Bolivarian Venezuela´s Oil Policy And Iran: A Failed Energy Alliance

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After 13 years in office, President Hugo Chávez and Venezuela are facing new uncertainties. This October, Hugo Chávez is scheduled to face his strongest electoral challenge ever, from a unified, center-left-led opposition. However, in early April, upon returning from cancer treatments in Havana, President Chávez made an emotional public plea in his hometown church, begging God to spare his life. Whatever the coming months may hold for Hugo Chávez and Venezuela, certainly his legacy will forever be bound up with his transformation of Venezuela's oil policy.

At the end of 2010, the national oil company, PDVSA, certified new extra-heavy-oil fields (API <10°) in the Faja, or oil belt, of the Orinoco River that give Venezuela the world's largest proven reserves, at 296.5 billion barrels,[1] and the US Geological Service has put current technically recoverable reserves at 513bn barrels.[2] Whenever speaking of these matters, President Chávez constantly asserted that he reestablished the nation's "petroleum sovereignty,"[3] allowing Bolivarian Venezuela to now pursue policies of its own choosing, no matter the opinions of "El Imperio"—i.e., the U.S.A.

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[1] *1PDVSA: Informe de Gestion Anual 2010[Annual Report]; http://www.pdvsa.com/interface.sp/database/fichero/free/6759/1388.PDF*

[2] *EIA Country Report on Venezuela at http://www.eia.gov/cabs/Venezuela/Oil.html, access 8 April 2012. Here, the EIA cites the Oil and Gas Journal as putting Venezuela's reserves at 211 billion barrels in 2011, which would place Venezuela second in proven reserves.*

[3] *"Petroleum Sovereignty Plan." Speech by Energy Minister and President of PDVSA, Rafael Ramirez on the occasion of 45th anniversary of OPEC, 2005. http://www.pdvsa.com/interface.sp/database/fichero/publicacion_opep/2376/169.PDF Access 8 April 2012.*

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Indeed, Venezuela's alliance with the Islamic Republic of Iran has evoked concern in Washington. Begun under President Mohammad Khatami, it expanded under President Mahmoud Ahmadinejad. In October 2010, in response to U.S. and U.N. sanctions that had sought to shut down Iran's gasoline imports, Chávez defiantly signed agreements in Tehran to sell gasoline to Iran. And, in May 2011, PDVSA was sanctioned by the U.S. for two shipments of gasoline additives that PDVSA had quietly shipped there between December 2010 and March 2011.[4] This year, President Chávez has also supported Syria's President Bashar al-Assad, the sole MENA ally of the Islamic Republic, by so far sending two shipments of diesel fuel to aid against the popular uprising—though carefully avoiding dealing directly with the Syrian national oil company which could again provoke sanctions by the U.S., and by the E.U.

All this has only fuelled increasingly vocal concerns from global-north think tanks, the press and governments about the alliance between presidents Chavez and Ahmadinejad. Recently, U.S. Senator Lugar was moved to write an open letter to President Obama insisting that he warn President Chávez against carrying out threats...

However, at the same time, those familiar with the severe economic and infrastructural difficulties of Bolivarian Venezuela, and its great dependence on U.S. markets, realize how self-destructive any such move by President Chavez—for any more than a symbolic interlude—would be. While analysts familiar with Venezuela, including the present author, have described in recent months details of the lackluster reality of the petroleum relationship of Venezuela with another major ally, China,[5] and the frustrations of Chinese officials, the true story of the clash between Iranian aspirations in the Venezuelan oil sector and the frustrating reality of their attempts to do business with "the new, revolutionary PDVSA" has not been adequately told.

To bring matters a bit down to earth, we need to first understand the story of the demise of Iranian oil and gas projects in Bolivarian Venezuela during 2007-08. This reality is a corollary to the dismal state of managerial and technical capacity in PDVSA since 2002. In that year half the company's employees were fired to end a management-led strike against the presidency of Hugo Chavez. This blow continues to severely hamper domestic production, which has fallen; and it also retards all attempts of PDVSA to collaborate with foreign firms, even those from geopolitically close allies.

Iranian Frustrations With Venezuela's Oil-And-Gas Sector

There have been five notable energy projects in Venezuela involving the Iranian oil company Petropars[6] in partnership with PDVSA. Of these, only one is now producing any oil. The following narrative was pieced together from PDVSA, Petropars, and wire-service sources, with input from knowledgeable contacts in Venezuela. The reader will note that the first three projects below, begun during 2005-06 have stalled or been dissolved, while the fourth from that time is very minor. The last one marks a new phase, a very modest project of little commercial or geostrategic significance, and the only one to actually produce a bit of oil.

Iranian Projects In Bolivarian Venezuela:

1. Ayacucho Heavy-Oil Blocks In The Faja

a. In 2005: Petropars contracted to do Quantification and Certification of reserves in Block 7 of Ayacucho. Work began 10 Aug 2006.
b. 18 Sep 2006: Presidents Chávez and Ahmadinejad attended the initiation of drilling of rig MKF-4E in the Kuricapo Camp by Petropars and PDVSA affiliate, CVP.
c. 13 Jan 2007: PDVSA reported that Petropars signed service agreement for quantification of Blocks 3, 4 (and possibly Block 5).
d. May 2007-to-February 2008: Quantification took place on Blocks 3 and 4.

2. Mariscal Sucre Offshore Gas Block (AKA: Delta Caribe Oriental)

a. In 2005: Petropars contracted this offshore gas block located in shallow coastal waters (90-160 meters) in the east of the country, planning to feed a new LNG project[7]

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4 U.S. Department of State, 24 May 2011, http://www.state.gov/r/pa/prs/ps/2011/05/164132.htm Access 9 April 2012.
5 See series on China in Venezuela at: http://GlobalBarrel.com
6 The Iranian oil and gas "managing contracting company" http://www.petropars-iran.com/
7 In late-2011, PDVSA announced that it was cancelling all plans for natural gas exports, LNG or otherwise. This is actually due to the severity of internal shortages, and decreased import demand from the U.S. market due to fracking. Venezuela has South America's largest reserves, but its gas production is almost entirely associated gas, a byproduct of oil production, whose output has dropped along with national oil production. About 43% of gas production goes to reinjection into aging oil fields. Venezuela currently imports gas from Colombia.

b. 27 January 2009: PDVSA's Petrosucre venture took over operation of Ensco's 69 jack up drill in the Gulf of Paria after this erstwhile partner abandoned the operations because of non-payment by PDVSA.
c. 28 March 2009: PDVSA reported it was looking for partners to develop these fields which it now wholly controlled. That is, Petropars had at least de facto left this project. Several foreign firms were invited to a meeting to learn about opportunities.
d. 28 March 2011: PDVSA reported it began development of the Patao Field, Cumana State. Its Offshore Division said this "continues the momentum of the Delta Caribe Oriental project, to start operations in the Patao field."
e. Early 2012: South Korea's state gas firm, Kogas, and petronas of Indonesia are reportedly interested to join PDVSA in this project.
f. March 2012: PDVSA hired a Canadian firm, SNC-Lavalin, as overall project manager to supervise the work of contractors [Note: This amounts to a remarkable de facto admission by PDVSA of its inability to itself manage these projects].

3. Cardon- 2 Offshore Gas Field In The Gulf Of Venezuela

a. August 2006: Petropars contracted to do a joint study with PDVSA of the Cardon-2 offshore gas block.
b. March 2007: Petropars put a hold on the development of this field. Petropars complained PDVSA had not provided sufficient information about the block's potential.
c. November 2007: The deal was still awaiting government approval
d. Note: Two neighboring blocks portend to be very successful, indicating perhaps what Iran has missed out on. These are now the country's highest priority projects, including:
   i. Cardon IV: Here the Perla field being developed by Repsol and Eni is a shallow-water block awarded in 2005, in the Rafael Urdaneta gas project. Exploration by the partners in 2009 found a giant field, put at 7-to-8 trillion cubic feet. . In late 2011 PDVSA said it will not produce this for export, but to supply the Venezuelan internal market.
   ii. Cardon III is being developed by Chevron.
   iii. President Chavez signed an MOU in October 2011 for Russia's Gazprom to explore the adjacent Robalo field.

4. North Paria Offshore Gas Field Between Venezuela And The Island Of Trinidad.

a. 2006: Chavez and Ramirez signed agreements in Iran for Petropars to supply training and services to the Norte de Paria field, a modest service undertaking. Chavez also agreed PDVSA would help build a refinery in Syria, thought by some to be a scheme to aid Iran to market its oil as Syrian products, avoiding sanctions.
b. 2012: It is not clear if Petropars provides the aforementioned services

5. Dobokubi, A Mature Faja Heavy Oil Field In The East of Anzoátegui State

a. Early 2009: Petropars contracted to evaluate this older, heavy oil field.
b. May-October 2009: Petropars did the evaluation and delivered a development plan to boost production. The project was 26% Petropars, and 74% CVP, a subsidiary of PDVSA. This field is said in Caracas to have good enhanced-production potential.
c. Oct. 2010: Production could be increased to 40,000 b/d with reports saying $1.5 - $2.0bn investment is needed, shared by the two companies.
d. January 2012: Iranian President Ahmadinejad visits Caracas, and Quito, Ecuador.
e. 4 April 2012: Petro Ecuador's chief visited the field, contracting a 14% share (presumably from CVP's piece, leaving CVP/PDVSA with the legally mandated minimum of 60%), saying the field could produce 50.000 b/d in two years.
f. **Note:** Today it produces only 6,000 b/d. Peak production, years ago, was 20-25,000 b/d.[8]
g. In May 2012: An Iranian delegation plans to visit Ecuador's Refineria del Pacifico, a joint venture of Petro Ecuador and PDVSA, who seek investors in the $12 bn project, apparently a result of Ahmedinejad's January visits. This is a long-troubled joint project.

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8 Production numbers provided by Dr. Alberto Cisneros Lavaliere, president of Global Business Consultants, Caracas; 8 APRIL 2012.

So, we have two phases of Iranian projects:

Phase I: While some details are sketchy, the trend is clear. Initial projects were begun in 2005-06. After doing quantification of reserves in the Faja and initiating two large offshore gas projects, by 2007 there is nothing more to show. What happened?

Venezuelans who had dealings with PDVSA and/or Petropars in 2005-07 give consistent stories. Petropars came with enthusiasm and expectations of friendly treatment. They spent a good deal of money renting offices, bringing competent consultants and engineers, mainly from Iran, and to hire translators as so many PDVSA personnel did not speak English—a significant unexpected difficulty for Petropars. The process was not easy given complications of U.S./U.N. sanctions on Iran and Petropars having to operate in Venezuela with Euros. However, they moved ahead rapidly and professionally with initial studies and waited for PDVSA to provide information and contract terms for the next phase of work: actual development of fields for production. However, they became frustrated with poor information, delays and unreliability on the part of PDVSA, and also found PDVSA's contract terms very "unreasonable" and "unrealistic" according to Venezuelans knowledgeable of these events. Without expected income and losing money all employees, besides the top executive of Petropars and an assistant, were sent home.

In 2008, I was told by the chief in Venezuela of a North American oil firm about the surprising sharpness of Iranian complaints at that time, about Iranian businessmen upset about stalled non-oil ventures and an Iranian bank head who had threatened to pack up and leave. Soon, an Iranian minister visited Chavista officials and things seemed to calm down. I later interviewed a high-ranking Venezuelan career official, directly involved with the Iranian enterprises, who was very upset with President Chávez. I pointed out that the opposition press said the non-oil Iranian ventures numbered over 40, but many seemed to be located in still-empty fields. "I can give you data, but the problem is you will believe it. It's all made up; it's all 'scenarios'. Do you know what 'scenarios' are? They are just made up." ..."There are no statistics, so close your notebook."

However, some Iranian non-oil enterprises have continued. For example, Iranians seem to have a reputation for building Venezuelan houses as contracted. There is also a trouble plagued Iranian automobile factory in Maracay, Venezuela, operating since 2007, called Venirauto, which, by official count, averages only about one car per hour.

A sanguine Iranian auto executive told me frankly of the problems one faces producing in Venezuela, adding that fortunately there are high import duties on the competition (there are also no sales taxes on these Iranian cars).

Phase II: About 2009-to-present. Since the demise of grander plans for joint oil-and-gas projects, things have shifted to a modest enhanced recovery project in a mature field. This shift in Petropas' emphasis is consistent with the difficulties for PDVSA to do its share in developing new, green-field Faja oil projects or new offshore gas projects.

Consider the strategies of China's CNPC and the U.S. major Chevron who continue pushing on big projects, having made major commitments to stick it out in Venezuela for the long haul. This is something that takes deep pockets, which Petropars and Iran certainly do not have at present. But this strategy is also aided greatly by the fact that both CNPC and Chevron can take direct payment in heavy oil to be refined back home. This is a very important advantage as PDVSA seems to never find enough cash to pay its partners. Yet, both companies have made their only significant capital investments in recent months in mature fields. PDVSA has great difficulty developing infrastructure to accompany new-fields—roads, pipelines, ports, villages, electrical production, transmission lines, etc. So, for now, it makes sense for CNPC and Chevron to focus on fields already having infrastructure. [Evidently Petropass has learned this lesson too, using Dobokubi field to sustain its presence while perhaps waiting for future bigger prizes (or, simply holding the Iranian flag, for geopolitical effect). Sinopec had the same thought in 2009 when it asked for and got a contract for a promising, mature heavy-oil field, after its interminable Faja negotiations with PDVSA had again broken down. It threatened to leave the country if it did not get a project that would provide some cash flow to sustain its offices in the country. A contract was indeed signed by President Chavez and a visiting high-ranking Chinese official for what I am told is a "very nice" mature field. However, three or four year later Sinopec is still waiting for the field.

So, Petropars, for all its disappointments in Venezuela, with a 24% share of a mere 6,000 b/d from this mature field, Dobokubi, is actually doing better than Sinopec—for what that's worth.

However, now Petropars has become so cash-strapped under the present sanctions regime at home that, very recently, when they were approached with an offer, they responded that they were willing to sell the field to a certain third-party national oil company if PDVSA could be gotten to approve the sale.

Geostrategic implications

With very few exceptions[9], unsubstantiated assumptions about the nature, scope and success of Iranian-Venezuelan joint ventures abound. According to these observers, Venezuela's Bolivarian oil policy has facilitated Iran to create a significant Latin American "terror network," often making claims about Hezbollah in this respect, or that Iranian Revolutionary Guards are providing training for the Colombia's FARC guerrillas in Western Venezuela and "asymmetric warfare" training for the Venezuelan military. Others claim that Iran has been extracting uranium ore in Venezuela including in the guise of making cement, engaging in extensive money laundering, flying large quantities of contraband to Tehran on a (formerly) regular flight from Caracas, and, generally, preparing to counter any U.S. and/or Israeli attack on Iran by creating havoc in Latin America, perhaps even cutting off oil shipments to the U.S.

It is very difficult to prove or disprove such assertions, and there may be validity to some. However, great skepticism should pertain when on-the-ground evidence shows that, on the oil-and-gas front, which is the supposed forté of Venezuela and the central focus of President Chávez' signature Bolivarian diplomacy, there has been a woeful and chronic inability by PDVSA to fulfill agreements with Petropars, the Iranian flag-bearer there.

This reality of PDVSA's diminished capabilities means that, contrary to President Chavez' intentions of directing business away from "the globalized markets of El Imperio," in fact exports of oil and distillates to the U.S. market remain the largest percentage of PDVSA's export business, while consumer and business imports from the U.S. have expanded. In this situation, any petroleum-centered or other material support for Iran during the new Iran-sanctions regime would risk the U.S. imposing sanctions on Venezuela or PDVSA that would prove ruinous. While much alarm was expressed over the January 2012 visit of Ahmadinejad to Caracas and its regional allies, it is very notable that, for someone known for signing tens of MOUs and agreements at every diplomatic meeting, President Chávez was constrained to send his ally back to Tehran empty handed, with no public pledges of material support against new sanctions.

Indeed, after a decade of the Bolivarian Revolution not prioritizing the rebuilding of a managerially and technically competent national oil company, all talk of "petroleum sovereignty" and defying the interests of "El Imperio" rings hollow.

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9 *For example, Stephen Johnson, careful study: "Iran's Influence in the Americas" March 2012, CSIS, Washington, D.C. http://csis.org/files/publication/120312__Johnson_Iran'sInfluence_web.pdf especially pp. 89-100.*