

Two top U.S. oil firms say no to Venezuela's Chávez

ExxonMobil and ConocoPhillips refused to sign an agreement with Venezuela to split up crude-oil operations. It could mean the end of both companies' presence in Venezuela.

The Miami Herald
Jun. 27, 2007

Two of the world's largest oil companies, U.S.-based ExxonMobil and ConocoPhillips, refused to sign an agreement with the Venezuelan government to split their heavy crude operations in the Faja region in the heart of Venezuela, the Venezuelan government announced on Tuesday.

"In the case of ExxonMobil and ConocoPhillips, their participation in the Faja is over," Venezuelan Energy Minister Rafael Ramírez announced during a signing ceremony for those who agreed to grant the government majority stake over their fields, which lie above the Orinoco River about 125 miles southeast of the country's capital, Caracas. "We've spoken to both companies to continue the negotiations."

The announcement came after weeks of talks between the government and several foreign operators in the 600,000 barrels-per-day Faja region. U.S.-based Chevron, Britain's British Petroleum, France's Total and Norway's Statoil all signed with the government, granting it majority stake in the fields that have an estimated value of \$30 billion.

PetroCanada joined ExxonMobil and ConocoPhillips in their dissent and is leaving Venezuela altogether, Ramírez said.

The move is not expected to upset production in the short term but could mean the end of both U.S. companies' longtime presence in Venezuela, the world's sixth largest producer and fourth largest supplier to the United States.

Analysts have also questioned state oil company PDVSA's ability to manage the complicated fields, which require sophisticated and often proprietary equipment that the companies may extract if they leave.

Terms of the possible severance were not announced, but ConocoPhillips may appeal the case to an international arbitrator, Reuters news agency reported. And ExxonMobil said it will continue to negotiate with the Venezuelan government.

"ExxonMobil is disappointed that we have been unable to reach an agreement on the terms for migration to a mixed enterprise structure. However, we continue discussions with the Venezuelan government on a way forward," ExxonMobil spokesman in Venezuela Richard Bailey told The Miami Herald in an e-mail exchange.

Since taking power in 1999, Venezuelan President Hugo Chávez has steadily garnered control of once privately owned and operated oil fields in Venezuela, as well as raised royalties and charged the companies millions in back taxes.

The moves are part of a worldwide trend. From Nigeria to Russia, central governments are increasing their stake in oil ventures to take advantage of the increasing prices and the rising leverage they have over the companies.

Venezuela's battle, however, has had a powerful political tinge to it, as Chávez says his moves are part a "march" toward "21st Century Socialism." In 2005, he forced 22 private firms to hand over majority stakes in 32 fields that were part of the government's original "opening" of the oil industry in the early 1990s. In May, he announced the government would take control of the Faja fields.

The United States and other critics of Chávez say he's moving his country toward an autocratic state that may void press freedoms and private property. But while they don't like what the Venezuelan leader is doing, the critics seem powerless to stop him. Chávez is very popular in Venezuela, and has won three popular elections and a recall referendum.

"We want to see [Venezuela] meet their international commitments in terms of providing fair and just compensation in accordance with international standards, for any property that does come under government ownership," State Department spokesman Tom Casey said in a news briefing on Tuesday.

Since changes began, ExxonMobil has been one of the few foreign companies to openly question the Venezuelan government's actions, and the Venezuelan government has countered with strong criticism of its own.

ExxonMobil has less to lose than ConocoPhillips, which has billions of dollars tied to almost 300,000 barrels per day of production in the Faja.

Under the new agreements, Venezuela will control between 60 and 83 percent of the heavy crude operations in the Faja, the government said in a statement, and the state oil company, PDVSA, will operate the fields.