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Bolivia And Venezuela Move Forward With Nationalization Of Petroleum Industries

NotiCen

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On International Workers Day, May 1, the governments of Bolivia and Venezuela announced that the nationalization of their respective petroleum industries was moving forward or had been completed. In Venezuela's case, the government took over the last of the country's private oil fields on May 1, while Bolivia has been continuing its effort to take control of its large-scale natural-gas reserves and gasoline refineries from foreign companies. Additionally, the government of Venezuelan President Hugo Chavez made moves to nationalize the telecommunications and electric systems. Chavez also threatened to nationalize banks if they did not offer optimal loans to infrastructure-development projects in Venezuela. Venezuelan troops accompany oil nationalizations Chavez said on April 12 that soldiers would accompany government officials when they took over oil projects in the Orinoco river basin in May. Chavez has decreed that Petroleos de Venezuela SA (PDVSA) will take a minimum 60% stake in four heavy-oil projects in the Rio Orinoco region, and he invited the six private companies operating there to stay on as minority partners. "On May 1, we are going to take control of the oil fields," Chavez said. "I'm sure no transnational company is going to draw a shotgun, but we will go with the armed forces and the people." The projects run by BP PLC, Exxon Mobil Corp., Chevron Corp., ConocoPhillips, France's Total SA, and Norway's Statoil ASA upgrade heavy, tar-like crude into more marketable oils and are considered Venezuela's most promising. As older fields elsewhere go into decline, development of the Orinoco is seen as key to Venezuela's future production. Negotiations on the takeover have yet to yield an agreement and are expected to be difficult as the companies seek a deal that takes into account more than US$17 billion in investments and loans related to the projects. Chavez has been given special powers by the congress (Asamblea Legislativa, AL) for 18 months to issue laws by decree in energy and other areas like electricity and telecommunications (see NotiSur, 2007-01-26). Chavez promotes the nationalizations as necessary steps to give the government control of sectors strategic to Venezuela's interests, and they play a key role in his political popularity. As promised, the government took over Venezuela's last privately run oil fields on May 1, which international business reporters said would intensify the power struggle with multinational companies regarding the world's largest-known single petroleum deposit. Newly bought Russian-made fighter jets streaked through the sky as Chavez shouted, "Down with the US empire!" to thousands of red-clad oil workers in the Orinoco river basin, calling the state takeover a historic victory for Venezuela after years of US-backed corporate exploitation. "The nationalization of Venezuela's oil is now for real," said Chavez, who declared that for Venezuela to be a socialist state it must have control of its natural resources. "Today we are closing a perverse cycle that opened here more than 10 years ago, a perverse process that they called the petroleum opening," said Chavez in front of a large gathering at the Complejo Criogenico de Jose, in the city of Jose, Anzoategui. Chavez accused foreign oil companies of bad drilling practices stemming from their hunger for quick profits and said Venezuela could sue them for causing lasting damage to oil fields. While the state takeover had been planned for some time, the six oil companies remain locked in a struggle with the Chavez government regarding the terms and conditions under which they will be allowed to stay on as minority partners. All but ConocoPhillips signed agreements the previous week agreeing in principle to state control, and ConocoPhillips said Tuesday that it, too, was cooperating. The companies have leverage with Chavez because experts agree that PDVSA cannot transform the Orinoco's tar-like crude into marketable oil without their investment and experience. "They're hoping...that as time passes Chavez will realize he needs them more than they need him," said Michael Lynch, an analyst at Strategic Energy and Economic Research based in Winchester, Massachusetts. He predicted most oil companies with the possible exception of ExxonMobil would stay. Patrick Esteruelas, an analyst at the New York-based Eurasia Group, said the companies are likely to stay, but, in the meantime, the turmoil could cause production to fall at the operations, which export much of their output to the US and other countries. PDVSA "is going to be assuming control as an inefficient and cash-starved company and is probably going to drag production down," Lynch said. Yet multinationals pumping oil elsewhere in Venezuela, one of the leading suppliers of oil to the US, submitted to state-controlled joint ventures last year because they were reluctant to abandon the profitable operations. Esteruelas said that, since those takeovers, Venezuela's overall output has declined by close to 4%, or 100,000 barrels per day (bpd), with some companies complaining they have not been paid for the crude they have been pumping. "I expect to see a repeat of that in the Orinoco," he said. Venezuela denies production problems and says it is on track to lift output in the coming years. Chavez is urging foreign companies to stay and help develop the fields. They have until June 26 to negotiate the terms. The stakes are high for both sides. The Orinoco river basin, though not yet fully explored, is recognized as the world's single-largest known oil deposit, potentially holding 1.2 trillion barrels of extra-heavy crude. If Venezuela were able to recover much of that, it would surpass Saudi Arabia as the nation with the most reserves. If the big oil companies were to leave, Chavez says state firms from China, India, and elsewhere could step in, but industry experts consulted by the Associated Press doubt they are qualified. Pulling out would be damaging for the companies. They have invested more than US$17 billion in the projects, now estimated to be worth US$30 billion. Venezuela has indicated it is inclined to pay the lesser amount for taking over control with partial payment in oil and, some experts suspect, tax forgiveness. Chevron's future in Venezuela "will very much be dependent on how we're treated in the current negotiation," said David O'Reilly, chief executive of the company based in San Ramon, California. "That process is going to have a direct impact on our appetite going forward." Venezuela may still prove enticing because three-quarters of the world's proven reserves are already controlled by state monopolies. In addition to criticism from business sectors, the US government took its customary position of criticizing the Chavez administration. US State Department spokesman Sean McCormack said on May 1 that Venezuela's negotiations with oil companies "will proceed as they will," but he said Chavez's broader actions including a move to pull out of the World Bank and the International Monetary Fund (IMF) were digging Venezuela into a hole. "I think he's digging a hole for the Venezuelan people," McCormack told reporters in Washington. "You can't take the shovel out of the man's hand. He just keeps on digging. And, sadly, it's the Venezuelan people who are victimized by this." Nationalization of the oil industry has been tried in Venezuela before, though with a different tack. Venezuela shut companies out of the oil sector completely between 1976 and 1992 before beginning a series of partial privatizations, which Chavez is now rolling back. Venezuela nationalizes telecommunications, electricity Chavez is also nationalizing electricity companies and the country's biggest telecommunications company, and he has threatened to take over private hospitals if they continue raising prices for care. He says radical changes are needed to help the poor. PDVSA announced on May 10 that it had acquired 92.98% of the company Electricidad de Caracas, the largest private company in the electricity sector. The state-owned company acquired most of the stake from US corporation AES, purchasing 82.14%

of the company's stock for US$739.26 million. The electric company has about 2,600 employees, delivers service to 974,000 clients, of whom 850,000 are residential, 111,300 are commercial, and the remaining 12,700 are industrial, according to figures from the Camara Venezolana de la Industria Electrica. The Ministry of Telecommunications announced on May 9 that the government had acquired 86.21% of the stock of the nation's largest telecommunications company Compania Anonima Nacional Telefonos de Venezuela (CANTV). "Now CANTV in practice passes to the hands of the state," said Telecommunications Minister Jesse Chacon. "All that remains is simply completing formalities." Morales on Bolivian nationalization: "Still work to do" Bolivia's President Evo Morales vowed to move forward with his campaign to nationalize Bolivia's oil and gas industry while presiding over ceremonies on May 12 marking the transfer of two Brazilian-owned oil refineries to Bolivian state hands. Bolivia agreed that week to buy back formerly state-owned refineries from Brazilian state energy company Petroleo Brasileiro SA (Petrobras) for US$112 million. Negotiations between Brazil and Bolivia have been ongoing for a year (see NotiSur, 2007-04-13). On May 11, the government announced it would negotiate the purchase of a majority share in the Bolivian operations of four more foreign companies, as dictated by Morales' nationalization decree of 2006. "We have not yet finished the job," Morales told a flag-waving crowd at the Guillermo Elder Bell refinery near the eastern city of Santa Cruz. "There is still work to do." Morales went to a similar ceremony later at the Gualberto Villaroel refinery near Cochabamba. The two refineries put out about 40,000 bpd and supply the totality of internal demand for gasoline. The Chilean newspaper El Mercurio said this signifies a loss of US$70 million in annual income for Petrobras, income that will now go to the Bolivian state. The four targeted businesses are pipeline company Transredes, part owned by Royal Dutch Shell; the gas-exploration company Chaco, owned by the British company BP; gas-exploration company Andina, a subsidiary of the Spanish-Argentine company Repsol YPF; and the Hydrocarbons Logistics Company of Bolivia, jointly owned by the German company Oiltanking GmbH and the Peruvian company Grana y Montera SA. Morales ordered the nationalization of Bolivia's oil and gas industry in a surprise decree on May 1, 2006 (see NotiSur, 2006-05-12 and 2006-11-17). After six months of tense negotiations, the foreign companies were allowed to remain in the country but agreed to sell a controlling interest in their Bolivian operations to the state. The contracts that emerged from those negotiations came under criticism in the Bolivian Congress (see NotiSur, 2007-03-30), forcing the Morales administration to redo them. The foreign companies also agreed to pay higher taxes and royalties on their Bolivian earnings. South America's poorest country has since seen its petroleum revenues double to US$1.3 billion in 2006 from US$608 million in 2005, according to government figures. But analysts worry that exerting too much state control could scare off the long-term foreign investment needed for the industry to grow. Foreign investment in Bolivia has been declining since 1999, according the Economic Commission for Latin America and the Caribbean (ECLAC). In 2005, during turmoil that led to the resignation of President Carlos Mesa (2003-2005), there was a net loss in foreign investment of US$242 million. In 2006, however, foreign-investment income rebounded into the black and was higher than it had been since 2003, reaching US$237 million.