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Portugal getting a hand on Venezuela's energy riches

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In advance of the European Union – Latin America and Caribbean summit, the Portuguese prime minister, José Sócrates, visited Venezuela. During two days, more than twenty economic agreements were celebrated between the two countries, where energy had a major role.

Among the entourage where representatives of some of the largest companies operating in Portugal, with the objective of firming protocols in the vein of "oil for goods", towards which the Venezuelan executive has been showing great openness.

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Oil and Gas had the major focus, with several agreements struck on exploration, production and trading. The biggest being respective to Orinoco where GALP will start operating in the Boyacá 6 block. José Sócrates and Hugo Chávez both speech in a ceremony inaugurating a drilling rig in the site.

Chávez and Sócrates at Orinoco's block Boyacá 6. Source: PeriodistaDigital

As usual Chávez was very expressive, explaining why previous agreements with oil majors where cancelled:

> For a long time the international companies told us that this wasn't oil, it was bitumen. They said it was something like coal, and hence should be price as coal. See, this is the coal.
>
> [Chávez then showed a small sample of Orinoco oil slowly flowing from a cup to another.]
>
> Oil, liquid hydrocarbons. This is the greatest reserve that exists in world.

Chávez then effusively thanked GALP's president and Sócrates, for the negotiations that long preceded the agreement, facilitating a deal of great value for Venezuela.

Then José Sócrates went on to the rig helping the PDSVA workers in the starting operations, sending a drill bit down, wearing a red safety helmet, just like the workers that clad in red from head to toe. He also had the opportunity to express his joy with the outcome of those two days spent in Venezuela, welcoming the tightening of economic relations between the two countries.

These relations are not fortuitous. There are 400 000 Portuguese emigrants living today in Venezuela, about half in Caracas, many of whom run small business. About two thirds of the bakeries and restaurants in Venezuela are run by Portuguese or their descendants, as so half of the grocery stores in the country.

Looking closer at deals struck, GALP celebrated several protocols with PDVSA, the most publicized being the consortium to assess and produce oil from the Boyacá 6 block, from which the companies expect to be producing 200 kb/d ten years from now. Some of this oil will be transported to Portugal and only refined there (at the Sines complex) where according to GALP's president, there exists the technology to process some of these heavier oils. GALP's president also referred to journalists that Orinoco oils cost 15 dollars per barrel to produce. GALP and PDSVA will also form another joint company to trade Orinoco's oil internationally.

GALP celebrated other agreements, namely to build 4 wind farms totalling over 70 MW of installed capacity, and got access to the data on the offshore Blanquilla gas blocks in order to assess their potential, with future perspectives of production. GALP will co-build with PDVSA two gas liquefaction terminals from which one third of the gas consumed in Portugal will come in 2013.

This last agreement on natural gas supply, might be the most important of all in strategic terms. Having in mind Europe's dire prospects on Natural Gas, this deal opens the South American market to Europe, to which the Sines complex, where a re-gasification terminal was built recently, presents itself as the most useful entrance. At the westernmost tip of continental Europe, Sines shorts the travel distance for LNG tankers coming from South America; from there gas can be easily transported to the rest of the country by pipeline or even to Spain.

The Sines Refinery, one of the largest in Europe. The Sines complex also comprises, among other infrastructures, a LNG terminal and several electricity generation plants.

Also integrating the Portuguese entourage were representatives from EDP (the country's electricity generation monopoly) that firmed several agreements on renewable energy, including 3 wind farms and technical support to other renewable energy prospects. EDP will also be involved in the assessment of the Blanquilla blocs and will have a 15% share in the construction of a third a gasification terminal.

EDP will also help PDSVA assessing the potential of using the coke residues from the refining process of Orinoco oils in electricity generation. EDP is also studying the possibility of building and operating combined cycle units in Venezuela.

Other deals were also struck with other companies on different areas such as civil construction, fish conservation and naval construction. Although details are not given in the press, this last one might be related to the LNG transportation to Europe.

Addressing journalists, Venezuelan oil minister Ramiréz produced the usual OPEC litany on why oil prices are so high: geo-politics (was he thinking of Venezuela?), the dollar devaluation and so on, re-affirming that there's nothing OPEC can do to hinder oil prices. He also said that 200 $ oil is a serious possibility.

The press coverage of the event was quite below the dimension of the agreements firmed, although several local TV channels and newspapers run pieces on the subject (from which the information presented here was distilled). Excluding brief articles in economic newspapers, the visit was invariably covered by journalists ill informed on energy matters, often confusing measuring units and mixing oil flows with reserves (the difference between Giga barrels and Mega barrels seem to be on of the hardest concept to grasp). Few of them might have understood what really happened during those two days they spent in Venezuela.

While on one hand the Portuguese executive shows some agility in trying to face the present energetic panorama, on the other hand it shows itself incapable of seeking alternative strategies to the continuous flow of fossil fuels. Being electricity generation from renewable sources now a reality (furnishing more than a third of the electricity consumed in the country, one of the best scores in Europe) the country's economy is still heavily reliant on fossil fuels, especial on Transport, being still at the mercy of the variations on international prices emanating from the depletion of these finite resources. These agreements will surely help, but not only are firmed relaying on private companies (held in some cases by foreign capital) as they can't possibly be a long term option for a future independent of finite resources that Portugal doesn't have.

This article was gathered on the information run on Portuguese media during the visit, of which the following links are left as reference:

Jornal de Negócios (on Orinoco)

Jornal de Negócios (on Natural Gas)

Diário Económico

TSF

Agência Lusa

RTP (news program Jornal 2 of 15-05-2008)

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