creating new ventures to extract and refine Venezuelan oil.

“Venezuela is now free to find other partners,” said Mazhar al-Shereidah, a petroleum economist in Caracas. “I don’t think Petr6leos de Venezuela can cover all the technical and financial demands of these ventures, but this doesn’t constitute a dramatic situation.”

Conoco's shares fell 2.9 percent on Tuesday to \$75.80 as investors reacted to the announcements from Caracas. Exxon, which relies less on Venezuela as a portion of its overall output, fell 0.7 percent to \$81.82.