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Tough Policy Choices Await Chavez Successor

The death last week of Venezuelan President Hugo Chavez is unlikely to have any short-term impact on oil policy, but does raise questions about the longer-term management of the Opec producer's petroleum resources. Oil policy under Chavez has been characterized by the exploitation of revenues from state Petroleos de Venezuela (PDV) to fund social programs, the nationalization of joint ventures with international oil companies and the selling of subsidized oil to poorer neighbours in Latin America and the Caribbean. With Vice President Nicolas Maduro expected to win the presidential election that should now be called by Apr. 5, that broad approach is likely to be maintained for the time being. "They will pursue a 'steady as she goes' policy for at least the next six months," predicts David Myers, political science professor at the US' Penn State University and a veteran Venezuela watcher. "If the economy performs poorly, then they may adopt a more 'business friendly' attitude. The bottom line for everyone in the Chavista movement is to retain access to the oil revenue that has allowed them to remain in power for 14 years." Former foreign minister Maduro lacks Chavez's charisma, but should win any poll handily on the back of voter sympathy. Moreover, during last year's presidential election, opposition leader Henrique Capriles Radonski made clear that he would keep PDV in state hands, suggesting that there may not be any drastic changes in energy policy, even if a new election this year throws up a surprise result (PIW Jan.7'13).

The practical effect of Chavez's oil policy has been a steep decline in PDV's oil production, an erosion of the state giant's technical capability and a severe slowdown in foreign investment. His administration was supported by high oil prices, but whoever succeeds Chavez may ultimately need to address some of these issues. Venezuelan crude production last year averaged 2.366 million barrels per day, according to PIW estimates, down from some 2.5 million b/d in 2011 and 2.9 million b/d in the early 2000s, indicating that the Chavez years saw a fall in oil output of some 20%. As for PDV, "the goose that laid the golden eggs was not itself maintained," argues US energy geopolitics specialist Tom O'Donnell, as evidenced by the fatal blast last year at the company's Paraguana refinery complex, which killed more than 40 people (PIW Sep.10'12). "Contrary to Chavez's vision, Venezuela will remain deeply dependent now on the know-how, finances and technology of foreign firms for many years to come," O'Donnell predicts. Despite the nationalizations that took place under Chavez, and which prompted the departures of Exxon Mobil and ConocoPhillips, a diverse array of foreign investors, including the US' Chevron and Russia's state Rosneft, remain active following the signing of new Orinoco heavy oil joint ventures. But the progress of these joint ventures has been painfully slow (PIW Dec.17'12). Caracas' other key energy and financial partner is China, which has bet heavily of output growth in Venezuela, importing 306,000 b/d of the country's crude last year under oil-for-loan deals (p3).

Since late last year, Venezuela's economic policy has effectively been determined by Economy Minister Jorge Giordani and Oil Minister Rafael Ramirez, who have given hints of a more pragmatic style. So far this year the country's unrealistic fixed dollar exchange rate has been adjusted and a punitive oil windfall tax reduced. It has also been announced that PDV will contribute less to Chavez's pet off-budget spending fund Fonden and issue less debt.