

Political Clashes Shake Venezuela's Strained Oil Industry

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CARACAS, [Venezuela](#), July 22 — Venezuela's national oil company is being shaken by claims of corruption and by internal dissent, indicating fissures within the institution largely responsible for financing President [Hugo Chávez](#)'s widening array of social welfare programs and foreign aid projects.

The problems at the company, *Petróleos de Venezuela*, have been compounded by a rare acknowledgment by Rafael Ramírez, the energy minister and president of the company, that it cannot hire enough drilling rigs, raising concern over its ability to halt declines in oil production.

“Our sovereignty is at risk if we allow *Petróleos de Venezuela* to remain in this situation,” *Luís Tascón*, a pro-*Chávez* lawmaker, said in a telephone interview. “We cannot allow this company to remain an indecipherable black box.” Mr. Tascón has summoned Mr. Ramírez to the National Assembly to respond to accusations of corruption against senior executives.

Mr. Ramírez has emerged as a focus of criticism amid claims of illegal deals with oil-services companies on his watch. The attacks on him are viewed as part of a power struggle among Mr. Chávez's supporters, with ideological loyalists clashing with the relatively less radical technocrats in charge of the strained oil industry.

The tension within *Petróleos de Venezuela* follows other feuds within political institutions under Mr. Chávez's control that began earlier this year when several political parties in his coalition resisted his move to gather supporters into a single Socialist party.

The armed forces also experienced an internal uproar after Gen. Raúl Isaías Baduel delivered a speech as he prepared to step down as defense minister this month saying that Mr. Chávez's Socialist-

inspired transformation of Venezuelan society should not be contaminated by Marxist orthodoxy.

But the depth of problems within Petróleos de Venezuela, which is responsible for about half of total government revenues and three-quarters of Venezuelan export revenues, illustrates how the feuds within Mr. Chávez's coalition may weaken his ability to carry out his plans.

In comments that jolted global energy markets last week, Mr. Ramírez, the energy minister, acknowledged that Petróleos de Venezuela had hired 40 percent fewer drilling rigs than its target for this year, in part because of new rules requiring contractors to donate 10 percent of the value of their contracts to social welfare projects.

While difficulty finding drilling rigs is not limited to Venezuela at a time of growing exploration internationally, Petróleos de Venezuela is also grappling with internal labor disputes as the company is strained by plans to create an assemblage of new subsidiaries charged with activities like farming, shipbuilding and manufacturing.

Union leaders, sensing vulnerability among senior executives and complaining that management had reneged on various employment benefits, said they were planning protests at production facilities across Venezuela this week. Work stoppages could make the company's production difficulties more acute.

Speaking before the National Assembly last week, Luis Vierma, vice president of exploration and production at Petróleos de Venezuela, described the company as being in an "operational emergency." A company spokesman did not respond to requests for interviews with Mr. Ramírez and Mr. Vierma.

Venezuela, with some of the largest oil reserves outside the Middle East, officially claims to produce almost 3.1 million barrels of oil a day, but institutions like the International Energy Agency in Paris put output at 2.37 million barrels a day, down about 230,000 from a year ago.

Other energy analysts say output problems are potentially even more broadly troubling. The country's oil exports fell 15 percent while overall production dropped 7 percent in the first quarter of this year, said Ramón Espinasa, a chief economist at Petr6leos de Venezuela in the pre-Ch6avez era and now a respected consultant, citing both the difficulties with hiring rigs and a surge in domestic fuel consumption driven by subsidized prices.

Combined with lower global oil prices during part of this year, Venezuela's income from oil exports may decline by about 24 percent in 2007, to \$45.6 billion compared with \$60.4 billion last year, by Mr. Espinasa's estimate.

Part of the strain on Petr6leos de Venezuela relates to Mr. Ch6avez's efforts to assert greater control over the oil industry this year, following decrees by the president enabling the takeover of oil projects from companies including Exxon Mobil, ConocoPhillips and Chevron.

That has raised fears that employees of those companies who have been critical of Mr. Ch6avez's actions could be fired.

A report last week in Tal Cual, an opposition daily newspaper, cited documents showing how Petr6leos de Venezuela had evaluated the political sympathies of engineers at Sincor, a venture whose control was recently ceded to the government from Total of France and Statoil of Norway. Several engineers deemed disloyal to Mr. Ch6avez were fired, according to the report.

With newer oil fields in the Orinoco Belt facing high production costs and technical challenges because the oil there is high in impurities, a smooth transition to government control is needed to keep production levels from falling.

"We're finishing a complex process," Bernardo 6lvarez, Venezuela's ambassador to the United States, said in a telephone interview, referring to the nationalizations.

"We remain committed to supplying oil to the United States," he added.

Venezuela remains one of the leading suppliers of oil to the United States, and the volume of oil bound for the United States has remained steady. Petroleum exports to the United States in April were 1.4 million barrels a day, the most recent figures available from the Department of Energy.

Mr. Chávez is betting that new ventures with national oil companies from China, Iran, Vietnam and Belarus will allow Venezuela to lift production. Yet while production costs soar and uncertainty persists as to treatment of foreign investors, companies in most other countries have been hesitant to invest heavily in Venezuela.

“The longer Venezuela’s new partners wait to negotiate with seriousness, the more vulnerable Chávez becomes,” said Roger Tissot, director for Latin America at PFC Energy, a consulting firm in Washington.

So far, Mr. Chávez has not publicly intervened in Petróleos de Venezuela. Instead, he seems to be placing his faith in a recent increase in oil prices, which hit an 11-month high of \$78.40 a barrel in London trading last week.

“Oil is going straight to \$100; no one can stop it,” Mr. Chávez said last week during a visit to Nicaragua.