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# What is the outlook for Guyana's oil sector?

Inter-American Dialogue's Latin American Energy Advisor

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*Q and A: What is the Outlook for Guyana's Oil Sector?*

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The U.S. Geological Survey estimates that the Guyana-Suriname Basin could contain more than 15 billion barrels of oil as well as gas reserves of 42 trillion cubic feet. Guyana has awarded concessions to several major international oil companies as it seeks to exploit that potential, but oil has not yet been struck. What is the outlook for Guyana's oil sector? Does the country have the right regulatory environment in place to attract investment? Will the country's longstanding border dispute with Venezuela or current political gridlock affect the sector's development?

**A: RoseAnne Franco, Latin America upstream research analyst at Wood Mackenzie:**

"The Zaedyus discovery announced in offshore French Guiana in September 2011 suggests the hydrocarbon prospectivity registered in offshore West Africa can be replicated in the Guyana Basin on this side of the Atlantic. And oil companies operating in offshore Guyana are betting on similar success. Indeed, the country has managed to attract the super majors (e.g., ExxonMobil) back to South America as they look to reload their exploration portfolio. However, it's still very much a frontier basin and risks remain. Tullow Oil announced a decision in mid-July to stop drilling their Jaguar prospect due to the high pressure and high temperature encountered. CGX reported a dry well in their Corentyne block in May, but are looking for partners to drill a second well. Geopolitics has reemerged as a risk as the Venezuelan opposition has reasserted the country's claim to the Essequibo area, which encompasses a good portion of the country and could hinder Guyana's efforts to extend its continental shelf. To be sure, Venezuelan President Hugo Chávez has not aggressively pursued the claim, but should there be a change in government in Caracas, bilateral relations could erode. On the domestic front, the recent political stalemate threatens governance and corruption remains problematic. Still, Guyana's overall regulatory environment and fiscal terms are attractive. While not as competitive as French Guiana, the government take is lower than neighboring Suriname. Exploration is still in early days in Guyana, but overall local conditions are conducive to growth of the industry."

**A: Jim Flanagan, regional research manager for the Caribbean at IHS Global E&P Reporting Service and Kevin Whited, principal analyst at IHS Country Risk/Upstream Energy:**

"While several big oil and gas players have initiated drilling programs in offshore Guyana, dry holes, a series of technical challenges and longtime disputes over maritime borders have slowed

the pace of E&P development. Neither of the two recent dry holes drilled in offshore Guyana have tested the same age section in which the Zaedyus oil discovery was made in offshore French Guiana. This means that despite the two recent wells that were plugged and abandoned in offshore Guyana, the prospect there has yet to be tested. The CGX Energy Eagle well, which was a dry hole, was not intended to drill deep enough to encounter the pay horizon seen in the Zaedyus well. The Jaguar-1 well that Repsol drilled was supposed to drill deep enough; however, well pressures reached dangerous levels and prevented them from reaching the designed total depth. The high well pressures may suggest that the well cost associated with drilling a deep well offshore Guyana will be more expensive than originally thought. Uncertainty over maritime borders has, indeed, slowed development of Guyana's offshore resources. For example, nearly a decade ago, the territorial dispute with Suriname forced CGX to abandon drilling on its offshore Corentyne block. Although that dispute was finally resolved by a U.N. tribunal in 2007, CGX only spudded a well on the block this year. On the political front, relations with Venezuela have been cordial in recent years, but there is some concern in Venezuela (voiced recently by opposition political figures) over the resumption of work on Guyana's Stabroek block by ExxonMobil and Shell. Venezuela had raised vocal objections to work on the block more than a decade ago, but for now, Venezuela's government has downplayed the issue. Thus far, Venezuela has seemed happy enough to let the issue wind through diplomatic channels, and it seems unlikely that Venezuela would send out gunboats, like Suriname did some years back. Still, the pace of development has not exactly been blazing, and there doesn't seem to be any great sense of urgency on the part of Venezuela to resolve the uncertainty."

*The Energy Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*