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A British court order on Feb. 7 supposedly froze up to US$12 billion in assets belonging to Petroleos de Venezuela S.A. (PDVSA), Venezuela's state-owned oil company, in a case brought by oil giant ExxonMobil Corporation. The case stemmed from losses ExxonMobil alleged to have suffered when Venezuelan President Hugo Chavez nationalized his country's petroleum resources (see NotiSur, 2004-11-05, 2007-05-18 and 2007-07-20). Chavez's government rejected the court decision, calling it "judicial terrorism," and denied that PDVSA assets were frozen.

Venezuela: court case "a bluff," "judicial terrorism" The court finding came ahead of a multibillion-dollar arbitration case regarding the state's nationalization of a major oil project. The order said PDVSA must not remove asssets up to the value of US$12 billion from England or Wales. The company could not dispose of, deal with, or diminish the value of any of its assets up to the same value, the document said, according to papers filed in a US court on Feb. 7. The order also froze assets in the US, United Kingdom, and the Netherlands. ExxonMobil sought the freeze because of its concern that PDVSA would shift assets to other nations, putting them out of reach of an international arbitration commission. PDVSA seized joint ventures it had with foreign energy companies in 2007 as part of Chavez's drive to increase government control of energy resources. ExxonMobil has taken its case for compensation to the International Center for Settlement of Investment Disputes, a process that could take years. "There's huge uncertainty over the real extent of this issue because this is now in the hands of lawyers," said Henry Stipp, who helps manage US$10 billion of assets for Threadneedle Asset Management in London. "Investors may not see this as a cash-flow event for PDVSA, but a situation that raises their eyebrows over the company's worsening legal and management risks." Venezuelan Energy and Oil Minister Rafael Ramirez, also the PDVSA president, vowed to fight Exxon's "bluff" to freeze the assets and guaranteed the company's operations and cash flow would not be affected. Ramirez, speaking at a press conference in Caracas, said the only asset that has been frozen is a New York account with about US$300 million and this was only a "transitory measure." ExxonMobil's 41.7% stake in a heavy-oil project in Venezuela's Orinoco Belt region, among the last privately owned operations in the country, had a net book value of about US$750 million, according to a September 2007 filing with the US Securities and Exchange Commission (SEC).

ExxonMobil, based in Irving, Texas, is the world's largest oil company and last year was the most profitable US corporation in history. "This is pure judicial terrorism," Ramirez said of the freeze. "If they think we will backtrack on our nationalization policies after this, well, gentlemen from ExxonMobil, you are wrong again." The freeze would not disrupt supplies of oil, Ramirez said and added that Exxon was trying to "scratch a figure into the negotiating table" to affect talks about compensation for assets that Venezuela took in 2007. Venezuela supplies about 1.8 million barrels a day of oil and refined products to the US, either directly or through refineries in the Netherlands Antilles and US Virgin Islands. Venezuela counts on oil income for 90% of its foreign exchange and half of federal tax revenue. While ConocoPhillips also left the country amid disagreements on compensation and control of projects following a June 2007 negotiating deadline, the company remains in talks and a negotiated solution is likely, Ramirez said.

The Orinoco Belt is the country's most important oil area, with massive potential. There are proven reserves of at least 80 billion barrels, but there could be enough to make Venezuela the world's biggest source of oil. Four major companies US-based Chevron, the UK's BP, French group Total, and Norway's Statoil accepted the government's move. Only Exxon and ConocoPhillips refused to accept the terms of the deal, and China Petrochemical Corp., known as Sinopec Group, sought to step into the void left behind and make a deal with Venezuela's government.

Analysts don't expect PDVSA debt default Wall Street analysts said PDVSA was unlikely to default on debts following the freeze. Lehman Brothers Holdings Inc. economist Gianfranco Bertozzi wrote that, in a "worst-case scenario," in which assets remained frozen, the company could arrange payment through a trustee. "Our view is that PDVSA's operations and debt service will be unaffected, that court rulings are an Exxon negotiating tactic, and that this will drag on for a few months," said Aaron Holsberg, head of Latin America credit research for ABN Amro. "PDVSA is likely to settle for far less than Exxon's demanding but more than is currently on the table."

PDVSA has become the biggest source of revenue for Chavez's "socialist revolution," which aims to provide low-income Venezuelans with free health care and education and subsidies for housing. PDVSA spent US$11.8 billion on social programs last year, compared with US$5.8 million on its domestic oil and natural-gas operations, a document released by the Energy Ministry showed. Concern that Chavez has forced PDVSA to spend more on his policies than on company operations triggered a 23% drop in the price of the company's debt since April, traders including Interacciones Mercado de Capitales SA's Nelson Corrie say. PDVSA's debt rose almost eightfold last year to US$16 billion from US$2.3 billion, according to company statements released in January. The company last year sold US$7.5 billion in 10-, 20-, and 30-year bonds to finance a five-year expansion to more than double production capacity and borrowed about US$5 billion from banks to pay for current projects. The PDVSA bond sale was the largest-ever Latin American domestic corporate bond offering. Venezuela to stop oil exports if US does not stop "economic war" Chavez threatened to cut off oil supplies to the US unless it halted what he called its "economic war" against his country. His warning came in the days after ExxonMobil won its freeze order.

The US is the biggest market for Venezuela's heavy-crude exports. Chavez has threatened several times before to stop sending Venezuelan oil to the US but so far has not done so. Nevertheless, his comments during his weekly televised address on Feb. 11, took sharp aim at ExxonMobil and, by extension, the administration of US President George W. Bush. He described Exxon's management as imperialist bandits who form part of a US government-backed campaign to destabilize Venezuela. "If you end up freezing [Venezuelan] assets and it harms us, we're going to harm you," Chavez said. "Do you know how? We aren't going to send oil to the US. Take note, Mr. Bush, Mr. Danger." Observers expect a tough fight and tend to dismiss Chavez's export-cutoff threats, since they would be extremely damaging to both parties. "Exxon is the most serious problem the [Chavez] administration has faced," said Pedro Benitez, an oil consultant and professor at the Universidad Central de Venezuela (UCV). "Clearly their cash flow is very tight." "Based on our experience over the past nine years, this type of threat isn't fulfilled," Benitez said. "His [Chavez's] political goals for the year depend on oil prices breaking the US$100 barrier," which it repeatedly did the week of Feb. 25-29. US State Department spokesperson Tom

Casey, asked the week of the court decision whether the US had coordinated with Exxon on the lawsuit, said as far as he knew Exxon had pursued the case on its own. He told reporters in Washington on Feb. 8 that the US position was that any nationalization or expropriation of property should be done according to international standards and regulations, "and that very specifically includes fair-market-value compensation." PDVSA said Feb. 12 it had stopped selling crude to ExxonMobil and has suspended commercial relations with the company. The PDVSA statement said that it "has paralyzed sales of crude to ExxonMobil." It said the decision was made "as an act of reciprocity" for the company's "judicial-economic harassment." One analyst said the move would have little impact on Exxon. "It's more or less political rhetoric," said Ruchir Kadakia, assistant director for global oil at Cambridge Energy Research Associates, who was attending an energy conference in Houston. Kadakia said Venezuela still needs to sell its oil to refiners geared to process it, as the oil is a heavy variety and most of those refiners are in the US. "They'll sell it to a third party that will then sell it to Exxon," he said. "It's just an attempt for Chavez to do something, being that his assets are frozen."