



## What's Up With Hugo and PDVSA? \*

Posted by [Dave Cohen](#) on May 25, 2006 - 10:55am

Topic: [Policy/Politics](#)

Tags: [bolivia](#), [heavy oil](#), [hugo chavez](#), [nationalization](#), [pdvsa](#) [[list all tags](#)]

### \* With a Note on Bolivia

**Update [2006-5-27 19:2:44 by Dave]:** Gulf News reports yesterday [PDVSA expects 3.4m bpd output](#)

"We should be closing the year with a production ... of 3.4 million barrels per day," Vierma told reporters. "The average production for this month has been almost 3.3 million barrels per day."

The US Department of Energy and Wall Street analysts say Venezuela's total oil production is only around 2.6 million bpd.

It's time to check in with Venezuela and some other events in South America as Hugo's [Bolivarian Revolution](#) goes forward. Apparently, he strives to be Fidel Castro only *with oil* and *without the beard*.

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#### *Bolivarian Republic of Venezuela*

There's lot to report on--oil shenanigans in Venezuela, nationalization of the oil & gas industry in Bolivia, Hugo's deals with China and the escalating conflict between Hugo and the United States.

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From Joe Duarte, reporting at Rigzone in [A Sudden Plunge In Production?](#) (May 2) we learn that

Is Venezuela's oil production rapidly waning? One source reports that the world's fifth largest oil producer is showing signs of a rapid decrease in production, one of the key tenets of the peak oil theory....

Venezuela is buying oil from Russia in order to avoid defaulting on deliveries to clients.... According to the Financial Times: "Venezuela, the world's fifth-largest oil exporter, has struck a \$2bn deal to buy about 100,000 barrels a day of crude oil from Russia until the end of the year.

PDVSA is a center of financial and political intrigue, as it is the hub of Mr. Chavez' political ambitions. The Venezuelan government uses the proceeds from oil sales to finance Chavez' Bolivarian revolution, in essence the spread of the hybrid Socialism espoused by Chavez and Fidel Castro...

PDVSA has not filed papers with the SEC in at least two years...

The EIA OPEC short term energy outlook for OPEC lists [production for April of 2006](#) as 2.5/mbpd, well under the OPEC "quota" of 3.223/mbpd. (I quote *quota* because in my view, these OPEC numbers are meaningless in today's world.) However, this current production number has been [disputed](#) as coming from the political opposition in Venezuela, so how much oil they are actually producing remains something of a mystery. The EIA has not updated Venezuela's [oil country brief](#) page since 2004. This may not be an accident or perhaps they just haven't gotten around to it.

Back in 2005, in [Running On Empty](#), Duarte had asserted that

Stratfor.com estimates that since Chavez became president, starting in 1998, "PDVSA has lost about 1.5 million bpd of its net crude oil production."

The main reasons have been the replacement of capable engineers and workers who disagreed with Chavez's revolutionary views, with inexperienced, and in many cases incapable replacements, and the lack of attention to infrastructure maintenance and improvement.

The result of the bad management and neglect, has been the steady erosion and near incapacitation of a major oil-producing region of Venezuela, the Western portion of the country, where as many as 10,000 wells have been estimated to have been rendered mostly useless. Venezuela is nominally the world's fifth largest oil producer.

Does lack of an experienced workforce seem familiar? In any case, it appears to be true that Venezuela's production has never recovered from the strike.

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*Click to Enlarge (from EIA)*

But these production questions are only part of the story. Lately, Hugo and PDVSA have "renegotiated" their [contracts](#) with the IOC's operating there.

Venezuela, the largest oil producer in South America, plans to force ChevronTexaco Corp., ConocoPhillips and other companies to convert contracts covering 32 fields into joint ventures with the state oil company so the country can earn more from petroleum sales.

Petroleos de Venezuela SA would hold a 51 percent stake in the ventures under the plan, Rafael Ramirez, the country's energy and oil minister, said at a press conference today in Caracas. The operating companies, mostly foreign owned, now hold oil-production contracts in which they're paid a per-barrel fee.

Lately, they've escalated the stakes to cover their [heavy oil production](#) from the Orinoco Basin, which currently stands at 600/kbpd. From Bloomberg [Venezuela's Assembly Approves Higher Oil Royalties](#)

An overhaul of domestic hydrocarbons law was unanimously approved, state oil company Petroleos de Venezuela SA said on its Web site. The bill increases royalties to 33.3 percent from 16.67 percent on all oil companies operating in the country, **including the four heavy-oil joint ventures**. The higher rate will raise about \$1.3 billion annually.

Are these just the first steps toward total nationalization? Which brings us to Bolivia.

## What's Up in Bolivia?

President Evo Morales has nationalized his country's oil & gas industry. As the Economist tells us in [Now it's the people's gas](#)

Evo Morales chose May 1st, his hundredth day in office as Bolivia's president, to lead troops into his country's biggest natural-gas field, operated by Brazil's state-owned oil company, Petrobras. Wearing an oilworker's hard hat, he read out a nine-point decree under which the Bolivian state proclaimed its control of the country's oil and gas industry. "The plunder has ended," Mr Morales, a socialist of indigenous descent, declared....



*Morales joins the Bolivarian Revolution*

Bolivia's natural gas reserves are the 2nd largest in South America after Venezuela's. How much are we talking about here? See for yourself, from the EIA.

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*Bolivian natural gas reserves (EIA)  
Not bad, something to fight over*

You can find some more detail at Wikipedia's [Bolivian Gas War](#). The Economist says in their dry, understated style, "Mr Chávez's strategy clashes with Brazil's". No kidding. In fact, Brazil is [pissed off](#). But nationalizing your fossil fuels doesn't exactly encourage foreign investment, does it? Again, the Economist notes

Bolivia needs outside capital and technology to develop its gas industry. Without new investment, by the end of next year it might struggle to fulfil its gas export contracts with Brazil and Argentina, says Carlos Alberto López, a consultant in La Paz. A recent landslide at one gasfield briefly cut exports, a sign that output is close to capacity....

Hugo has jumped all over this deal, however. "Mr Chávez has offered to buy all of Bolivia's soya crop (its second-biggest export) in return for all the diesel the country imports". Welcome aboard. *Viva la Revolution!*

## Back to Venezuela

Hugo has already made some deals with China (see [Venezuela and China sign oil deal](#)) and is trying to make [arrangements](#) to export directly to Asia, but he needs a pipeline, always a dicey proposition.

Since supertankers cannot pass through the Panama Canal, the journey to Asia is long and expensive. For now, Venezuela exports only about 300,000 barrels of oil per day to China.

In its effort to gain access to the Pacific, Venezuela has signed an agreement with Colombia to build a pipeline to the port of Tribuga on the Pacific coast. An additional proposal with Panama would modify a Panamanian oil pipeline to facilitate shipping oil to the Pacific coast.

Furthermore, Hugo has opined lately that trading in Euros rather than dollars sounds good to him--this comes as no surprise.

Finally, there is the usual escalating war of words between the US and Venezuela. America actually took a [concrete step](#) recently

Relations between Venezuela and the United States have grown tense in recent months. The Bush administration has accused Mr. Chavez of being a destabilizing force in Latin America. It announced earlier this month that the U.S. would stop selling arms to Caracas, saying it has failed to cooperate in the fight against terrorism.

The Bush Team have the usual concerns that Venezuela is moving away from democracy--which, ironically, is actually true in this case. Chavez, naturally, has [dismissed](#) such concerns and asserts that Bush is "bad for world peace" (yet another true statement) and feels, generally speaking, that Bush is a really bad guy. So, both sides are right!

In conclusion, here's some wanton speculation about the situation.

- What will the US do? A sponsored coop attempt seems unlikely and outright military action is out of the question. The internal opposition is weak and Chavez is on the move.
- Will Hugo nationalize the oil & gas industry? This also appears unlikely. He is wise enough to know that he needs outside investment and can not go it alone if he hopes to fund the Bolivarian Revolution, support other countries like Cuba and keep the people happy.

- How about "heavy" oil development? Unlike the tar sands, I believe the longer these political difficulties go on, the more delayed any expansion of the Orinoco Basin production will be. So, I wouldn't expect much new development there anytime soon.

And that concludes our report on Hugo's Big Adventure.



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