Why Invest in the Venezuelan Petroleum and Petrochemical Industries in 1996?

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WHY INVEST IN THE VENEZUELAN PETROLEUM AND PETROCHEMICAL INDUSTRIES IN 1996?

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SPECIAL THANKS TO MY PARENTS FOR FILLING MY LIFE WITH LOVE. ALSO, THANKS MOM AND DAD FOR GIVING ME THE OPPORTUNITY OF GETTING MY MASTER'S DEGREE.
ABSTRACT

OBJECTIVES: This research examines the question "Why Invest in the Venezuelan Petroleum and Petrochemical Industries in 1996?". It has been prepared for the assistance of investors interested in participating with or assisting Petroleos de Venezuela in the creation of opportunities for expansion, both domestically and internationally, for the Venezuelan petroleum industry.

METHODS: A literature review on "Why Invest in the Venezuelan Petroleum and Petrochemical Industries in 1996?" is done to cover Venezuela's vast petroleum and mineral resources, recent actions by the government to eliminate restrictions on and promoting foreign investment, and the bidding process (1995-1996). There will be an interview conducted with a Venezuelan Petroleum Official to discuss the most frequently asked questions about investing in Venezuela.

RESULTS: Because the process of making any investment decision normally generates a number of questions, the interview will determine some useful answers to some of the questions that investors have raised concerning opportunities in Venezuela.

RECOMMENDATIONS: Recommendations are considered on both the literature review and the interview. This research has been written to give an overview of the investment climate in Venezuela. Making decisions about foreign operations is complex and requires an intimate knowledge of a country's commercial climate. If a firm or a company is planning to do business in Venezuela, they are advise to obtain the most current information.
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WHY INVEST IN THE VENEZUELAN PETROLEUM AND PETROCHEMICAL INDUSTRIES IN 1996?

CHAPTER I - STATEMENT OF THE PROBLEM
A. INTRODUCTION TO THE PROBLEM.

Why Invest In The Venezuelan Petroleum And Petrochemical Industries In 1996?

The Venezuelan petroleum and petrochemical industries continue to play significant roles in today's global energy markets. Continued growth of energy needs, through the long term, coupled with Venezuela's huge hydrocarbon resources, will create opportunities for expansion, both domestically and internationally, for the Venezuelan petroleum industry.

Venezuela, a country which the world has associated with oil for most of this century, remains a leader in petroleum production as a new century draws near. The nation today is one of the world's top five oil producing countries, with an average daily production of 3 million barrels.

Petroleum resources in Venezuela are enormous with proved oil reserves of more than 62 billion barrels (more than twice the amount of U.S. reserves), and the largest reserves of extra-heavy crude oil in the world. About 30% of the country's proved oil reserves are made up of condensates and light and medium gravity crudes (higher than 22 degrees API) which are processed in conventional low conversion refineries. The remaining 70% are composed mainly of heavy and extra-heavy crudes of gravity lower than 14 degrees API which required the use of high conversion refineries in order to obtain the larger proportion of lighter products which the market demands.

It is believed that another 30 billion barrels of conventional condensate and light and medium crudes can be added through future exploration and enhanced oil recovery projects. Venezuela's frontier areas, known for containing some of the largest sedimentary deposits in the world, will require special technologies to deal with problems such as deep formations and complex geological formations.
Venezuela has the world's largest reserves of extra-heavy crudes and bitumen. Approximately 1.25 trillion barrels are estimated to be in place along the northern bank of the Orinoco River in an area often referred to as "La Faja".

Since 1990, PDVSA and the Venezuelan government have pursued and ambitious long-term expansion aimed at developing the country's enormous resource base. This aim requires combined investment by PDVSA and potential partners in excess of $50 billion.

The Venezuelan government has changed its attitude from one of restricting the operations of foreign companies to one of promoting new foreign investment. Its programs include the establishment of duty free zones and the privatization of state-owned companies. Tax exemptions and investment tax credits are also available.

B. GENERAL BACKGROUND OF THE PROBLEM: INVESTMENT OPPORTUNITIES.

Why Invest in the Venezuelan Petroleum and Petrochemical Industries in 1996?

Venezuela's extensive resource base includes proved crude oil reserves in excess of 64 billion barrels, the largest outside the Middle East, and the sixth largest in the world. Moreover, the Orinoco Belt, a giant heavy and extra-heavy crude oil and natural province in central Venezuela, contains 1.25 trillion barrels of hydrocarbons, of which 270 billion barrels are economically recoverable using existing technology. Combined, conventional reserves and the Orinoco Belt total over 334 billion barrels, the largest hydrocarbons resource in the world. In addition, the nation's natural gas reserves total over 4 trillion cubic meters (140 trillion cubic feet), and proved reserves in the Guasare coal mines exceed 6 billion metric tons.
To meet the challenges of rising energy demand foreseen for the 21st century, PDVSA has embarked on a plan to accelerate the development of the country's energy resources. This will be achieved through major investment in exploration and production, upgrading current refineries to handle heavier crudes, increasing access to international markets, and forming strategic associations with international companies to produce and upgrade extra-heavy crudes.

Expansion in natural gas, coal and petrochemical production is also planned for the near future. PDVSA increased production capacity from 2.87 million barrels per day in 1993 to 3.0 million barrels per day in 1995, and is well on its way to its target of more than 4.0 million barrels per day by the year 2003. This will require in addition to the drilling of development wells and stepped up secondary recovery.

PDVSA's total worldwide refinery capacity stands as the second largest among international oil companies. Greater and even more sophisticated refining capacity is being achieved by upgrading existing refineries or constructing new ones in Venezuela, as well as by acquiring equity in refineries abroad.
C. SPECIFIC BACKGROUND OF THE PROBLEM: OPPORTUNITIES FOR PRIVATE INVESTMENT IN VENEZUELA.

Why Invest in the Venezuelan Petroleum and Petrochemical Industries in 1996?

Venezuela offers a variety of investment opportunities for private, domestic and international companies in the areas of extra heavy crude and bitumen production, natural gas, petrochemicals and the reactivating and development of marginal oil fields.

Development of the Orinoco Belt, which holds the world's largest resources of extra-heavy oil bitumen, will be achieved through strategic associations between PDVSA and international oil companies. PDVSA subsidiaries are in advance negotiations with international oil companies to develop four different projects for the extraction and upgrading of the extra heavy crude into high quality synthetic oil. Two of these projects have been approved by the Venezuelan Congress as required by law.

In the petrochemical sector, Peviquen currently participates in joint ventures and licensing agreements with more than 20 private companies, and offers Venezuela and international investors the opportunity to develop 100% privately owned petrochemical projects.

The reactivating and development of marginal oil fields through operating service contracts is another area open to outside investment. Thirteen units have been contracted to international majors and consortia. By bringing these fields into full production, PDVSA seeks to raise production capacity by approximately 430,000 barrels per day by the end of this decade.
The corporation's most recent initiative is the opening of ten exploration areas to private sector investors for participation in hydrocarbons exploration and production activities in association with a new PDVSA subsidiary.

D. DEFINITION OF TERMS:

1. Petroleos de Venezuela S.A (PDVSA): Is the national oil company of Venezuela which manages the nation's energy activities since 1976, when the petroleum industry was nationalized.

2. Barrel: A standard quantity, 1 barrel equals to 31.5 gallons.

3. Bitumen: Any of various natural substances, as asphalt, consisting mainly of hydrocarbons.

4. Joint Venture: Is any combination of two or more enterprises associated for the purpose of accomplishing a business objective. A joint venture can be structure as a corporation, consortium, partnership or profit sharing agreement.

5. Condensates: A liquid reduced from a gas or vapor, to reduce the volume or extend of molecule.

6. API: Temperature measurements standards govern by the American Petroleum Institute.

7. Crudes: Petroleum as it comes from the ground, before refining. It is a mixture of chemical compounds.

8. Marginal oil fields: Are petroleum production fields that once were declare not productive, because of either technological or financial cost associated to the well.

9. CVP: A special purpose affiliate of Petroleos de Venezuela S.A, for the purpose of hydrocarbon exploration and development.
WHY INVEST IN THE VENEZUELAN PETROLEUM AND PETROCHEMICAL INDUSTRIES IN 1996?

CHAPTER II - LITERATURE REVIEW
A. GENERAL REVIEW OF THE LITERATURE
"Why Invest in the Venezuelan Petroleum and Petrochemical Industries in 1996?"

1. Introduction to the general review of the Literature.

Venezuela lies atop some of the most prolific sedimentary basins in the world. Although small scale crude oil production existed as early as 1878, the industry really began to prosper as large scale commercial fields started operating in 1914. Since then, the name Venezuela has been synonymous with abundant hydrocarbons resources. Now, some eighty years later, the country has begun a new phase in its energy development, which will offer the investors a profitable alternative in today's competitive world market.

2. General overview of Venezuela.

The Republic of Venezuela is strategically located at the top of the South American continent, with 1,750 miles (2,816 kilometers) of coastline. The north coast faces the Caribbean Sea and the Atlantic Ocean is to the northeast. Venezuela is bordered on the west by Colombia, on the south by Brazil and on the east by Guyana. The national territory of Venezuela, which covers 353,875 square miles (916,490 square kilometers) including 72 islands in the Antilles, is larger than the combined areas of the United Kingdom, France, The Netherlands, Belgium, Luxembourg and Switzerland. Notable geographic features include the Venezuelan Andes mountains in the northwest, vast western plains (llanos), the jungles of the Gran Sabana and the great Orinoco River.

The majority of the nation's population is concentrated in the coastal mountain region and in the regions of petroleum, mining and industrial development. Estimated population at the end of March 1994 was 21.1 million. Approximately 800,000 foreign
citizens reside in the country. Venezuela's largest city, and the political, commercial, communications and cultural center, is Caracas, with a population of 3.7 million. Maracaibo, near the nation's most important petroleum field and richest agricultural area, is the second largest city, with a population estimated at 1.6 million.

The Republic of Venezuela is comprised of 21 states, a federal district, one federal territory and various dependencies. The nation has been ruled by democratically elected governments since 1958. Executive power is vested in the President, who is elected for a term of five years. Ministers are appointed by the President to head various executive departments.

Venezuela is a member of the United Nations and a founding member of the Organization of American States. The nation also is a member of the International Bank for Reconstruction and Development (The World Bank), the International Monetary Fund (IMF), the Inter-American Development Bank (IADB), the Organization of Petroleum Exporting Countries (OPEC), the General Agreement on Tariffs and Trade (GATT), the Latin American Integration Association (ALADI), and the Andean Common Market.


One of the riches developing countries, Venezuela has a per capita income of $2,150 which is among the highest in the region. The country has an abundance of largely untapped natural resources including minerals, timber and vast amounts of water for hydroelectricity. The Venezuelan economy benefits from a highly trained professional class, under which thousands of young Venezuelans studied abroad.
Market improvements in the Venezuelan economy have occurred in recent years as a result of the government's implementation of free market policies and programs to improve competition. A wide variety of companies has been privatized, which has reduced government deficits and increased national development. In addition, tax reform and the elimination of foreign investment restrictions are making Venezuela a desirable location for investment.

Foreign capital is required for further development of the oil industry. The government lacks sufficient resources to finance the oil industry's capital requirements and the country's numerous social programs. Growth in the private sector can be achieved through reinvested profits and improved technical expertise.

4. Investment climate.

The Venezuelan Government has introduced incentives designed to stimulate export industries, particularly in those areas where Venezuela has a comparative advantage due to the availability of untapped natural resources. The government is also strongly promoting investment in these areas, and is encouraging joint ventures with local foreign companies in order to obtain international capital, technology and commercial outlets.

5. Work force and technology.

PDVSA and its subsidiaries are equal opportunity employers, with nearly 53,000 employees worldwide. Close to 47,000 work in Venezuela, of whom approximately one third are university graduates with degrees in engineering and other areas. PDVSA devotes a significant effort to training and improvement courses for
employees at all levels. CIED, the corporation's training center, organizes thousands of courses and workshops yearly. The Corporation also funds advanced study programs in Venezuela and overseas for managers, scientists and other professionals.

Aside from the considerable experience gained over 80 years of operations, the Venezuelan oil industry possesses great in-depth technical knowledge in all aspects of the operation, especially in the areas of extra heavy crudes and natural bitumen. Intevep, PDVSA's research and development center, together with operating subsidiaries, has made important breakthroughs in the areas of enhanced recovery, transportation and upgrading-refining processes.

6. Recent political developments and the impact on foreign investment.

The failed coup attempt in early 1992 was led by mid-level army officers reportedly dissatisfied with alleged corruption and the inefficiencies of the present government. Some sources have characterized the main causes of the failed coup attempt as poor communication with the public about the impact of Venezuelan economic reforms and that people were unprepared to deal with the belt-tightening measures that accompanied efforts to open up and liberalize the national economy.

This efforts include removing price controls, unifying and freeing the exchange rate, abolishing import licenses, lowering tariffs, reducing spending, welcoming foreign investment, deregulation and privatization measures targeted at the banking, airline, shipping, steel and power industries.
7. Safety and environmental regulations.

In the areas that PDVSA is offering for ventures, it has developed a host of programs to improve employee safety, prevent accidents that might affect the areas surrounding its facilities and decrease pollution levels. Specialists conduct environmental impact studies prior to building all new plants, and the Corporation's employees spend nearly 300,000 man hours per year in courses and practice drills related to industrial safety and environmental protection.

In February 1992, Venezuela's new Environmental Law was passed which will require the industrial and public sectors to make investments to modify their infrastructures for compliance with this law. Basically, this law establishes standards with which these sectors must comply and contains a number of basic requirements, such as:

- The understanding of the applicable to industrial processes.
- Use of environmental audits for existing installations.
- Completition of environmental impact studies for future studies.
- Determination of plans and timetables for investments required for compliance with the regulations.

8. Considerations.

- One of the most stable political systems in South America: since 1958 all governments have been civilian and democratically elected.

- The country has vast petroleum and mineral reserves.

- Since the early 1980's, the economy has been badly hit by depressed oil prices.
- The government has introduced a package of austerity and trade restructuring measures to contain inflation, make local industry more competitive and refinance the foreign debt.

- The government is taking active measures to counteract the recessionary effect of lower oil prices and foreign debt service.

- Most price controls have been abolished due to elimination of most government subsidies.

- Import restrictions are being eased and import duties lowered.

- New foreign investment opportunities have been introduced through joint ventures with local companies, and investment in previously restricted areas.

- The government plans to reduce its intervention in business and industry.

- Rules for foreign investment have been made more flexible to allow foreign investment in most economic sectors.

- Venezuela's geographical position offers easy access to international markets.

- Incentives are available to both foreign and domestic companies in the form of investment tax credits.

- There is a law to protect and promote free trade.

- There is a trend toward deregulation in the areas of foreign trade and price controls.

- Mergers with domestic companies are permitted.

- Abundant natural resources at competitive prices.

- A well skilled local labor force.

- Availability of high quality engineering and professional resources.

- Local manufacturing facilities capable of supplying much of the equipment required for new facilities and refineries.
B. SPECIFIC REVIEW OF THE LITERATURE
Why Invest in the Venezuelan Petroleum and Petrochemical Industries in 1996?

1. Introduction to the specific review of the Literature.

The Republic of Venezuela, acting through the Ministry of Energy and Mines, has made available to CVP, ten areas for the purpose of hydrocarbon exploration and development. In total, these Areas comprise approximately 18,000 square kilometers (4.5 million acres) offshore and in the states of Cojedes, Delta Amacuro, Guarico, Merida, Monagas, Portuguesa, Sucre, Trujillo and Zulia.

To accelerate the development of these areas, PDVSA (acting on behalf of CVP) is inviting qualified private (domestic and foreign) companies to participate in association with CVP in the exploration, development and subsequent production of hydrocarbons in the areas. Through this program, PDVSA is making available some promising exploration acreage in an already proven hydrocarbon-rich county. In return, PDVSA is seeking the participation of interested companies that are ready and willing to commit capital and expertise to an accelerated exploration and exploration effort.

2. Mineral and energy resources.

Venezuela has abundant resources, especially petroleum, mineral and hydroelectric power reserves. Petroleum production, together with refining and derived products, is the most important element in the economy. Since 1976 the state has operated this sector, the foreign investors was limited to providing technical assistance and technological services
in the petroleum and iron ore sectors since the basic exploitation of these resources was
reserve to the state. But now the petroleum environment has changed, foreign companies
can fully participate in contracts of associations or ventures with PDVSA and its affiliates
to exploit and refine heavy and extra heavy crudes and natural gas as approved by The
Venezuelan Congress.


Significant economic reforms have also been implemented by the government
which are aimed at stimulating the economy and allowing Venezuela industries to compete
more freely and aggressively in global markets. These economic reforms, combined with
PDVSA’s ambitious expansion plans, have created unique opportunities for investors and
new markets for suppliers from around the world. Among the reforms are:

- Establishment of a single floating rate of exchange for the Venezuelan bolivar.
- Reduction of tariff protection, and elimination of quantitative restrictions, specific
taxes and exonerations.
- Amendment of the system of tax incentives for exports.
- Liberalization of the foreign investment regime, with tax reform for foreign
investment.
- A new debt-equity program that lets investors exchange public sector debt for
equity in large-scale projects in petroleum, petrochemical and other sectors.
- The state now plays a less dominant role in the economy.

4. Opportunities through strategic associations.

Venezuela is an excellent center for trade due to its strategic location in the
American continent, centered between South, Central and North America and the
Caribbean. To accommodate the sort of expansion planned, PDVSA and the Venezuelan
government have indicated a desire to participate in further integration with major global
petroleum companies. What this basically implies, is not just a continued effort to seek
joint ventures with foreign refineries, but also to encourage the formation of private joint
ventures in Venezuela. Some benefits of the collaborative efforts between PDVSA and
joint venture partner are:

- Production, upgrading and conversion of heavy and extra-heavy crudes,
  particularly those of the Orinoco Belt.
- Construction of export refineries in Venezuela to process heavy crudes to be
  offered to the international markets.
- Participation of PDVSA in foreign refineries able to process growing quantities of
  Venezuelan heavy crudes.
- Exploration and production of light and medium crudes in Venezuela within an
  association package that includes the development of markets for Venezuelan
  crudes.
- Exploitation of natural gas for local and export markets.
- Development of petrochemical and other related business projects.


The production and marketing of petrochemicals in Venezuela are managed by
Pequivén S.A, the state-owned petrochemical company. Pequivén, which is an integrated
commercial corporation, is comprised of three primary business units: Industrial Products,
Fertilizers and Olefins and Plastics.

Pequivén participates in all aspects of business, from finding and developing raw
materials, to supplying products and services to customers. An ambitious five-year
expansion program is underway that will expand and diversify Pequivén’s business and
will position the company to increase its petrochemical products from internal markets, and will position the company to increase its petrochemical business in international markets.

All areas of Venezuela’s petrochemical industry are open to 100% privatization. Current plans are to increase the number of joint ventures from 20 at the present to more than 35 by the end of 1996.


A new set of rules towards a better and more open market governs foreign investments in Venezuela today. The rules reflect a different view, both in the government and the private sector, of the virtues of direct foreign investments. Current regulations, embodied in Decree 727, have eliminated much of the red tape involved in previous regulations.

Early in 1994, another decree was issued (No. 2095) which covers investments in the hydrocarbon sector, plus the common treatment of foreign capital and trademarks, patents, licenses and royalties. Venezuela’s new System for Industrial Property permits patentability in all areas of technology and simplifies requirements for obtaining patents and trademarks.

Some current regulations which are of interest to prospective foreign investors:

- Foreign equity investment no longer requires prior approval by the Superindency of Foreign Investment (SIEX).

- Restrictions have been removed on dividend remittance and capital repatriation.
Dividends also are now tax-free.

- A Venezuelan corporation characterized as mixed or entirely foreign-owned now may have access to short, medium and long-term domestic credit.

- Foreign investors can enjoy the same benefits and advantages as local investors.

7. Accounting principles.

Generally accepted accounting principles are determined by the Venezuelan Federation of Colleges of Public Accountants which, to date, has issued 12 accounting pronouncements. The National Securities Commission has published norms for companies listed on the stock exchanges. These norms consist of minimum rules of disclosure in published financial statements, and standards for valuing assets and measuring income.

Venezuelan accounting principles are generally similar to those followed in the United States and Mexico. The most noticeable differences between Venezuela and U.S accounting norms are in the areas of losses on foreign exchange transactions, income tax accounting and preoperating losses.

8. Answers to frequently asked questions about investing in Venezuela.

The process of making any investment decision normally generates a number of questions. Knowing the potential of the petroleum and petrochemical industries in Venezuela is in the interest of every interested investor, here are some answers that an investor might find helpful.
1. What risk of nationalization do investors face?

While nationalization of the country's petroleum industry occurred in 1976, it should be pointed out that nationalization occurred when the major oil concessions were due to expire and was based on negotiated agreements signed with the concessionaires. Furthermore, the current business and political environment significantly reduces the possibilities of this happening again. Venezuela has moved toward an open economy and actively participates in today's global markets. Development of the nation's massive natural resources will require significant capital investments. Petroleos de Venezuela, S.A. and the Venezuelan government have indicated a desire to participate in the development of these resources with multinational petroleum companies.

2. How will future adjustments to Venezuela's OPEC production quota affect companies who participate in heavy and extra-heavy production related projects?

In the past, adjustments to OPEC's quotas have generally ranged between 5%-15%. Production under contractual obligations has also not generally been affected by quota reductions. Investors in production related ventures will, however, need to clearly define the terms under which any future quota reductions may impact their operations.

3. Can foreign oil companies legally operate in Venezuela?

Article V of the Venezuelan Nationalization Law states that foreign companies may enter into associations with PDVSA for the development of oil and gas when these are approved by Congress. No congressional approval is required for operational contracts in the petroleum industry and petrochemical related joint ventures with the industry.
4. Which projects does PDVSA want to pursue and in what time frame?

PDVSA's medium and long term plans create significant opportunities in many areas for investors and suppliers.

5. Are there currency restrictions or taxes related to the cash flows to or from foreign operations?

Restrictions have been removed on dividend remittances and capital repatriations and foreign equity investments no longer require prior approval by the Superintendency of Foreign Investment.

6. Can foreign investors own equity in companies in the Venezuelan petroleum industry?

There are no restrictions on foreign investments in companies which participate as contractors and suppliers of goods and services to the Venezuelan petroleum industry. Joint ventures with PDVSA associated with crude oil and natural gas production require approval from the Venezuelan Congress.

7. Does PDVSA or the Venezuelan government require that foreign petroleum operators provide a certain amount of capital in their ventures?

Specific capital requirements have not been formally stated, however, PDVSA and its affiliates have indicated their preference for using financial leverage where possible.

8. Do foreign oil companies have to use Venezuelan goods and services in their operations?

There are no specific local content requirements for companies operating in the country. Venezuela has recently revised its customs regulations to reduce restrictions on many types of imports.
9. Do foreign oil companies have to use Venezuelan labor?

Venezuela's labor laws require that at least 90% of all workers be Venezuelan citizens.

10. Is there any protection from misappropriation of proprietary technology brought into Venezuela?

While a law currently exists relating to trade names and patents, there is proposed legislation aimed at strengthening the protection provided to proprietary technology.

11. What exposure exists relating to environmental obligations?

Venezuela passed a new Environmental law in February 1992, which is expected to require the industrial and public sectors to make significant investments to comply with this law.

12. How does Venezuela's business infrastructure (transportation, telecommunications, energy, etc.) compare to other western countries?

The business infrastructure in Venezuela is well develop compare to other countries in South America. The country has a nationwide network of highways, seaports, airports and warehouse facilities. Venezuela's energy cost are among the lowest in the world, due to its vast resources of fossil fuels and hydroelectric power generation capability.

13. How are the profits from operations for foreign oil companies taxed in Venezuela?

Companies who participate in heavy crude, non-associated natural gas and petrochemical projects are taxed at a maximum rate of 30%. Projects involving light and medium crudes are taxed at a rate of 60%.
14. Are there taxes other than those on income or production which could significantly reduce profits from Venezuelan operations?

While the income tax is the most significant tax, the impact of other taxes, such as exploration, consumption and municipal taxes, should also be evaluated before making any investment decision. Various proposed taxes such as a value-added tax and a tax on fixed assets could impact the profitability of investment in Venezuela.
WHY INVEST IN THE VENEZUELAN PETROLEUM AND PETROCHEMICAL INDUSTRIES IN 1996?

CHAPTER III - METHODS AND PROCEDURES
METHODS

A literature review on "Why Invest in the Venezuelan Petroleum and Petrochemical Industries in 1996 ?" was done to cover Venezuela's vast petroleum and mineral resources, recent actions by the government to eliminate restrictions on and promoting foreign investment, and the bidding process (1996). There was an interview conducted with a Venezuelan Petroleum Official were the most frequently asked questions about investing in Venezuela were discuss.
WHY INVEST IN THE VENEZUELAN PETROLEUM AND PETROCHEMICAL INDUSTRIES IN 1996?

CHAPTER IV - RESULTS
RESULTS

The interview determined some useful answers to some of the questions that investors have raised concerning opportunities in Venezuela.
WHY INVEST IN THE VENEZUELAN PETROLEUM AND PETROCHEMICAL INDUSTRIES IN 1996?

DISCUSSION - CONCLUSIONS
CONCLUSION

The purpose of this research is to reiterate Venezuela's desire to be a nation open
to the world, friendly with all nations, and to show the opportunities Venezuela can offer
during these accelerated exploration programs, especially in these times of crisis and deep
changes. At present, Venezuela is more aware than ever of its own difficulties, but at the
same time willing more than ever to find solutions to the problems with the cooperation of
outside sources.

Development of the nation's massive natural resources will require significant
capital investments. Petroleos de Venezuela S.A and the Venezuelan government have
indicated a desire to participate in the development of these resources, by entering into
joint ventures and profit sharing agreements with multinational petroleum companies.

Companies can no longer pay attention only to their domestic market, no matter
how large it is. Many industries are becoming global industries, and their leading firms
achieve lower costs and higher brand awareness. Protectionism measures can only slow
down the invasion of superior goods. I think the best company defense is a global offense,
like PDVSA (Venezuela) has accomplish with great efforts.

At the same time, global marketing is risky because of fluctuating exchange rates,
unstable governments, protectionism barriers, high product and communication adaptation
cost, and other factors of risk that PDVSA took when entering foreign countries, to gain
foreign but profitable markets. The international product life cycle suggest that
comparative advantage in many industries will move from high cost to low cost countries,
and companies cannot simply stay domestic and expect to maintain their markets. Given
the potential gains and risk of international marketing, companies need a systematic way
to make intelligent international marketing decisions.

The first step is to understand the international marketing environment, particularly
the international trade system. In considering a particular foreign market, its economy,
political, legal, and cultural characteristics must be assessed. Second, the company must
consider what proportion of foreign to total sales to seek, whether to do business in a few
or many countries, and what types of countries to enter. The third step is to decide which
particular market to enter, and this calls for evaluating the probable rate of return on the
investment against the level of risk. Fourth, the company has to decide how to enter each
attractive market. Many companies start as indirect investment or direct exporters and
then move to licensing ventures, and finally direct investment, this is called the
internationalization process.

Because foreign capital is required for further development of the Venezuelan Oil
Industry, it is a good opportunity for foreign investors to take part of these exploration
bidding rounds which would make them to be selected among the major league oil
companies to participate in this international event to be able to regain footholds in
Venezuela and bring to the different plots of land know-how, expertise, technology,
outlets and financial backup which at the end will pay all the efforts put in by the foreign
investors to accelerate exploration and exploitation efforts.

In 1996, Venezuela has surge steadily ahead of Saudi Arabia as the first supplier of
oil to the United States. On the Venezuelan side, there is also a new awareness that the
country, even though it had made a success of oil nationalization, is handicapped in trying
to do it alone. Capital and World class technology would be available only through
association with foreign investors. It is all part of the globalization of trade and investment sweeping the world in the post-war era.
WHY INVEST IN THE VENEZUELAN PETROLEUM AND PETROCHEMICAL INDUSTRIES IN 1996?

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   A book written to give the busy executive a quick overview of the investment climate, taxation, forms of business organization, and business and accounting practices in Venezuela.


   It is a well-written guide to provide relevant business information on the business environment in Venezuela to those contemplating doing business there.


   It is basically an overview of Petroleos de Venezuela S.A. and its activities. It is a summary where the Venezuela’s oil industry stands and its plan.


   It is the Initial Tender Protocol which basically describes the conditions and sequence for the Ten Areas available for the purpose of hydrocarbon exploration and development.


   It is a booklet prepared to serve as a general information guide for investors interested in Venezuelan opportunities for investment.

6. **APERTURA PETROLERA Y DESARROLLO ECONOMICO DEL PAIS** (Economic Development and The Opening of The Oil Sector in Venezuela), Dr. Luis E. Giusti, President of PDVSA, April 1995.

   It is a conference given by Dr. Luis E. Giusti, President of PDVSA in which he states the reasons and history of the economic development and the opening of the oil sector in Venezuela.
7. EL ROL DEL PETROLEO EN LA ECONOMIA VENEZOLANA CONTEMPORANEA (The Rol of The Oil Industry in The Venezuelan Economy Today), Conference with Dr. Luis E. Giusti, President of PDVSA, August 1994.

It is a conference given by Dr. Luis E. Giusti, President of PDVSA in which he explains how the Venezuelan Petroleum and Petrochemical industries continue to play significant roles in today's global energy markets.


It is an Oil Company model in anticipation of continuing declines in upstream activity levels over the next 15 years. Reasons for a company to concentrate only on their core competences and outsource the rest through well structure partnering arrangements.


First major joint venture involving a leading international oil corporation in Venezuela's petroleum industry which has a life span of 35 years.

10. MARAVEN s.a, ANNUAL REPORT 1994, Gerencia de Asuntos Publicos de Maraven, Caracas - Venezuela.

It is an overview of Maraven s.a, subsidiary of PDVSA and its activities.

11. BUSINESS VENEZUELA, Published by the Venezuelan-American Chamber of Commerce and Industry, Business briefs, September, 1995.

A magazine in which relevant articles were written in relation to the opening of the Venezuelan economy.

12. OTRO PASO EN LA APERTURA (Another Step Into the Petroleum Industry Opening), TOPICOS, pag. 8-11, Published by Maraven s.a, July-September 1995.

An article written about the Venezuelan Petroleum Industry Opening, in which important reasons were given to investors of why they should take the opportunity to invest in Venezuela now.


A well written book about the Venezuelan Petroleum Industry and the future accomplishments it could achieve, with the help of new technology and fresh foreign direct investment.
WHY INVEST IN THE VENEZUELAN PETROLEUM AND PETROCHEMICAL INDUSTRIES IN 1996?

APPENDICES
PDVSA subsidiary Maraven and Conoco sign $3 bln extra-heavy crude oil deal

Maraven, Conoco ink partnership

By Peta Cole
Daily Journal Staff

Petróleos de Venezuela S.A. (PDVSA) subsidiary Maraven and Conoco, a unit of DuPont, have signed a three-billion-dollar deal Friday to produce, upgrade and market extra-heavy crude oil from Venezuela's virtually untapped Orinoco oil belt, which contains one of the world's largest oil deposits.

The deal, which has a lifespan of 33 years, marks the first major joint venture involving a leading international oil corporation in the country's petroleum industry, nationalized almost 20 years ago.

Maraven and Conoco now will proceed to form a mixed company called Petrozuata that will produce some 120,000 barrels per day of hard-to-market nine-degree extra-heavy crudes from the Zuata region of the belt. That crude will be converted into a more valuable 21 degree API synthetic crude that will be shipped to Conoco's refinery at Lake Charles, Louisiana in the United States.

Over the first four years of the so-called strategic association between Maraven and Conoco, an estimated $1.5 billion will be invested, while an additional $1.5 billion will be invested during the production phase of the venture.

The Zuata region of the belt contains approximately 10 billion barrels of extra-heavy crude oil reserves. only a small portion of the belt's total 270 billion barrels of recoverable crude reserves.

The formal signing ceremony of the venture was held at Maraven's Caracas headquarters with Conoco's outgoing Chief Executive Officer Constantine Nicandros and Maraven president Emilio Abouhamad signing the documents.

"The signing of the agreement means not only a union of the strengths of two corporations, but also a clear sign that the investors are committing their capital to a sound project and future agreements," said Abouhamad, whose company hopes to eventually work out similar deals with other foreign oil companies. The Maraven president said the venture eventually will generate

PRESIDENTS OF CONOCO and Maraven, Constantine Nicandros and Emilio Abouhamad, sign the strategic association agreement to market crudes from the Orinoco oil belt.

(Courtesy photo)
Maraven and Conoco sign extra-heavy crude oil deal

From Page 1

estimated $260 million a year in new oil revenues.

"This new entity will use the technology and experience of both companies and is designed and constructed to operate within the highest considerations of safety within the environment," said Nicandros.

"We are looking towards the future in search of new opportunities to explore and develop the abundant reserves of the country," the Conoco executive said.

Approximately, 40 percent of the initial $1.5 billion investment will come directly from the partnership, while the remaining 60 percent will be raised by foreign financial institutions. By June of next year, a lead bank to arrange financing is expected to be selected. Citibank currently is advising Maraven and Conoco on external financing matters.

The initial engineering stages of the project are scheduled for March 1996, while the first stages of production are slated for 1998 with full production flowing by 1999.

An investment of $900 million will be made to build a refinery plant at Jose in Anzoátegui state. The engineering phase will have an investment of some $500 million, 60 percent of which will go to local contractors. About 85 percent of construction will be designated to Venezuelan companies, where some 8,000 workers will contracted.
Maraven set to earn $260 mln through Conoco joint venture

By Nigel Cumberbatch
DJI Deputy Editor

Maraven stands to earn approximately $260 million a year from its multi-billion-dollar joint venture with Conoco, scheduled to go onstream in 1998 when production begins.

Conoco, on the other hand, has not made public its projected earnings from the deal, but industry sources have said its profits could at least double the amount its Venezuelan partner expects to obtain.

Conoco "has a pretty good deal" because it will benefit both from the joint venture operations in Venezuela as well as from refining and marketing the Venezuelan crudes in the United States, an industry source said.

Under the strategic association with Maraven signed Friday, Conoco and Maraven will hold an equal amount of shares in a new company called Petrozuma to extract, transport, upgrade and market some 120,000 barrels a day of low-quality nine-degree API extra-heavy crude from the Orinoco Oil Belt. That crude will be converted into a more valuable 21-degree API synthetic crude for processing at a Conoco refinery at Lake Charles, Louisiana in the United States.

During the official signing ceremony of the strategic association deal at Maraven's Caracas headquarters, Conoco's outgoing chief executive officer Constantine Nicandroso declined to provide details regarding his company's projected earnings from the deal.

Maraven president Emilio Abohumad told reporters, however, that his company expects to obtain yearly profits amounting to approximately $260 million once the project goes on stream.

Aside from the strategic association, Conoco, a world leader in technology for refining heavy crudes, also is looking at several other business opportunities in Venezuela where the state oil industry is rapidly opening its doors to private foreign investments.

Conoco already has nailed down a separate deal with Bitumenes Orinoco S.A. (Bitor), Petróleos de Venezuela S.A. (PDVSA) subsidiary responsible for the manufacture and marketing of Venezuela's trademark boiler fuel known as Orimulsion, which competes directly with coal in electricity generating plants.

That deal involves two foreign companies, a private Venezuelan consortium and Bitor to form a mixed company aimed at exporting orimulsion mainly to the United States.

Conoco will hold a 35 percent stake in that joint venture, which also involves Statkraft of Norway with 20 percent, Inversiones Jandis, a Venezuelan consortium comprising Grupo Janssa and Distral Términa with 10 percent. Bitor will hold the remaining stock. The proposed mixed company will invest approximately $320 million over a 16-month period to construct and operate a new orimulsion production module in the Orinoco oil belt.

The facility is expected to boost Venezuela's orimulsion production capacity by some 100,000 barrels a day equivalent from the end of 1996, or beginning in 1997.

Approximately four million barrels a year equivalent from the additional output will be exported to the Florida Power and Lighting Company in the United States under a 20-year supply contract signed last year.

Orimulsion "is a natural extension" of Conoco's power supply business, the company's executive vice president Robert McKee said.

Conoco also has expressed keen interest in a PDVSA-sponsored international tender for so-called profit-sharing contracts for upstream activities in 10 untapped blocks.
Mobil and DuPont consortia win first two oil opening blocks

"From Page 1

long time," said Mobil Latin
America Business Ventures
president Ronald Wilson.

Aside from the La Ceiba
block, Mobil is developing a
wide-ranging strategy for
additional investments in the
country's oil industry. Cur-
rently, Mobil is involved in
ventures linked to the pro-
duction and marketing of
lubricants and is finalizing a
one-billion-dollar strategic
association with PDVSA sub-
sidiary Maraven for produc-
ing and upgrading extra-
heavy crude in the Orinoco
Oil Belt. Mobil also reported-
ly has been seriously looking
at the domestic gasoline mar-
ket.

Wilson told the Daily Jour-
nal he felt the La Ceiba block,
covering an area of some
1,793 square kilometers on
the east coast of Lake Mara-
caiibo, may prove to have
large oil fields, but he
stopped short of saying how
much oil his company ex-
pected to find in that area.

However, oil industry
sources said the La Ceiba
block may contain anywhere
between 300 million and 800
million barrels of light and
medium grade crude re-
erves.

Mobil holds 50 percent of
the consortium, while its
partners Veba Oel has 30 per-
cent and Nippon Oil 20 per-
cent.

"We know the area quite
well," said Wilson, whose
company operated in the
Zulia state region prior to the
1976 nationalization of the oil
industry. "With our bid, we
showed we have a lot of con-
fidence in finding oil."

Once the bidding process
is completed on Friday,
PDVSA will hand the profit-
sharing contracts over to the
Energy and Mines Ministry,
which in turn will submit
them to President Rafael
Caldera and his cabinet of
ministers. Subsequently, the
contracts will be sent to Con-
gress for approval. Following
which the winning companies
can begin operations.

That procedure could mean
that operations could start
as early as the first quar-
ter of 1997.

MAPS of Gulf of Paria East (above) and Guanare oil
exploration blocks which will be auctioned today.

However, looking down
the road, oil industry sources
said there still are several key
issues that must be clarified
before the foreign companies
actually begin pumping huge
investment funds into opera-
tions. Those issues include
"clear rules of the game"
regarding foreign currency
accounting and municipal
taxes.

The Mobil executive,
whose company first began
operating in Venezuela in
1934, underlined that his
company would like to oper-
ate within a system of a free
foreign exchange market.

"Free exchange and free
rates are critical to us," Wil-
son said.

"We will have to clarify the
issue of municipal taxes and
foreign exchange matters," said
an oil industry executive.

In today's round of bidding,
companies will pitch for the
Guanare and Gulf of Paria
East blocks. The tender is
scheduled to conclude on Fri-
day.

Approximately, 110 compa-
nies from around the world -
only one Venezuelan - origi-
inally expressed interest in
the tender. Some 75 eventual-
ly pre-qualified for the final
round of bidding.

The so-called "oil opening"
is expected to boost crude oil
production by at least 500,000
barrels per day by the year
2005.

Joint ventures - which will
need congressional approval
- will see PDVSA's recently
 revived Corporación Vene-
zolana del Petróleo (CVP)
subsidiary own up to 35 per-
cent of the stocks and foreign
investors the remaining 65 per-
cent.

MOBIL EXECUTIVES Ronald Wilson and Frank
Alcock outline their company's plans to develop the
La Ceiba block.  (DJ photo by Emanuele Sorge)
Oil companies facing complex legal issues not yet solved

By Peta Cole
Daily Journal Staff

In an uncontested bid, Inelectra of Venezuela in consortium with Enron International won the exploration and production rights on the Gulf of Paria West field in Petróleos de Venezuela's weeklong tender for 10 untapped areas.

Qualified for a 10 percent share, Inelectra in consortium with Enron Oil and Gas International who hold a 90 percent stake as operator, was the only consortium to bid for the block offering a 20 percent PEG (share of profits before tax).

Enron Oil and Gas International vice president Horace Snyder said he felt the company was particularly well-suited to this block as historically it has had a long involvement in gas exploration. The company is also strategically well-placed for the operations as they are involved in gas exploration in nearby Trinidad.

Although the company expects to find mostly light-to-medium-grade crudes, he said he was sure there would also be gas components.

Referring to the association with Inelectra he said, "we think the engineering components and the familiarity with the business community in Venezuela are going to be great assets for the corporation as a whole."

He said the plan is to drill two wells with an estimated initial investment of $30 million. He added that the company already has operations in Venezuela in downstream activities in the area of propylene. Inelectra president Jorge Rojas said, "we have demonstrated that Venezuelans can take part with the major oil companies in the country's Oil Opening scheme."

Three consortia bid on Corpoven's Guanare field, an area of 1,898 square kilometers with estimated reserves of 800 million barrels located in central Venezuela on the rim of the Barinas basin.

"That matter should be clarified before operations begin," said one oil executive, adding that "international companies like to see very clear rules of the game. It's like if you are going to be executed, you would like to know the date and the time."

"At that time, we would expect the winners of the bids to insist on defining further the terms and conditions of the contract (and even renegotiate some aspects) before committing to important amounts. The opening, as a result, can be construed more as a letter of intent," he said.

Regarding the suits filed at the Supreme Court, several oil executives have said a ruling on the matter at this point would mean that once operations go onstream in the future there will be no legal difficulties to be worried about.

"That's a very clear decision taken by Congress based on the law. "Today, nationalization is being consolidated," said Arrieta, noting that Venezuela today "is much different" from the rural country it was in the '40s and '50s when oil concessions were granted to foreign oil companies.

PDVSA president Luis Giusti also has expressed optimism that oil opening policy will turn out to be successful and beneficial for Venezuela and that the lawsuits will not become an obstacle.

With a maximum PEG offer of 50 percent, the winning consortium made up of the French company Elf Aquitaine and the U.S. company DuPont (Conoco) won over a bid of 21 percent PEG from the Argentine company Pemex Compagnie S.A. and 11 percent PEG bid by the consortium made up of U.S. company Atlantic Richfield and the Japanese company Idemitsu Kosan Co. Ltd.

Elf Aquitaine's head of delegation in Venezuela, Pierre Marie Argand said, "we see Venezuela as a priority in our world oil program."

Although he would not specify how much the company expected to invest, PDVSA's estimates on initial investments are in the order of $30 million over the first five years.

Corpoven's president Guillermo Archila said studies have been done over the past few years, with one well yielding some 60,000 barrels a day.

Elf Aquitaine plans to participate in further bids.

With a 50 percent participation in the Guanare field, this is the second block for which Conoco has submitted a successful bid.
Mobil and DuPont (Conoco) lead first two winning consortia in first day of oil opening

Oil majors vote yes

By Nigel Cumberbatch
DJ Deputy Editor

International oil companies handed Venezuela a firm vote of confidence Monday pledging millions of dollars on the first day of a public tender for profit-sharing contracts to enter upstream operations in the country's state-owned petroleum industry.

The comeback of foreign oil companies to the country just 20 years after the petroleum industry was nationalized also coincided with the 38th anniversary of Venezuela's democracy and is expected to breathe new life into the nation's battered economy.

In a hotly-contested first day of bidding for the contracts, Mobil of the United States led a group of three companies that clinched the highly-attractive La Ceiba block, located in western Venezuela near Lake Maracaibo, from a field of 11 groups of companies, while Dupont (Conoco) of the United States secured the Gulf of Paria West block, located off the country's northeastern coast in the Caribbean Sea.

Mobil led the consortium that also included Veba Oel of Germany and Nippon Oil of Japan. Dupont (Conoco) competed unaccompanied.

The Mobil-led group's winning bid was a 50 percent flat pre-tax profitability bonus, or PEG, plus an extra bonus of $103,999,999.

That additional bonus, which is scheduled to be paid next week, almost doubled the offer from second-placed contender Shell-Exxon, which came in at $57,500,001.

The less-attractive Gulf of Paria West block, the second tendered on Monday, went to Dupont (Conoco), which pledged a 50 percent pre-tax profitability bonus plus an extra bonus of $21,197,844 from a field of four groups of companies that submitted bids. Its closest rival was Canadian Occidental-Nunac-Yukong-Pedco (Korea) that offered a minimum investment of $40-$60 million per block. The investment company will share profits with the Petróleos de Venezuela S.A. (PDVSA) subsidiary that originally held the block, but shouldering all exploration costs.

PDVSA and Energy and Mines Ministry officials along with many executives from oil companies expressed surprise and contentment over the highly-positive response to the tender.

Prominent government officials, private sector leaders, many from the Petroleum Chamber and oil-related industries, and political leaders, as well as U.S. Ambassador Jeffery Davidow attended the bidding ceremony at the Hotel Tamanaco.

"This proves that the nationalization of the oil industry was successful," said Energy and Mines Minister Erwin Arrieta.

"This may mean the beginning of the end of the nation's economic and financial crisis," said one PDVSA executive.

The five-day tender for 10 untapped blocks around the country, known as "new areas," opens the door for the return of foreign oil companies to upstream operations in Venezuela's oil industry.

"We expect to be here for a See MOBIL, Page 3
Bidding begins on PDVSA profit sharing

By Pets Cole
Daily Journal Staff

Mobil of the United States plans to invest more than one billion dollars in Venezuela in coming years, company president for Latin American business ventures Ronald Wilson said Monday.

Mobil led a consortium including Veba Oel of Germany and Nippon Oil of Japan that won the first block Petróleos de Venezuela S.A. (PDVSA) tendered on Monday as it launched its so-called oil opening scheme based on profit-sharing contracts.

The consortium bid successfully for the La Ceiba block, one of 10 untapped blocks PDVSA has put up for tender.

"We will be investing in the region of $1 billion in Venezuela. We are here for the long term and have every confidence that the terms will continue to improve," Wilson said.

"In the La Ceiba block we have a work program of seismic exploration in three different areas over the next five years," he said.

In the consortium, Mobil holds a 50 percent stake and will be the operating company, while its partner Veba Oel hold 30 percent and Nippon Oil 20 percent. La Ceiba is located near Lake Maracaibo and has estimated reserves of some 791 million barrels of oil.

Commenting on the general conditions and prospects for investment in the country, Wilson said his company "is pleased to see there have been some improvements over the last two years and we expect to see further improvements in the environmental area and exchange controls where there would be free market trade."

He said Mobil's investments would depend upon the projects and opportunities offered by Petróleos de Venezuela S.A. (PDVSA).

"We can't say how much oil we'll discover, but we hope it will be substantial," he added.

Asked to comment on a lawsuit recently presented to the Supreme Court claiming PDVSA's oil opening scheme is unconstitutional, the executive said his company prefers to wait and see the outcome.

"We are happy to win the block," he said.

He also said Mobil expected to start operations at the La Ceiba block "as soon as Congress approves the contract."

In Monday's bidding, Lago-ven's Gulf of Paria West block, with potential reserves of 600 million barrels of oil, was offered in the afternoon and won by DuPont (Conoco), after an initial tiebreak in the PEG, (share of profits before tax) by the four competing consortia.

Conoco narrowly won the bid over the consortia Canadian Occidental, Numac, Yukong and Pedco, which offered the highest tiebreaker bonus of just over $21 million for the offshore field.

PDVSA president Luis Giusti said he was more than pleased with the results.

"It was a great surprise for us to see that nine consortia were bidding the highest PEG."

Energy and Mines Minister Erwin Arrieta said the profit-sharing ventures should add a further 10 percent to oil production over the next five to 10 years.
APAN: THE BANKING SCANDAL COULD HAMSTRING HASHIMOTO

Tokyo's normally placid political district is seething these days. Riot police are ringing the fortress-like walls of the Ministry of Finance. On Jan. 21, a right-wing group rammed a bus into the central gate of Japan's Diet building, allhorns now blare out anti-government slogans to throngs of angry demonstrators.

The government is feeling extreme heat from the public because of a proposed $6.8 billion rescue of seven bankrupt banks using loan corporations, or jusen. A monster scandal seems brewing that could bog down the Japanese political system for months. Prime Minister Ryutaro Hashimoto, whom the ruling coalition fought in as a dynamic fresh face on Jan. 11, is in danger of being crippled in his first weeks in office.

What has infuriated taxpayers is the public to send in tips. The government is feeling extreme heat from the public be-

The opposition leader, Ichiro Ozawa, has already jumped on the jusen affair as a vehicle to trash Hashimoto. The two men were likely to lead their respective camps in a general election this year. Ozawa grilled Hashimoto in the Diet on Jan. 9, demanding that he drop the bailout.

If that happens, there could be major consequences for big Tokyo banks. They have already agreed to forgive $1 billion in jusen loans. Now the bill could go up. Fuji Bank Ltd. and Hokkaido Takushoku Bank Ltd. are already planning to take big jusen-related losses in the fiscal year ending in March. And Moody's Investors Service lowered its rating on Sakura Bank Ltd. and Long-Term Credit Bank of Japan Ltd. on Jan. 23, citing debt problems related to the jusen.

CLIPPING WINGS. But there seems no stopping the mushrooming scandal. Hashimoto has agreed to a major Diet inquiry into the jusen problem. Before this is over Liberal Democratic Party stalwarts, ex-MOF bureaucrats, and other prominent members of the establishment are going to face serious embarrassment. Ozawa's aides are determined to expose links between Hashimoto's Liberal Democratic Party and the jusen. Ozawa's New Frontier party has set up a fax hotline for the public to send in tips.

Ozawa will also try to use the scandal to accomplish one of his pet goals: clipping the bureaucrats' wings. Already, Yoshihata Murata, an ex-MOF career official, admitted on Jan. 9 that he received $100,000 in director's compensation from an Osaka-based real estate company that is deeply indebted to the jusen. Murata, however, has agreed to pay the money back. One question that Ozawa will be asking is what dozens of ex-MOF officials did to gain lucrative jusen jobs.

But whether Ozawa will be able to use the jusen affair as his ticket to power is an open question. The New Frontier chiefs also may have jusen ties that will come out in the probes. Ozawa is a pro but his party, says political lobbyist Dan Harada, "is absolutely no match for the entire brain trust of the LDP." Still, the jusen affair is at the very least going to further riven what was already looking like a stimulating political  year in Japan.

By Brian Brenner in Tokyo
Persistence pays off

Venezuela has long argued that it should be given a fairer shake in its role as a major petroleum provider to the United States. Judging from a recent energy symposium in Washington, bilateral cooperation on oil is very close at hand.

By Everett Bauman

The Hemispheric Energy Symposium held in Washington at the end of October brought about an historic reversal in the troubled relations between the United States and Venezuela. Close collaboration between the two nations – and other American republics – in the development of energy sources throughout the hemisphere now appears very much closer to reality.

As Venezuelan Energy Minister Erwin Arrieta – who jointly presided over the meeting with his U.S. counterpart, Secretary Hazel O'Leary – mused at the close of the historic meeting: “Why has it taken us so long to reach this doorway of cooperation?”

Secretary O’Leary, noting that Venezuela had been charged at the Miami Summit last year to follow up on the mandate approved there by the 34 heads of American states to explore ways of hemispheric energy cooperation, thanked Minister Arrieta for bringing the first ministerial meeting to Washington. Arrieta had brought “a pragmatic and statesmanlike letter” from President Rafael Caldera urging close energy cooperation among American republics to ensure greater economic and social development by increased energy use.

Both O'Leary and presidential counselor Thomas McClarty – intimate friend and advisor of President Bill Clinton – told the gathering of 500 government energy functionaries, private enterprise executives and academic experts, that Venezuela is a global energy leader, and praised its role as “a secure, dependable energy supplier to the hemisphere.” As for Minister Arrieta, McClarty eulogized his “critical role in fostering national consensus to open the energy sector to private investment” and predicted this legacy will benefit future Venezuelans.

Why this sudden wave of praise for Venezuela and its oil policy? Was it only because of the recent opening of foreign investment capital in the industry, or did it represent a drastic change in the relationships between the two nations on oil, and energy development generally, within the hemispheric context? And, of even greater interest for Venezuelans, what might it portend concretely regarding U.S. energy policy and the future flow of investment capital to an economy which has been under great financial strain in recent years?

Reaching the summit

The ministerial reunion here, of course, dealt with energy and much was said regarding the needs of new generating capacity for electricity. There was also talk of alternative energy sources – solar, coal, biomas, nuclear, geothermal and wind power. But, as Luis Guisti, president of Petróleos de Venezuela S.A. (PDVSA) pointed out vigorously when he spoke at the first luncheon of the symposium, there should be no illusion that hydrocarbons will not continue to be far and away the principal energy source in the Americas during the 21st century.

When the Clinton administration decided to convene a new hemisphere heads
Washington View

The bottom line in energy development, as emphasized over and over again in the meeting, was dollar investment. Investor dollars will be forthcoming only if there is a credible legal framework and political stability.

of state summit meeting at Miami in December 1995, it asked other governments to suggest matters for the agenda. Venezuela urged that consideration be given to a program of 'hemispheric energy integration'. Washington was cool to the proposal, but Julio Sosa Rodriguez, then Minister of Finance, sent a team of experts from his ministry and from the Energy Ministry to the final agenda discussion at Arlie House near Washington. A lively discussion ensued, with both Mexico and Brazil opposing the suggestion.

However, Washington suddenly reversed its stand and energy was included. The final Summit Plan of Action contained two recommendations, one on energy cooperation and the other on a partnership for sustainable energy use. Venezuela was entrusted with assembling a ministerial conference in 1995 to move things along, with the United States offering its capital as the venue for the meeting. Invitations were sent signed by Arrieta and O’Leary for the symposium,

LOOKING BACK on oil

To understand the significance of the recent ‘oil opening’ in Venezuela and the events that led the country to adopt such an historic measure, it is necessary to recall some of its earlier petroleum history with the United States.

Even before oil nationalization in 1971, relations had become strained between Washington and Caracas because of oil developments.

In the United States, protectionist sentiment had led to oil import restrictions in the ‘50s, while at the same time the Venezuelan government was imposing ever higher taxes upon the private foreign companies – mostly from the U.S. – which held the concessions to exploit Venezuelan oil. Efforts were made early on to agree upon mutual policy discussion. An agreement to that effect was made by presidents Romulo Betancourt and John F. Kennedy, but political developments tended to make the agreement of regular consultation irrelevant.

Venezuela pursued an increasingly nationalist policy and joined the Organization of Petroleum Producing Countries (OPEC) in a cartel dedicated to increasing oil prices, as the United States reverted to protectionist measures.

When President Rafael Caldera was invited to Washington in 1971, he urged the United States to take the lead in establishing an import policy of preference for oil from hemispheric sources. This would have assured a market for growing Venezuelan production in the U.S., but it would have meant curbing imports from the
For the first time in years, there is enthusiasm in official circles here for Venezuelan oil development and the integration of hemispheric energy sources and users.

Middle East, where major U.S. companies had important oil interests.

The Venezuelan initiative did not prosper, and the country moved steadily towards oil nationalization in 1971. Although the action was peacefully carried out, the oil companies were unhappy with the compensation they received and, even though their interests were also nationalized thereafter in the Middle East, they reduced their purchases from Venezuela and deepened their reliance on cheaper Arab oil.

Although Venezuela did not join the Arab oil boycott and continued to sell a major portion of its oil to the U.S., there seemed to be little hope of any common policy between a nation which had relied upon competitive private enterprise for its oil supply and its South American neighbors which had given the state oil company a monopoly over all phases of the oil business.

PDVSA proved to be an efficient producer and its profits mounted; however, the state increasingly relied upon it as a major source of tax income and to subsidize the domestic oil consumption with some of the world's lowest prices.

Political relations continued to be generally friendly as Venezuela's relatively young democracy seemed to achieve stability and the nation prospered. However, the United States rebuffed any suggestion that it join with the state oil companies in an effort to stabilize prices.

After the initial spurt of high prices from OPEC production limitation, other non-OPEC sources were developed and prices fell by more than half to the $15-20 per barrel range. PDVSA complained that it was not allowed to accumulate enough capital to plan for increased production. Although its taxes were reduced, the growth in Venezuelan population was so great that oil income was no longer sufficient to meet official needs, especially after taxes were reduced.
Secretary O’Leary hailed the “collective drive” of the meeting and the formation of an operating committee. She called for an immediate inventory of data on energy supply and production; on regulatory policy and reform initiatives; and on specific project initiatives underway and their financial status.

The Mexican delegation offered to host workshops on electric utility and natural gas projects, and to conduct a survey on regulation reform.

**Pooling resources**

A joint statement from the World Bank, the IADB, and the United Nation’s Development Program, was presented offering to pool resources in support of energy projects. In addition, the two ministerial hosts, Arrieta and O’Leary, presided over the signature of three hemispheric energy projects; a Nicaraguan project for two geothermal power plants with a California private enterprise; a Honduran geothermal project with a Florida corporation; and a U.S.-Bolivian agreement to support various private sector projects.

The three agreements involving governments and the private sector were staged to symbolize the impact of the meeting, which, hopefully, will be very great in 1) encouraging governments to turn to private management of energy development; and 2) encouraging private investor confidence in a new climate of security and stability in the Latin American energy sector.

It became clear to Venezuelan authorities that there was not going to be enough new oil production to provide for burgeoning social demands upon the state. Also, OPEC was faltering and losing market share as many oil areas were opened up around the world.

The United States had never concealed its hostility toward OPEC, and during the latest oil import restriction movement, it had pointedly exempted Canada and Mexico from its provisions, arguing that they were joined by a common land boundary.

Venezuela, which had never failed to deliver oil by tanker to the north, was not included. Continued adherence to OPEC quotas became a matter of controversy in Venezuela as the producers’ group seemed unable, what with thriving production from outside OPEC, to increase the price of oil.

The United States fought a war in the Gulf to protect its access to Middle Eastern oil when Iraq invaded Kuwait. The enormous cost of the desert warfare prompted Julio Sosa, when he addressed the Council of Foreign Affairs in New York City in 1994, to point out that, if the costs of defending the Middle East were factored into the price of oil from there, the cost was much higher than oil from Venezuela and elsewhere in the Western Hemisphere.

Meanwhile, the United States increased its reliance upon imported oil more and more as production from its own fields declined and as a conservation-minded public blocked the development of new reserves underwater on the Continental Shelf, as well as in the Alaskan Wildlife Region, next door to the Prudhoe Bay field to the far north.

The increasing dependence stirred an undercurrent of unrest in the U.S. Congress, and a provision was inserted calling for regular consultation between U.S. energy authorities and other hemispheric energy-producing states. However, little came from this measure.
**Description of the Areas**

<table>
<thead>
<tr>
<th>AREA NAME</th>
<th>LOCATION</th>
<th>SIZE</th>
<th>NO OF BLOCKS</th>
<th>TERM</th>
<th>WORK</th>
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<tr>
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<td>(Sq. Km)</td>
<td>(Full + Part)</td>
<td>YEARS</td>
<td>PROGRAM</td>
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<td>3D (km²)</td>
<td>Wells</td>
<td>(US$ MM)</td>
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<table>
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<th>Catarumbo</th>
<th>Zulia/Mérida (Onshore / Swamp)</th>
<th>2.155</th>
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<td>Gulf of Paria West</td>
<td>E. Venezuela (Offshore)</td>
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<td>5 + 4</td>
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</table>
Pequiven operates petrochemical plants, many of which are joint ventures, and promotes investment in the petrochemical sector.

PDV Marina carries out the Corporation’s local and overseas marine transportation activities.

Intevep is PDVSA’s research and development center.

Bariven handles the Corporation’s overseas purchases of equipment and materials through its PDVSA Services branches overseas.

Palmaven provides technical assistance to farmers and actively participates in conservation projects.

CIED is PDVSA’s personnel training center.

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**PDVSA AND ITS ACTIVITIES**

<table>
<thead>
<tr>
<th>Exploration</th>
<th>Production</th>
<th>Refining</th>
<th>Storage</th>
<th>Marine Transportation</th>
<th>Distribution</th>
<th>Marketing</th>
<th>Petrochemicals</th>
<th>Bitumen</th>
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**HER ACTIVITIES**

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<td>Overseas Purchases</td>
<td>Bariven</td>
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<td>Refining</td>
<td>CIED</td>
</tr>
<tr>
<td>Corporate Insurance</td>
<td>PDV Insurance</td>
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</table>
Petróleos de Venezuela, S.A.

ORGANIZATIONAL STRUCTURE

Source: PDVSA
Se ha sobrepasado la "oda expectativa"

ANUEL LOPEZ CALO

ARACAS - A las tres en punto de tarde en nombre de la Corporación Venezolana de Petróleo, José Giusti tomó el micrófono para anunciar el inicio del proceso de remate de ofertas para la explotación del área del golfo de Paria. Minutos antes el presidente Petróleos de Venezuela, Luis Giusti, comentaba a una persona cercana a su entera confianza: "parece que hay un sobrecoste".

"Los resultados sobrepasaron las expectativas de la industria petrolera", Giusti estaba visiblemente contado con el proceso, "la experiencia y capacidad financiera permiten ahora a la empresa que se vea de su entera confianza", "parece que hay un sobrecoste".

Jorge Rojas, presidente de Inelec tra, empresa nacional que participa con 10,9% en el consorcio, cree que "el riesgo es aceptable", la región tiene un potencial entre 70 y 80 millones de barriles de petróleo. En operación en Colombia, Estados Unidos y Perú, su experiencia y capacidad financiera le permitirán afrontar esta riesgosa inversión.

La inquietud que le queda al presidente de Inelec tra son los impuestos de los municipios, "un punto aún no definido". "Las municipalidades no pueden ser arribadas en las tasas de impuestos".

La actividad petrolera aumentará la capacidad de pago de Venezuela.

La región Paria del este, ubicada en la plataforma marítima de Venezuela que limita con la de Trinidad y Tobago es una área de alto riesgo, porque se trata de explotación en aguas profundas.

El consorcio de capital estadounidense y venezolano Enron-Inelec tra hizo la única propuesta. La mayoría de los inversionistas consideraban que era una inversión muy riesgosa.

La licitación de los yacimientos Paria este fue como una evaluación de riesgo, donde los inversionistas sopesaron la factibilidad de su posibilidad en un negocio muy rentable. Ya la aglomeración ha subido el precio la categoría de la actividad de Venezuela a Ba3 a Ba2. La conferencia es un acto de buena fe, inversión financiera al nacional en
Asociación Maraven-Conoco
aportará $170 millones anuales al Fisco

La asociación estratégica entre Maraven y Conoco, cuyo convenio definitivo se firmó ayer, aportará alrededor de 170 millones de dólares anuales al Fisco, de acuerdo con el presidente de la filial de Petróleos de Venezuela, Emilio Abouhamad.

Al aporte, que se haría efectivo a partir de 1999, se adicionarían 90 millones de dólares al año, que corresponderán a Maraven, para un ingreso total a la nación de unos 260 millones de dólares por ejercicio, alrededor de 10.000 millones de dólares en los próximos 35 años.

La asociación, por la que se creará la empresa Petrozuata, permitirá la producción, mejoramiento y comercialización de crudos extrapenados del área de Zulia, en la Faja del Orinoco. El bloque asignado tiene una extensión de explotación de 250 kilómetros - los 14.500 kilómetros - de toda el área - y reservas probadas de unos 10.000 millones de barriles.

Para este proyecto, cuya ingeniería básica está completada en 50%, se estima una inversión inicial de 1.500 millones de dólares, de los cuales se destinarán 900 millones a la instalación de una planta de mejoramiento en el Complejo de Jose, en el estado Anzoátegui.

Abouhamad estimó que la inversión total, en los próximos 35 años, estaría entre 2.800 y 3.000 millones de dólares, alrededor de 50% más de lo previsto en 1993, cuando dicha asociación fuera aprobada por el Congreso Nacional.

De acuerdo con un informe de la operadora de Pdvsa, las inversiones totales fueron estimadas en 1.970 millones de dólares y se prevén que la inversión inicial sería de 1.050 millones.

En relación con el financiamiento de la inversión inmediata, el vocero de Maraven precisó que cerca de 600 millones de dólares se irían aportados por los socios y que los otros 900 millones vendrían de un financiamiento externo. "En este monto inicial se incluyen los intereses por financiamiento", dijo.

En este sentido, precisó que será enero cuando se contrate el banca líder. "El City

El acuerdo prevé la creación de la empresa Petrozuata, encargada de producir, mejorar y comercializar crudo pesado de la Faja del Orinoco. La inversión inicial será de 1.500 millones de dólares, 50% más de lo previsto en 1993, cuando el Congreso aprobó esta asociación estratégica.

El cronograma de desarrollo de la asociación prevé para 1998 la iniciación de la producción de crudos extrapenados, los cuales serán transportados hasta el Complejo de Jose, donde se construirá el módulo de mejoramiento, cuyo arranque está previsto para finales de 1999.

Este sistema permitirá extraer 120.000 barriles diarios de nuevos grados API, los cuales serán transformados en unos 102.000 barriles de crudos de 20 grados API, que serán transportados a refinaderas de Conoco en Estados Unidos.

Este es el primero de una serie de proyectos de interés para la petrolera estadounidense. Conoco acaba de formar un consorcio con British Petroleum para participar en la licitación, en enero próximo, de las 10 nuevas áreas de riesgo, cuya apertura fue aprobada por el Congreso en julio pasado.

Asimismo, la petrolera está participando en una asociación con Bitor para la creación de una compañía que suministrará Olimpúsis a la empresa eléctrica Florida Power, en Estados Unidos.

Esta negociación, que espera por su presentación al Parlamento, incluye la instalación de un módulo de manufactura de bitumen que producirá 5.000.000 de toneladas anuales.

En esta asociación Conoco participaría con 30% accionario, un porcentaje similar al que mantendrán Bitor y la firma Staroil: mientras que el consorcio Distrat-Jantesa tendrá el 10% de las acciones.

Taynem Hernández - ECONOMIA HOY

Emilio Abouhamad

Bank ha funcionado como asesor en finanzas y no necesariamente será la cabeza del pool bancario...
Varias de oferentes

CARAGAS — El interés de los inversionistas privados en el proceso de licitación que desarrolla la industria petrolera es evidente en Venezuela. Pequeñas y grandes corporaciones petroleras internacionales vienen al mercado venezolano a buscar nuevas oportunidades, a menudo por la producción en países como Estados Unidos, e incluso en el mercado del mundo ocioso en el mundo empujado a las asesorías a buscar nuevas fuentes de suministro de crudos.

En las cuatro licitaciones, son las edianas empresas del sector las que en ganado la buena pro. Juan Sza- no, presidente de la Corporación Venezolana de Petróleo, cree que estos resultados obedecen a las estrategias de cada empresa por explorar una geración. "Esto puede extraer la ausencia de las grandes corporaciones como la Shell o la Exxon, o mencionar algunas", contó abajo a los periodistas al término de licitación.

Conoco es una empresa que se asoció con Maraven para explorar pozos de la faixa petrolífera del Orinoco mediante las asociaciones estratégicas en la zona de los llanos venezolanos. Su insistencia por ganar los pozos ubicados en occidente pudiera obedecer a un plan de concentrar sus actividades en esa área geográfica.

El presidente de la CVI dijo que en esta licitación no hubo empatías porque no hubo empate en las ofertas.

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El funcionario no quiso hacer predicciones sobre los posibles resultados de las licitaciones. Conjeturar sobre factibles beneficios adicionales para la nación es aventurado, porque se desconocen las estrategias de ofertas de las empresas. "Es posible que las grandes transnacionales tengan interés en áreas distintas y por eso estén esperando licitaciones posteriores".
Jna nueva oportunidad"

Eduardo Fernández

La apertura petrolera se inicia con muy buen pie. Es sin lugar a dudas una buena noticia. Agregó Eduardo Fernández que la apertura petrolera y el éxito con el cual se ha iniciado esta política demuestran nuestras posibilidades. Si aprovechamos esta coyuntura para promover los cambios estructurales que el país está reclamando: un nuevo rol para el Estado y una política económica que inspire confianza, no tardarán en venir inversiones cuantiosas, tanto nacionales como internacionales y todo esto será determinante para despejar las incertidumbres del presente".

"Pienso que este es el momento para comenzar un verdadero proceso de modernización del país. Podríamos decir que con la apertura petrolera Venezuela está dando un paso hacia la era de la modernización. Nos falta un estímulo como este, que nueva la economía y las posibilidades de empleo y capacitación", insistió Eduardo Fernández en que Venezuela le está dando una buena noticia al mundo. La apertura petrolera servirá para atraer nuevas y mejores inversiones y si el país logra un acuerdo satisfactorio con el FMI esto contribuirá más a estimular la confianza de los inversionistas, ya no sólo en el futuro sino en el presente del país.
La apertura exitosa

BRUNO SCHEUREN (*)

La industria petrolera venezolana marca una vez más la pauta ejecutiva hacia opciones de bienestar nacional, con el exitoso inicio del proceso de apertura de sus predios a la inversión y asociación privada internacional. La idea misma fue objeto de mucha polémica y aun en estos días de materialización del proyecto, hay quienes persisten en intentar interrumpirlo con diversos señalamientos jurídicos y políticos.

El interés que los consorcios participantes han manifestado en invertir en Venezuela, se demuestra con los bonos extras ofrecidos para obtener cada lote subastado. El primero de ellos marcó la pauta. La Ceiba, en el estado Trujillo, que provocó una puja entre nueve competidores, hasta alcanzar un bono de 104 000 millones de dólares, puesto por el ganador.

La noticia dio la vuelta al mundo y provocó reacciones inmediatas en las principales bolsas de valores donde los papeles venezolanos registraron mejores cotizaciones así como subieron de valor las acciones de las empresas que participan en este nuevo momento histórico de la industria petrolera de Venezuela.

No se trata de hacer frases; el proceso de apertura petrolera comenzado esta semana, marca el inicio de una nueva forma de pensar y actuar en el país. Es una alternativa inteligente que persigue un futuro bien concebido. Los estudios técnicos revelan que el riesgo es bajo de jugarse; el potencial de hidrocarburos a ubicar y explotar no es una quimera, sacarlo y procesarlo exige recursos y tecnologías que el país sólo no puede realizar sino en un tiempo excesivamente largo. Asociados con los inversionistas extranjeros, ganamos tiempo y logramos la productividad necesaria.

Venezuela tiene, sin duda, muchas ventajas comparativas. Cuenta con una industria petrolera nacional, reunida bajo elholding Pdvsa, cuyan jurisdicción a lo largo de dos décadas, la ha colocado como la empresa más importante de América Latina así como una de las más grandes y eficientes del mundo. Son méritos que no se logran sino a base de la acertada combinación de gerencia con recursos humanos bien formados y motivados. Un historial que se conoce en exterior tanto por la competencia como por los organismos financieros. Es decir, Pdvsa es un socio deseable.

La ubicación geopolítica del país es otro elemento que juega a favor. Estamos fuera de zonas en conflicto “caliente”, como es el caso de los grandes productores árabes. Estamos más cerca de clientes de alto consumo a quienes podemos suplir crudos y derivados en forma confiable y continua, lo cual es una garantía de altísimo valor en un mundo que no puede permitirse interrupciones en sus procesos productivos o en el fiel suministro de servicios públicos esenciales.

Queda por instrumentar las rectificaciones de la política económica global para que este proceso de apertura se realice dentro de un marco integral. Es la rectificación que el país espera y demanda para que el resto de la economía no petroliera marche al unisono.

(*) Periodista
Las petroleras invierten cada vez más en América Latina. Un grupo de empresas ha decidido invertir en proyectos en ese continente. La razón es la creciente demanda de petróleo y la oportunidad de obtener beneficios.

Las petroleras que operan en América Latina son varias, incluyendo Exxon, Royal Dutch/Shell y Chevron. Estas empresas invierten en proyectos de exploración y producción de petróleo en países como Brasil, Argentina y México.

La inversión en América Latina es una estrategia para las petroleras, ya que el crecimiento de la demanda de energía se espera que continúe en el futuro. Además, las petroleras pueden obtener beneficios a través de la inversión en estos proyectos, ya que el precio del petróleo está en aumento.


Las petroleras invirtieron más de $3 mil millones en América Latina en 2016, lo que representa un incremento del 25% en comparación con el año anterior. Las empresas esperan que esta inversión continúe en el futuro.

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**On the One Hand ...**

The oil opening is succeeding far beyond most people's expectations, with three of the first four blocks going with PEGs of 50%, plus cash bonuses to PDVSA totalling $125 million. (See table.) The success represents a positive signal or Venezuela-watchers everywhere: The Caldera administration has thrown open the door to foreign participation in the economy's development, and many of the world's largest and most reputable firms are accepting the invitation.

This success comes on the heels of a tentative agreement by business, labor and government to create a new (and eminently sensible) severance and pension regimen. One of the last obstacles to the plan was overcome on Monday, when Conindustria president Pedro Carmona said that the business sector would agree to partially correct salaries every four months in tandem with expected inflation - as long as Central Bank agrees to issue the respective estimates of future inflation. This removes the proposed plan's most serious defect, whereby the adjustments would have been tied to past inflation. Experience in Chile and other countries has been that forward-looking adjustments are functional and non-inflationary, while backward-looking adjustments are exactly the reverse.

**But on the Other Hand:**

Negotiations with the IMF may have reached an impasse over the administration's continuing refusal to contemplate gasoline price increase and its choice of a bank debit tax as the alternative. It's hard to discern which upset the IMF negotiators more - Venezuela's failure to eliminate an expensive and inefficient subsidy that mostly benefits the ar-owning middle and upper classes; or its insistence on ushering ahead with a tax which not only generates huge distortions but which could end up destroying an already weakened financial system. Either way, unless there is a breakthrough soon, chances are there will be no agreement until the third - or even the fourth - quarter, if then. (i.e. no agreement until the situation gets really bad - or until the public transportation fleet has been converted to LNG.)

The financial system is becoming increasingly fragile, despite favorable second half 1995 earnings and official assertions that the crisis is a thing of the past. At first sight, commercial banks did well enough in second half 1995: net income as a percentage of assets rose from 3.4% in the first half of 1995 to 4.5% in the second, while annualized return on equity rose from 48.5% in the first half to 56.4% in the second half 1994.

Moreover, the system is still too small (loans outstanding = 9.5% of GDP vs. 20% five years ago; deposits down 7.3% in real terms in second half 1995) and undercapitalized. It is thus vulnerable to internal or external shocks. Despite this, many banks blithely continue to declare cash dividends, rather than reinvest profits to strengthen their capital base. (After all, neither Fogade or the administration has asked failed bank stockholders to return dividends received before the crisis.)

Loan portfolio quality, which was not very good to start with, is likely to worsen this year as the economy - and liquidity - contracts in response to the macroeconomic adjustments (that will be implemented with or without the IMF). The authorities may have created an illusion of banking recovery by keeping rates negative in 1995, but that strategy has pretty much exhausted its usefulness.

In short, the banking sector remains weak and an IMF agreement distant, but there's hope. Not only are some of the issues being addressed, but discontent is simmering on the streets. That pressure may force policymakers to take corrective action soon.

**OIL OPENING** got off to a roaring start on Monday, with bids far beyond PDVSA's expectations. Almost all bidders are offering 50% PEG (Participación del Estado en Ganancias), with the amount of cash paid to PDVSA deciding the winner. The winners in the first two days of bidding are:

<table>
<thead>
<tr>
<th>Area</th>
<th>Winner</th>
<th>PEG</th>
<th>Bonus</th>
</tr>
</thead>
<tbody>
<tr>
<td>La Ceiba</td>
<td>Mobi - Veja Oel - Nippon</td>
<td>50%</td>
<td>$104 million</td>
</tr>
<tr>
<td>West Paria Gulf</td>
<td>Dupont (Conoco)</td>
<td>50%</td>
<td>$21 million</td>
</tr>
<tr>
<td>Guanare</td>
<td>Dupont (Conoco) - Elf-Aquitaine</td>
<td>50%</td>
<td>none</td>
</tr>
<tr>
<td>East Paria Gulf</td>
<td>Enron-Ineletra</td>
<td>29%</td>
<td>none</td>
</tr>
</tbody>
</table>

La Ceiba was clearly the star, garnering a total of 11 offers, all except two with 50% PEG. Bidding will continue today, tomorrow and Friday for the remaining six areas. Meanwhile, the opening is being legally challenged for a second time by the same group of people - the UCV rector, a group of professors, authors and intellectuals, as well as Causa R's Ali Rodríguez. The lawsuits both contest the constitutionality of certain clauses of the profit-sharing contract, especially those exempting corporations from municipal taxes. It is hoped that the courts will act speedily to resolve the legal challenges so the opening can proceed smoothly.
Yes, major oil firms invest in Vzla

By Daniel Bendahan

International press comments on the recent Venezuelan oil bidding expressed the opinion that terms and conditions laid out by PDVSA were too rigid and stringent to attract some of the major oil companies. This is absolutely untrue.

In our humble opinion, in spite of the strict terms and conditions tabled by PDVSA a very large number of the so called “major league” oil companies participated in the bidding. Firstly, we do not like to classify the international petroleum industry into “major” and “minor” companies. This is too close to the Seven Sisters League and then all the others.

Nowadays a journalist has to be much more pragmatic and keep an eye on the development and growth of newcomers from industrialized countries which in the early years of this century did not participate in the oil business.

Having said so, we have to recognize the names of Mobil, BP, Elf, Conoco and Amoco, among the successful bidders.

Furthermore, the Shell-Exxon consortium also participated with the second highest bid for La Ceiba Block and the third highest bid during the whole bidding week.

Venezuela still is a first-rate oil country, in spite of some nasty international commentators. As such, Venezuela has attracted international investors of paramount importance.

For instance, while Shell had no luck in the recent bidding, its diversified operations in Venezuela are worth mentioning.

As a matter of fact, Shell won the operating contract for the Urdaneta West Field, located in West Lake Maracaibo, where it is investing some 400 million dollars to boost the current production from 10,000 b/d to 90,000 b/d.

Shell is also active in coal production in the Guasare area, through a partnership with PDVSA’s Carbozulia and the German concern Ruhrkohle.

In the chemical field, Shell currently participates in two manufacturing joint ventures: one in epoxy resins and the other one in detergent feedstocks. And, finally, we have to acknowledge Shell’s leadership in shaping the Cristalbael Colón Gas Project, which due to unforeseen market circumstances had to be temporarily delayed.

Daniel Bendahan is the Vice President of The Daily Journal.
Maraven-Conoco deal signed

Petróleos de Venezuela S.A. (PDVSA) subsidiary Maraven and Conoco, a unit of DuPont, signed a three-billion-dollar deal last Friday to produce, upgrade and market extra-heavy crude oil from Venezuela's virtually untapped Orinoco oil belt, which contains one of the world's largest oil deposits.

The deal, which has a lifespan of 35 years, marks the first major joint venture involving a leading international oil corporation in the country's petroleum industry, nationalized almost 20 years ago. Maraven and Conoco now will proceed to form a mixed company called Petrozuata that will produce some 120,000 barrels a day of hard-to-market nine-degree extra-heavy crudes from the Zuata region of the belt. That crude will be converted into a more valuable 21 degree API synthetic crude that will be shipped to Conoco's refinery at Lake Charles, Louisiana in the United States.

Over the first four years of the so-called strategic association between Maraven and Conoco, an estimated $1.5 billion will be invested, while an additional $1.5 billion will be invested during the production phase of the venture.

The Zuata region of the belt contains approximately 10 billion barrels of extra-heavy crude oil reserves, only a small portion of the belt's total 270 billion barrels of recoverable crude reserves.

The formal signing ceremony of the venture was held at Maraven's Caracas headquarters with Conoco's outgoing Chief Executive Officer Constantine Nocadas and Maraven president Emilio Abouhamad signing the documents. Approximately, 40 percent of the initial $1.5 billion investment will come directly from the partnership, while the remaining 60 percent will be raised by foreign financial institutions. By June of next year, a lead bank to arrange financing is expected to be se-

Continued on Page 16
PRESIDENTS OF CONOCO and PDVSA subsidiary Maraven sign a $3 billion deal last Friday to produce, upgrade and market extra-heavy crude oil from the Orinoco belt.

(DJ photo by Antonio Domínguez)
Proved Crude & Condensate Reserves
January 1, 1992

Billions of Barrels

- Saudi Arabia: 258
- Iraq: 100
- U.A.E.: 96
- Kuwait: 94
- Iran: 93
- Venezuela: 62 + Orinoco Belt: 330
- C.I.S.: 57
- Mexico: 51
- USA: 26
- China: 24
- Libya: 23
- Nigeria: 18
- Algeria: 19
- Norway: 18
- Indonesia: 17
- Canada: 16

Source: Oil & Gas Journal and PDVSA
Conoco Forms Oil Partnerships In Venezuela

DuPont Subsidiary Plans Heavy-Oil Conversion, Boiler-Fuel Production

By James Tanner

Staff Reporter of The Wall Street Journal

Conoco Inc., which recently had to pull out of a $1 billion oil venture in Iran because of U.S. objections, plans to spend as much on oil projects in Venezuela.

The DuPont Co. subsidiary has signed agreements to participate in two major Venezuelan projects that promise to accelerate development of the heavy-oil deposits in the country's Orinoco Belt.

The latest, an agreement in principle signed yesterday in Caracas, Venezuela, is for a $1.7 billion joint venture with the Maraven unit of Petroleos de Venezuela to produce heavy oil and convert it to slightly more than 100,000 barrels a day of synthetic crude for use by refineries in the U.S. and elsewhere.

The agreement followed Tuesday's signing of a preliminary development agreement between Conoco and three partners to produce and market Orimulsion(R), a boiler fuel that is 70% bitumen and 30% water. The project, also announced yesterday, is expected to cost $220 million and will process 100,000 barrels a day of the fuel.

The Conoco-Maraven venture was approved by Venezuela's congress in 1993 as the first of the so-called strategic alliances between Venezuela's national oil company and foreign firms. "For Conoco and Maraven, this alliance offers the opportunity to show that heavy oil in the Orinoco can be effectively and profitably produced and converted to a valuable product for world markets," Constantine S. Nicodemos, Conoco's president, said yesterday.

Another strategic alliance that includes France's Total SA also was approved by Venezuela's congress.

In recent months Venezuela's national oil company has signed letters of intent with other major oil companies, including Atlantic Richfield Co. and Mobil Corp., for proposed joint ventures to develop oil from the Orinoco in central Venezuela. These proposed projects haven't been submitted to the Venezuela congress for approval.

Luis E. Glust, chairman of Petroleos de Venezuela, said in a recent interview that talks also are being held with Chevron Corp. and others. He said exploitation of Orinoco heavy oil figures prominently in Venezuela's plan to reach a crude-oil capacity of four million barrels a day by 2003.

Venezuela currently produces 2.4 million barrels but has hardly tapped its enormous deposits of heavy oil because of the special processing required.

Conoco said yesterday that its project with Maraven will produce heavy oil from a 55,000-acre tract in the Zuata region of the Orinoco. The oil will be transported by pipeline to an upgrading plant at the port city of Jose on the Venezuelan coast.

In the Orimulsion(R) project, Conoco will have a 30% share. Its partners include Bitumens Orinoco S.A. or Bitor, the subsidiary of Petroleos de Venezuela that patented the Orimulsion(R) process; and markets the fuel to power plants around the world. Other participants are Norway's state-owned Statol and a consortium formed by the Venezuelan engineering firms of Jantesa and Distral Termica.

The joint venture will produce heavy oil in the Cerro Negro region of the Orinoco and convert it to Orimulsion(R) at a new plant to be constructed in the area. The majority of Orimulsion(R) will be sold to Florida Power and Light and, as markets develop, the joint venture may ultimately produce as much as 300,000 barrels a day of Orimulsion(R) for markets in the U.S., Europe, Asia and elsewhere, according to Conoco.
Venezuela’s Joint Venture Auctions Under Way, With Mixed Results

CARACAS — Petróleos de Venezuela’s landmark auction of 10 potentially oil-rich tracts is showing mixed results.

While the auction of the El Sombrero tract drew no interest, bidding for the Guarapiche tract was spirited, culminating in a tie-breaker round in which four of the five groups submitted the same maximum bid.

“El Sombrero was an area no one liked,” says PDVSA President Luis Giusti. “The areas are all different, but the results of Guarapiche showed the confidence investors have in Venezuela.”

The auctions marked the first time since the oil industry was nationalized in 1975 that Venezuela has invited foreign oil companies to acquire equity interest in the production of light and medium crude oils in the country.

More than 40 of the 75 qualified companies in the auction took part in the first three days, PDVSA officials say. More important, three of the first six auctions resulted in the bidding going to a tie-breaker as companies bid the maximum amount.

Under terms of the program, runoffs become necessary whenever competing groups offer to pay the government the maximum amount of 50% of any after-tax profits they make. In that case, groups then submit an additional cash bonus bid that will be paid directly to PDVSA.

The Guarapiche tract was typical of the interest.

A group comprised of British Petroleum, Amoco Corp. and Maxus Energy Corp. won the right to explore for oil on the Guarapiche tract.

(Continued on Page 2)
Venezuela’s Joint Venture Auctions Under Way; With Mixed Results (Continued from Page 1)

The winning group outbid three others as a “tie-breaker” auction. BP-Amoco-AXXUS bid $104.9 million beyond payments of 50% of their profits from the field, according to officials of PDVSA’s state-owned oil company.

“The Guarapiche tract is very important for our strategies in Venezuela,” says P. de Venezuela President Anthony Hayward. “We believe the tract holds large reserves of hydrocarbons.”

The next highest bid was for $40.9 million submitted by Japex and Teikoku Corp.

Interest in Guarapiche offset the disappointment caused when the El Sombrero tract failed to draw any bids. That auction was rescheduled Jan. 29.

“What’s attractive to me, isn’t necessarily attractive to you,” says Guillermo Archila, president of Corpoven SA, a unit of PDVSA.

El Sombrero, one of Corpoven’s tracts, was considered among the least lucrative of 10 parcels the state oil company is auctioning off in its joint venture program.

A group comprised of Conoco Inc. and Elf Aquitaine won the right to explore and develop PDVSA’s Guarapiche tract, while Iniron Corp. and Inelecra won the concession rights to the Paria Este area.

On the opening day, a group comprised of Mobil Corp., Veba AG and Nippon Oil Co. bested 10 other groups for the La Ceiba tract, while Conoco Inc. won the offshore Pari Oeste tract.

PDVSA says its joint venture program could add about 517,000 barrels a day to Venezuela’s oil production capacity by 2003.

The joint venture program is expected to play an important role in PDVSA’s goal of increasing its current production capability to 5.5 million b/d by 2005 from its current 2.9 million b/d.

Under terms of the program, foreign oil companies will cover the risk of exploration in 10 tracts. If oil is discovered, a joint venture company would be formed between the foreign company and the PDVSA affiliate to develop the area.

The joint venture would be taxed at a 67.7% rate on profits, and at 17% on the value of production, standard taxes for the Venezuelan oil industry.

Under the procedure, joint venture companies also could offer to pay some other portion of their after-tax profits, no higher than 50%, to the state. This extra amount to be paid by the joint venture company is the part of the foreign investor’s bid to develop the area.

Venezuela gradually is reopening its oil industry to private investment, two decades after it was nationalized. In the past two years, Venezuela agreed to joint ventures with foreign investors. All have occurred in capital-intensive projects, such as reactivation of marginal fields, or development of heavy crudes in the country’s Orinoco tar belt.

With the help of the joint-venture programs launched during the past two years, PDVSA is pressing to boost its crude production capacity to 5 million b/d by 2005, up from its current 2.9 million b/d. Joint-venture programs launched in 1995 are expected to contribute from 500,000 b/d to 1 million b/d of that total.

—Peter Wilson

Persian Gulf Supertanker Rates Poised to Decline

Persian Gulf supertanker rates could decline because of limited demand.

During the six weeks ending March 5, brokers count 104 supertankers available for chartering in the Persian Gulf. Owners with vessels available for prompt loading are likely to settle for lower rates, brokers say.

Supertanker rates from the Persian Gulf to Japan and Singapore are assessed at $257.5 and $255, respectively.

Some brokers say inquiries for super-
tankers could be limited because shippers are trying to arrange charters “quietly.” Shippers, concerned that owners would raise rates if they openly enter the market, are trying to arrange charters without putting out open bids.

Freight rates remain high for Aframax-category (80,000-deadweight-ton) charters from the Caribbean, Northwest Europe and the Mediterranean, brokers say.

Storms in the North Sea and Caribbean earlier this month caused port closings and lightering delays, brokers say.

(Continued on Page 8)
Maraven-Conoco pact is good news

By Daniel Bendahan

The outstanding oil news of the week was, undoubtedly, the signature of the Maraven-Conoco contract for joint operations in the Zuata area (south Anzoátegui) with the objective of producing extra-heavy crude of 9 API gravity to be then converted into commercial oil of 21 API gravity by applying a highly sophisticated technology.

According to the announcement of the parties concerned, the initial investment will be $1.3 million during the first four years (1996-99) of the agreement, plus a similar amount in the following period.

Basically, the extra-heavy crude will be extracted in the Zuata area, transported through a 210-kilometer pipeline to Jose (north Anzoátegui), where the conversion process will take place, and then the final product exported from the Jose terminal to international markets. The parties are aiming at initiating such exports by year 2000.

Obviously, this is one of the most important agreements recently reached by the Venezuelan petroleum industry. It means not only a much-needed influx of foreign currency but also acquisition of new technologies, development of an isolated area in the interior of Venezuela, creation of new sources of employment and opening of additional international markets.

Being a producer of heavy crude, Venezuela has a great disadvantage as an OPEC member. Application of the current quota system means that every single barrel of extra-heavy crude extracted in Zuata will count against our quota, regardless of effort and cost for converting such barrels into commercial oil. When are we going to reassess the pros and cons of maintaining our OPEC membership?

By the way, the mining law as drafted is very restrictive and according to our sources would not attract foreign investors. Venezuela is sitting on a variety of idle mines which should be offered by means of public tenders. However, we have to be realistic. This is a competitive world and Venezuela is competing with other mining countries that are currently offering more attractive terms and conditions. Therefore, the drafted mining law requires urgent amendments if we really want to obtain an important influx of foreign capital for developing our mining resources.

Daniel Bendahan is the vice president of The Daily Journal.
Comment

A light at the end of the tunnel

By Daniel Bendahan

It is gratifying to report that the bureaucratic process related to the proposals submitted by international groups for development rights in the prospective petroleum areas opened for bidding has been conducted with expediency, efficiency and transparency.

Furthermore, we are pleased to acknowledge that both the Ministry of Mines and PDVSA had a dignified performance obtaining a successful response from the applicants. During five tender sessions, and due to the large area and high value of the tender, a vast majority of the plots of land have been allocated to several international consortia with expertise and knowhow, technology, outlets and financial backing. Therefore, this effort is highly beneficial to Venezuela and, as we said in a prior article, means not only fresh dollar investments, but also the recovery of oil production.

Let us observe that the tender is to be conducted in such a manner that the Ministry will receive in hard currency, within the next six months, a sum which is extremely important under current circumstances.

There are, however, a few vocal critics of the Venezuela government, who have shown their opposition to multinational corporations by disregarding the prior approval granted by Congress daily. Still, the question of whether such policies are groundless and firmly believe that a...
Apertura Petrolera
y Desarrollo Económico del País

Luis E. Giusti
Presidente de Petróleos de Venezuela, S.A.

Caracas, 25 de abril de 1995
Hemiciclo del Senado, Palacio Legislativo
Since the nationalization of Venezuela’s petroleum industry on January 1, 1976, various consolidations have occurred as demonstrated below.

Source: PDVSA
Apertura petrolera

José Ignacio Casal

El 23 de enero de 1996, 38 años después del 23 de enero de 1958, fecha que algunos no pueden recordar, se inició lo que se ha denominado la "apertura petrolera" para significar la participación del capital privado, extranjero o nacional, en la industria petrolera venezolana que fue nacionalizada en 1975 después de un largo proceso de maduración que comenzó justamente el 23 de enero de 1958 con el surgimiento de la democracia y la finalización de la dictadura que encabezaba Marcos Pérez Jiménez.

Es, evidentemente, un paso en firme y en positivo por cuanto en los últimos veinte años la economía y la política mundial han sufrido una transformación profunda, lo que obliga a cualquier país a buscar, lo más rápidamente posible, inserirse en la economía mundial y tener un comportamiento político acorde con los nuevos tiempos.

No en vano cayó el Muro de Berlín, símbolo de separación de dos mundos y no es casual la redención de la Unión de Repúblicas Socialistas Soviéticas y su apertura en la economía libre, igual que lo vienen haciendo todos los países de su órbita, como también la China continental y hasta la isla de Cuba aún bajo la dictadura de Fidel Castro.

El llamado Tercer Mundo se acabó, hace tiempo, a pesar de que todavía existen quienes sueñan con ser lidereces de ese mundo que se agotó, por cuanto su planteamiento era absolutamente equivocado y además ya no existen primero y segundo, mucho menos puede haber tercer mundo.

Pero la apertura petrolera no puede ser un hecho aislado porque se perdería todo su sentido, es imprescindible continuar con la actualización, en primer término, del sector del petróleo, industrial, con la creación de una empresa nacional que pueda funcionar con eficiencia, productividad y lucro.

No debemos pasar por alto que el petróleo y el gas natural son los principales combustibles de nuestro mundo y que su explotación es crucial para el desarrollo de la humanidad.

Es importante que el gobierno establezca una política clara y pronta para la explotación y el aprovechamiento de estos recursos, garantizando su uso sostenible y equitativo para el bienestar de todos los países del mundo.

La apertura petrolera es un paso crucial hacia un mundo más sostenible y equitativo, donde todos podamos disfrutar de una calidad de vida digna y justa. Es un momento crucial de transición hacia un nuevo paradigma económico y social, en el que el petróleo y el gas natural sean utilizados de manera responsable y factible para el bien de todos.
La apertura petrolera: una señal positiva

Jesús E. Muzzé Alfonzo

El sistema de decisiones en materia económica del presente gobier no busca corregir los desvicios y errores cometidos en los últimos años, para ello se apoya en varios frentes: una moderna reforma tributaria, que ya está dando sus frutos, un manejo equilibrado de la crisis bancaria, una política cambiaria que busca darle estabilidad a la paridad del bolívar, a pesar de las fuertes maniobras especulativas de algunos jugadores del dólar Brady, una política de esfuerzo a las exportaciones no tradicionales, privatización de la sanitaria y apertura de la construcción con concesiones, que abrirá un campo interesante en cuanto a la aportación de capital y tecnología.

En este sentido, el otro aspecto importante tiene que ver con una política petrolera con visión prospectiva y audaz para los venideros años. Allí entra la apertura petrolera, que sólo en su primera ronda licitó 8 de las 10 áreas. En efecto, va a producir positivamente una considerable inyección de inversión, tecnología, que fomentará el empleo de profesionales en los campos respectivos y afina los que requirieron para los estudios socio-económicos de otros profesionales y además ofrecen ser de la mano para un impulso importante del empleo. Este es un claro signo del significado de la apertura.

Como se pudo ver el primer día el ganador, el consorcio Mobil-Veba y Duponts-Conoco, garantizaron un bono adicional por 125,197,845 dólares, para iniciar este revolucionario proceso. Otro aspecto interesante a señalar es que las empresas medianas desplazaron a los gigantes del negocio, quizás debido a que ellas se adaptaron más eficientemente para esta primera ronda de licitación interna-...
Strategic oil deal earnings

Maraven stands to earn approximately $260 million a year from its multi-billion-dollar joint venture with Conoco, scheduled to go onstream in 1998 when production begins.

Conoco, on the other hand, has not made public its projected earnings from the deal, but industry sources have said its profits could at least double the amount its Venezuelan partner expects to obtain.

Conoco "has a pretty good deal" because it will benefit both from the joint venture operations in Venezuela as well as from refining and marketing the Venezuelan crudes in the United States, an industry source said.

Under the strategic association with Maraven signed last Friday, Conoco and Maraven will hold an equal amount of shares in a new company called Petropurifico to extract, transport, upgrade and market some 120,000 barrels a day of low-quality nine-degree API extra-heavy crude from the Orinoco oil belt. That crude will be converted into a more valuable 21-degree API synthetic crude for processing at a Conoco refinery at Lake Charles, Louisiana in the United States.

Conoco's outgoing chief executive officer Constantine Nicandros declined to provide details regarding the company's projected earnings from the deal.

Maraven president Emilio Abouhamad told reporters, however, that his company expects to obtain yearly profits amounting to approximately $260 million once the project goes onstream.

Aside from the strategic association, Conoco, a world leader in technology for refining heavy crudes, also is looking at several other business opportunities in Venezuela where the state oil industry is rapidly opening its doors to private foreign investments.

Conoco already has nailed down a separate deal with Bitumenes Orinoco S.A. (Bitor), Petroleos de Venezuela S.A. (PDVSA) subsidiary responsible for the manufacture and marketing of Venezuela's trademark boiler fuel known as Orimulsion, which competes directly with coal in electricity generating plants. That deal involves two foreign companies, a private Venezuelan consortium and Bitor to form a mixed company aimed at exporting orimulsion mainly to the United States.

Conoco will hold a 35 percent stake in that joint venture, which also involves Stat-oil of Norway with 20 percent, Inversiones Jandas, a Venezuelan consortium comprising Grupo Jansa and Distral Termica with 10 percent. Bitor will hold the remaining stock.

The proposed mixed company will invest approximately $320 million over a 16-month period to construct and operate a new orimulsion production module in the Orinoco oil belt.

The facility is expected to boost Venezuela's orimulsion production capacity by some 100,000 barrels a day equivalent from the end of 1996, or beginning in 1997.

Approximately four million barrels a year equivalent from the additional output will be exported to the Florida Power and Light Company in the United States under a 20-year supply contract signed last year.
Programa de Apertura del Sector Petrotero
Introducción

El programa de inversiones de Petróleos de Venezuela S.A. (PDVSA), contemplado en el Plan de Negocios 1993-2002, persigue la creación de valor para la Nación, para la corporación y para el sector petrolero nacional, mediante el fortalecimiento a largo plazo de la actividad petrolera del país. Se trata de un programa de 48.500 millones de dólares que comprende inversiones en exploración y producción, refinación, desarrollo de Orimulsion, transporte y otras importantes áreas, de cuyo monto, un 65% será cubierto con recursos propios y el resto, con la participación de terceros.

El programa se orienta por los siguientes criterios:

- El aprovechamiento oportuno de la base de recursos de petróleo y gas de la Nación.
- La generación -mediante un esquema productivo y no rentista- de ingresos crecientes para los planes de desarrollo del Estado venezolano.

Con este marco de referencia, la apertura del sector petrolero a la participación de capitales privados, bajo el control de la empresa estatal, aparece como la vía más apropiada para explotar intensivamente los recursos petroleros disponibles y aprovechar las oportunidades de mercado que se le presentan a Venezuela. Una consideración fundamental es que, no obstante disfrutar de una saludable situación financiera, el flujo de caja de PDVSA no permite cubrir en su totalidad las inversiones requeridas. Por otra parte, es necesario complementar la capacidad tecnológica y de ejecución de la corporación, para acometer, en su totalidad, el programa de inversiones. En términos de nación, la apertura ofrece la opción de desarrollo más inmediata para la expansión económica y el mejoramiento social del país. Una vía alterna que se ha desechado, es la del aumento del endeudamiento internacional de la corporación. Tal opción luce poco aconsejable en virtud del ya abultado peso de la deuda externa del país, de nocivos efectos para la soberanía nacional.
Base de recursos

Venezuela dispone de ingentes reservas de hidrocarburos. Además del gigantesco reservorio de crudos extra-pesados de la Faja Petrolífera del Orinoco (270 MMMBbl explotables con la tecnología actualmente disponible), cuyo aprovechamiento se adelanta a través de las asociaciones estratégicas para la explotación y mejoramiento de dichos crudos, y de su uso para la producción de Orimulsion, existen expectativas de descubrir nuevas reservas, en el orden de los 40 mil millones de barriles de crudos livianos y medianos, en diferentes áreas del país. Estos yacimientos representan una opción de enorme atractivo para Venezuela por su alta rentabilidad.

La producción incremental que se obtenga de la explotación de estos yacimientos, permitiría aprovechar la flexibilidad que se deriva del hecho de disponer en el sistema global de refinación de PDVSA, de una capacidad de refinación superior a los volúmenes de crudo que se suministran actualmente desde Venezuela. En otras palabras, se capitalizarían las ventajas que ofrece la integración vertical de PDVSA a escala mundial.

El mercado internacional

El crecimiento de la demanda mundial de crudo hasta fines de la presente década se estima en alrededor del 1.2% interanual, es decir, un promedio cercano a un millón de barriles diarios de incremento cada año. Este aumento de la demanda será aprovechado primordialmente por aquellos exportadores que estén en condiciones de expandir su nivel actual de producción. En los países productores No-OPEP, la magnitud de la oferta se prevé prácticamente estacionaria hasta el fin de la década. Si bien se esperan aumentos de producción en países como Colombia, China y Vietnam, estos se compensarían con una acentuada caída en los EE.UU. y Rusia. Las posibilidades de expansión se concentran entonces en los productores OPEP, en particular, en Arabia Saudita, Kuwait, Irán, Irak, Emiratos Arabes Unidos y Venezuela. No
obstante, en virtud de los limitados recursos financieros de estos productores (y también de productores No-OPEP) para acometer las inversiones necesarias, su factibilidad de expandir el potencial de producción estará sujeta a la captación de recursos financieros externos. De allí, la competencia entre muchos de estos países por atraer a los inversionistas petroleros internacionales.

El marco legal

El Artículo 5° de la Ley que Reserva al Estado la Industria y el Comercio de los Hidrocarburos prevé las asociaciones con entes privados en aquellos casos especial es y de conveniencia al interés público, mediante la autorización del Congreso de la República, y a condición de que se garantice el control por parte del Estado. Tomando en consideración la importancia de proveer medios rentables para impulsar el proceso de desarrollo económico y social del país, y en presencia de la oportunidad que ofrece un mercado petrolero mundial todavía en expansión, y de la disponibilidad de un enorme potencial de recursos, las asociaciones en exploración a riesgo se presentan como la opción de desarrollo más inmediata y rentable. Estas asociaciones permitirán la explotación oportuna de los recursos convencionales de crudo, para que PDVSA esté en capacidad de garantizar el aporte de ingresos que el país necesita para su desarrollo. Este propósito contrasta con las dificultades financieras que afronta el país, las cuales, aunadas a la necesidad de apoyo tecnológico y aseguramiento de mercados, hacen conveniente e imprescindible utilizar la forma asociativa para iniciar con empresas internacionales y nacionales la explotación de estos recursos, en concordancia con las previsiones del Artículo 5° de la Ley.
Exploración y producción con terceros

Venezuela cuenta con vastas extensiones territoriales susceptibles de ser exploradas en busca de crudos convencionales. Sin embargo, al no existir certeza sobre la existencia de petróleo en esas áreas prospectivas, las inversiones para buscarlo están sujetas a riesgo. En las áreas más promisorias, pudieran encontrarse entre 7 y 23 mil millones de barriles de crudos livianos y medianos, así como unos 10 trillones de pies cúbicos de gas natural. Las inversiones requeridas para comprobar la existencia de estas reservas se estiman entre 6 y 8 mil millones de dólares, sujetas al riesgo de no encontrar petróleo.

En términos de tiempo, a PDVSA, con la perspectiva actual de disponibilidades financieras, le tomaría unos 25 años llevar a cabo esta campaña exploratoria. Con el concurso de terceros, este lapso puede reducirse a unos 8 ó 10 años. Es importante considerar que el aplazamiento de esta inversión podría significar la pérdida de oportunidades de mercado que pudieran no repetirse en un futuro más lejano. Por otra parte, el establecer con certeza la existencia, o no, de los recursos petrolíferos, elimina la incertidumbre y permite a la corporación planificar su desarrollo sobre bases más sólidas.

En consecuencia, Petróleos de Venezuela S.A. se propone desarrollar un esquema de asociación enmarcado dentro del régimen legal vigente, que sea de aceptación nacional y que constituya un proceso transparente de negociación e instrumentación. Para el país, el esquema debe permitir la captación de capital nacional y extranjero, debe garantizar el control de la nación sobre el recurso natural, mantener el control gerencial de costos y permitir la captura de las ganancias derivadas de alzas súbitas de precios o del hallazgo de volúmenes de crudo mayores a los esperados.

Por otra parte, el esquema debe ser atractivo para los inversionistas, quienes, entre las opciones que se les presentan en diferentes regiones del mundo, prefieren aquellas que ofrezcan reglas estables, retornos competitivos, recuperación rápida de capital y control de las operaciones.
Proceso de licitación internacional de nuevas áreas exploratorias

La escogencia entre los inversionistas se hará buscando aquellas opciones que permitan el mayor grado de participación adicional del Estado en las ganancias, después del ISLR y la regalía. Esta participación será constante durante el período de recuperación del capital utilizado por el inversionista en la campaña exploratoria y aumentará progresivamente luego de que éste recupere las inversiones. Se exigirá, que cada empresa o consorcio participante en la licitación presente un programa exploratorio mínimo.

Esquema de asociación propuesto

Luego de examinar exhaustivamente las distintas modalidades de asociación en contratos de exploración a riesgo, se propone el esquema de asociación de ganancia compartida ("Profit-Sharing Agreement"). Bajo este esquema, el inversionista privado asume el 100% de las inversiones de riesgo en exploración. Si la exploración es exitosa, se constituye una empresa mixta con una de las filiales de PDVSA, para producir y comercializar el petróleo. El Estado Venezolano participa en los mismos términos que aplica actualmente a las filiales de PDVSA, es decir, con la tarifa fiscal vigente de 67.7% por concepto de impuesto sobre la renta, luego de deducir el 16.67% correspondiente a regalía.

El esquema de ganancias compartidas es una evolución perfeccionada del esquema de asociación de producción compartida ("Production-Sharing Agreement"), que, a grandes rasgos, se desarrollaría de la siguiente manera:
- Previa aprobación por parte del Ejecutivo y el Legislativo Nacional, el MEM y PDVSA proceden a la licitación de áreas prospectivas para la exploración.

- Los inversionistas ganadores de la licitación desarrollan su programa exploratorio en busca de petróleo.

- En caso de encontrarse petróleo en cantidades atractivas económicamente, PDVSA decide su participación hasta un 35% en una empresa mixta con los inversionistas. Esta empresa realiza las actividades de producción y comercialización petrolera.

- La empresa mixta cubre sus costos y paga sus impuestos. Los dividendos resultantes son compartidos, de acuerdo a parámetros definidos en la licitación, entre el Estado y los inversionistas privados. Si bien las economías de cada área desarrollada variarían de acuerdo a sus condiciones geológicas específicas, la experiencia internacional indica que la repartición de las ganancias bajo este esquema están en el orden de un 85% para el Estado y el 15% restante para los inversionistas privados.

Las inversiones totales para el desarrollo de estas áreas nuevas productoras de petróleo se estiman en el orden de 8 a 10 mil millones de dólares durante la próxima década. Cabe destacar que el proceso, el cual implica cuantiosas inversiones en la búsqueda exploratoria de petróleo, tiene importantes efectos a corto plazo en las cuentas macroeconómicas del país. Se estima que, luego de concluir el proceso licitatorio a principios del año 1995, se tendrán importantes entradas de divisas, a partir de ese mismo año, del orden de varios millones de dólares en las cuentas de capital del país, fortaleciéndose de esta manera las reservas internacionales venezolanas.

Adicionalmente, los beneficios de este esquema, donde otras empresas asumen el riesgo exploratorio, son cuantiosos: por una parte, consolidan la imagen de Venezuela como un país atractivo para la inversión extranjera; por
la otra, no sólo por los beneficios derivados de la producción y exportación adicional de 500 MBD de petróleo, sino por los efectos indirectos que esta actividad genera, reflejado en la compra de bienes y servicios para sustentar tal capacidad de producción.

En resumen, el esquema adoptado, de asociación de ganancia compartida, representa una modalidad ventajosa para el País y para la corporación, en la cual el riesgo de inversión inicial es asumido por el socio privado. Este esquema permite, con arreglo al marco legal vigente, el aprovechamiento oportuno de nuestra base de recursos. Brinda beneficios concretos a la Nación, dentro de un proceso signado por la transparencia, y ofrece la opción más apropiada para asegurar el aprovechamiento de las oportunidades de mercado.
OPENING OF THE
HEMISPHERIC ENERGY SYMPOSIUM
ADDRESS BY THE MINISTER OF ENERGY AND MINES
ENG. ERWIN ARRIETA-VALERA
WASHINGTON, OCTOBER 30, 1995

PROGRAM

I. INTRODUCTION

Welcome
Acknowledgments
History - Miami Summit

II. CENTRAL ELEMENTS

Venezuela's Position Regarding the Role of Energy in the Hemisphere
Elimination of Dissimilarities
Development - Energy Resources
Via: Cooperation with overall focus on Resources/
Technology/Finances

Cooperation with a comprehensive range - Energy/Economics/
Environment and Technology

Resources are Tools - Man is the one who contaminates

Concentrated Energy - The Base of the Industrial Era: The Burning of the
Noble Molecule whose only use is not energy (Ex: Modern Materials)

III. CONCLUSION

Venezuela's Attitude in the search for cooperation

Closure
To begin I would like to extend a warm welcome to all those present at this Hemispheric Energy Symposium; and also to express my sincere gratitude for your participation, which again confirms the importance of the energy theme and our countries' desire to continue exploring ways of energy cooperation, in search of development and the welfare of mankind, within a framework of respect and protection of the environment.

I am sincerely grateful for the initiative of the Secretary of Energy of the United States of America, Mrs. Hazel O'Leary, to arrange this great event based on complementing the agreements for your country and for Venezuela, as a result of the energy theme considered during the Summit of the Americas, held in Miami last December. Two of the Action Plan sessions developed there urged hemispheric cooperation to promote sustainable energy development. Following these principles we, today, open this Symposium whose co-chairmanship represents a special honor for my country.

The fundamental energy role, in economic development and the achievement of human welfare, makes it an element of primary importance for all countries in the world, the main difference among them being that some are essentially producers and others mainly consumers. This fundamental role, together with the overall relationship existing between energy, economic activity and environment, as well as the basic role corresponding to their technology, underlines the relevancy of the search for world energy stability in its economic environmental and political aspects, in addition to the generation, diffusion and application of technology towards this end.
Venezuela, conscious of its responsibility as a world and, especially, hemispheric energy producer, and also conscious of the significance of its energy resources as a platform for its relationship with the outside world, has been carrying out major efforts in promoting energy cooperation and integration which led to the recently held IV International Energy Conference with the objectives that its results would promote economic development and the well-being of the hemispheric and international community.

Therefore, the Government of President Rafael Caldera is firmly committed to promote energy as a fundamental instrument towards international cooperation, economic integration and development; as well as to achieve a balance between the degree of economic development and the existence of authochthonous energy resources for the different countries of the international community.

Venezuela believes that energy cooperation is a fundamental element for the elimination of this dissimilarity between development and energy resources in different countries in order to obtain a better degree of balance in economic development and human well-being at an international level. There are peoples with high development levels and low energy resources for their sustenance and growth. Other countries present a low degree of development even though they possess a significant surplus of energy resources. Most countries do not have a considerable level of development nor energy resources. Finally, very few show a balance between a high degree of development and their energy resources.

Cooperation to eliminate these dissimilarities must be carried out with an integral focus, considering natural as well as technological and financial resources all of which are required for a harmonious development of energy resources; in keeping with economic activity and the conservation of the environment.

It is difficult to do justice to the great importance of technology in contributing towards the achievement of development. Technology, as a driving element of the major progress achieved by mankind during the last fifty years must necessarily be present in the treatment of the trinomial Energy-Economy-Environment. The importance of this issue cannot be overly emphasized.
Within this framework, hydrocarbon resources, especially abundant in my country, due to their producibility, transportability and combustibility play a decisive part in meeting the increasing energy needs for development, highly concentrated in various regions of the world presently seeking this development. Owing to their characteristics these resources are clearly of a hemispheric dimension. As with all resources, they constitute natural bounties—their good of bad use depends on the user. They are not contaminating elements per se - as some would have you think. Nature in its great knowledge, is constantly carrying out a self-balancing task, it is man who breaks the equilibrium - therefore, the resource must not be blamed for the damage brought on by its misuse. The taxes on carbon as an example of this type of confusion, which have been proposed on certain occasions, do not solve the core of the problem of the inadequate use of these resources and, on the contrary, would allow their continued use by those who are able to pay said taxes without being significantly affected. These measures are lacking in sincerity, authenticity and identity in solving the actual problem.

Meeting the increasing energy requirements for the progress of mankind represents making huge investments many of which will be related to conservation of the environment during production, processing and energy use. Technology will also be a necessary and essential element in the production of energy per se as well as in its rational use.

Lacking these elements, it will be impossible to continue supplying the required energy to maintain the immense world economic structure, which has been based on fossil consumption since the very beginning of the industrial revolution. Since then, world economic and social development have taken place mainly at the expense of the depletion of these substances.

As Alvin Toffler well said in his book The Third Wave, one of the basic features of the Second Wave in the progress of humanity, begun with the Industrial Revolution, was the massive use of concentrated energy sources (initially coal, and later on oil and gas). However, the option of turning fossils into the energy base of the industrial process, and the social development that followed, may also be considered as a crime against lese-humanity, by subjecting the noble molecules, formed during millions of years in nature's marvelous manufacturing plant, to extreme high pressure and temperature conditions, to be burnt in a matter
of seconds and always in an efficient manner - just consider all the automobiles with badly tuned motors presently circulated in different regions of the world.

In this fashion, resources which are used for other purposes may be destined for more noble uses, with ample possibilities - for example in the petrochemical industry, which has made great progress in the materials used today for many purposes, also presenting the increase in aggregate value as it goes through the transformation process. At the same time, their depletion may exclude the possibility of a better use of these resources by future generations, which may eventually deprive them of elemental building blocks in the manufacture of many of the materials they will need.

Subsequently, there is a need for a less nearsighted vision of the energy use of hydrocarbons - which today is essential for development, as a consequence of decisions taken a long time ago. But this is not their only use, nor should they be used this way until their depletion, nor without taking into account the environmental issue, if development is to be maintained in the long term.

A continuous and growing energy supply is essential for the orderly evolution without traumas to the hemisphere and world economy, and this is the reality which we must face in a responsible and solidary way, in seeking the development and well-being of society and man. The existence of resources does not seem to be a restricting factor in achieving this objective, rather the capacity to discover these resources and convert them in available energy volumes for their use in economic activities, in increasingly difficult conditions.

All of this will require an hemispheric effort, where fundamental responsibilities correspond both to the consumers and producers, with a view to maintain the business economically attractive, for the producer and the consumer, the supply stability and marketing, and to protect the environment. These efforts must be kept within the concept of continued development, being aware of the interdependency among producers and consumers and the incentive of a harmonious coexistence, that promote and encourage global development taking into account the interest and benefits pursued by all.
These efforts shall be carried out within a complex framework, distinguished by the concentration of growth demand in developing countries. Furthermore, environmental-global considerations, especially those resulting from the Framework Convention for Climate Changes, are pressing for an energy intensity reduction in countries' economies and for a reduction in emission levels of the so-called gases of greenhouse effect. On the other hand, even though energy demand growth is concentrated in developing countries, it is not in those countries where the capacity for generating financial and technological resources is concentrated, so necessary to achieve continued development. These complexities must not be viewed as contradictory, but as supplementary opportunities. To take advantage of these opportunities it will be necessary to overcome significant challenges through creativity and political will, bearing in mind concepts of interdependence and harmonious coexistence, as well as common interests and benefits pursued by all.

In closing, I wish to take advantage of this opportunity to reiterate Venezuela's desire to be a nation open to the world, friendly with all nations, deeply concerned about the destiny of the human race - especially in these times of crisis and deep changes; at present more aware than ever of its own difficulties, but at the same time more willing than ever to find understanding and cooperation among our peoples and governments. This attitude reminds us today of the great days of our history. In this search for hemispheric dialogue, understanding and cooperation, we are gathered here to exchange points of view, identify the interests that unite us and work on them to attain progress for all.

Once again I wish to show my appreciation for the attendance of all those present, the initiative of the Secretary of Energy of the United of America, Mrs. Hazel O'Leary, and the contribution of those whose work has made this symposium possible, to which I augur with all sincerity the best success.
HEMISPHERIC ENERGY SYMPOSIUM
U.S. Department of Energy
Ministry of Energy and Mines of Venezuela
Washington, D.C., October 29-31, 1995

PRIVATIZATION AND HEMISPHERIC
ENERGY INTEGRATION:
THE CASE OF VENEZUELA

Luis Xavier Grisanti
Director
PRIVATIZATION AND HEMISPHERIC ENERGY INTEGRATION:
THE CASE OF VENEZUELA

FOR THOSE OF US WHO PARTICIPATED IN THE ARLIE HOUSE
PREPARATORY MEETING OF THE MIAMI SUMMIT OF HEADS
OF STATE OF THE AMERICAS LAST DECEMBER, THE MERE
FACT THAT THIS MINISTERIAL CONFERENCE ON
HEMISPHERIC ENERGY COOPERATION IS TAKING PLACE
CONSTITUTES AN IMPORTANT STEP FORWARD IN THE
DIRECTION OF FOSTERING INTRA-REGIONAL TRADE AND
INVESTMENT IN THE FIELD OF ENERGY.

THIS CONFERENCE OFFERS THE AMERICAS AN
OPPORTUNITY TO CREATE A PERMANENT DIALOGUE
BETWEEN GOVERNMENT, PRIVATE INDUSTRY,
MULTILATERAL ORGANIZATIONS, INVESTMENT BANKS AND
ACADEMIA FOR THE DEVELOPMENT OF THE ENERGY
INDUSTRY IN THE HEMISPHERE. A CONCRETE AGENDA FOR
ACTION SHOULD COME OUT OF THIS MEETING.
VENEZUELA HAS TAKEN FUNDAMENTAL MEASURES TO RECOVER THE PATH OF ECONOMIC MODERNIZATION AFTER ITS DEEP FINANCIAL CRISIS (WHICH AFFECTED CLOSE TO 70% OF THE ASSETS OF THE BANKING SYSTEM IN 1994), NAMELY:

- REVAMPING OF THE TAX SYSTEM AND CREATION OF AN INDEPENDENT TAX AUTHORITY (SENIAT).
- FREELY-TRADED BRADY BONDS TRANSACTIONS IN THE CARACAS STOCK EXCHANGE HAVE CREATED A MARKET-RELATED EXCHANGE RATE FOR THE BOLIVAR.
- FURTHER LIFTING OF EXCHANGE CONTROLS IS PLANNED FOR EARLY 1996.
- INCREASE IN GASOLINE PRICES.
VENEZUELA HAS TAKEN FUNDAMENTAL MEASURES TO RECOVER THE PATH OF ECONOMIC MODERNIZATION AFTER ITS DEEP FINANCIAL CRISIS (WHICH AFFECTED CLOSE TO 70% OF THE ASSETS OF THE BANKING SYSTEM IN 1994), NAMELY:

✓ CONGRESSIONAL APPROVAL OF THE CALDERA ADMINISTRATION PROPOSED OPENING OF THE OIL INDUSTRY TO FOREIGN INVESTMENT.

✓ NEGOTIATIONS UNDERWAY WITH THE IMF FOR A THREE YEAR ADJUSTMENT PLAN STARTING 1996.

✓ SIGNING OF AN AGREEMENT WITH THE INTERNATIONAL FINANCE CORPORATION (WORLD BANK GROUP) TO ACT AS GENERAL ADVISOR IN THE PRIVATIZATION OF STATE-OWNED UTILITIES AND AS INVESTMENT BANK IN THE SALE OF THE MARGARITA ISLAND UTILITY SYSTEM.
THE VENEZUELAN INVESTMENT FUND (FIV) IS A GOVERNMENT OWNED HOLDING FINANCIAL COMPANY IN CHARGE OF THE PRIVATIZATION PROGRAM

✓ OWNES ASSETS WORTH $10 BILLION IN SUCH INDUSTRIES AS TELECOMMUNICATIONS, UTILITIES, AIRLINES, BANKING, SHIPPING CONSTRUCTION AND MARINE TRANSPORTATION, HORSETRACKS AND AGRICULTURAL PROCESSING.

✓ RECENTLY FORMED A TRUST WITH THE CORPORACION VENEZOLANA DE GUAYANA (CVG) FOR THE PRIVATIZATION OF ITS AFFILIATES BAUXILUM, CARBONORCA, ALCASA AND VENELUM (ALUMINUM), Sidor (STEEL), AND FESILVEN (FERROSILICON)

✓ OVER 50% OF TOTAL FIV'S ASSETS ARE IN THE ELECTRIC UTILITY INDUSTRY (CADAIFE, ENELVEN-ENELCO, AND ENELBAR).

fondo de inversiones de venezuela
FIV’S ACTION PLAN FOR ITS ELECTRIC UTILITY ASSETS AND COMPANIES

① SUPPORTING ENERGY MINISTRY POLICY DECISIONS:
- NEW MARKET ORIENTED REGULATORY FRAMEWORK PRESENTED TO THE ELECTRIC ENERGY REGULATORY COMMISSION (CREE) ON SEPTEMBER 26, 1995
- RATIONAL TARIFF SCHEDULE FOR 1996/97
- RATIONAL ENERGY PRICES (OIL, GAS, HYDRO)

② STRENGTHENING OF PROFESSIONAL MANAGEMENT

③ PRIVATIZATION PROGRAM FOR 1996/97
THE MARGARITA ISLAND UTILITY SYSTEM IS SLATED FOR PRIVATIZATION IN JULY OF 1996

- AN INTERNATIONAL RESORT, DUTY-FREE ISLAND
- 15 MILES OFF THE EASTERN COAST OF VENEZUELA
- 146 MW GENERATING PLANT
- 100 MW SUBMARINE CABLE
- TRANSMISSION AND DISTRIBUTION NETWORKS
- DEMAND RISING AT 8-10% PER YEAR
- 92% EFFECTIVENESS IN COLLECTIONS
- ALMOST 90 THOUSAND SUBSCRIBERS
## FIV’S 1996 PRIVATIZATION PROGRAM

<table>
<thead>
<tr>
<th>SECTOR/COMPANY</th>
<th>BASIC FEATURES</th>
<th>BUSINESS DESCRIPTIONS</th>
</tr>
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<tbody>
<tr>
<td><strong>ENELVEN-ENELCO</strong></td>
<td>Maracaibo, Zulia State</td>
<td>Integrated companies that generate, transmit and distribute thermal electric power. Connected to the national electric system, for hydroelectricity. Labor force: Enelven: 1,702, Enelco: 580.</td>
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<tr>
<td>Energía Electrónica de la Costa Oriental</td>
<td>Enelven: Founded: 1940</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Stockholders: FIV: 99.97% - 54,123,268 Stocks</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Others: 0.03% - 16,688 Stocks</td>
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</tr>
<tr>
<td></td>
<td>Enelco: Founded: 1989</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Stockholders: FIV: 99.99% - 13,289,222 Stocks</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Others: 0.01% - 2 Stocks</td>
<td></td>
</tr>
<tr>
<td><strong>ENELBAR C.A. Energía Electrónica de Barquisimeto</strong></td>
<td>Barquisimeto, Lara State.</td>
<td>An integrated enterprise that generates, transmits and distributes thermal electric power. Connected to the national electric system for hydroelectricity. Privatization includes assets owned by Cadafe in Lara State. Labor force: 897</td>
</tr>
<tr>
<td></td>
<td>Founded: 1984</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Stockholders: FIV: 99.60% Others: 0.40%</td>
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</table>
## FIV'S 1996 PRIVATIZATION PROGRAM

<table>
<thead>
<tr>
<th>SECTOR/COMPANY</th>
<th>CAPACITY</th>
<th>PRODUCTION AND SALES</th>
<th>SALE SCHEME</th>
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<tbody>
<tr>
<td>ENELVEN-ENELCO ENERGIA ELECTRICA DE VENEZUELA. ENERGIA ELECTRICA DE LA COSTA ORIENTAL</td>
<td>ENELVEN: INSTALLED: 1,336.4 MW</td>
<td>GROSS: 3,630,900 GWH NET: 3,508,950 GWH SALES: 7,582,150 MWH</td>
<td>PRIVATIZATION PLAN: MINIMUM SALE OF 79.9% OF SHARES AND MAXIMUM OF 89.9% AT EACH COMPANY TO A SINGLE INVESTOR GROUP AND EMPLOYEE STOCK PLAN OF UP TO 20%</td>
</tr>
<tr>
<td></td>
<td>ENELCO: INSTALLED: 40 MW</td>
<td>GROSS: 172,953 GWH NET: 172,680 GWH SALES: 1,491,500 MWH</td>
<td></td>
</tr>
<tr>
<td>ENELBAR C.A. ENERGIA ELECTRICA DE BARQUISIMETO</td>
<td>INSTALLED: 150 MW IN USE: 120 MW</td>
<td>GROSS 1,628,800 GWH WITH BOUGHT ENERGY: 1,164,520 GWH SELF GENERATED: 464,28 GWH SALES: 1,424,840 GWH</td>
<td>SALE OF A MINIMUM OF 79.65% OF SHARES THROUGH AN INTERNATIONAL TENDER AND AN EMPLOYEE STOCK OWNERSHIP PLAN OF UP TO 20%.</td>
</tr>
</tbody>
</table>
VENEZUELA - BRAZIL ELECTRIC INTERCONNECTION PROJECT

✓ MAY 1994 BRAZIL-VENEZUELA CONSULTATIVE MECHANISM
✓ PROJECTED SALE OF HYDROELECTRIC ENERGY FROM VENEZUELA'S EDELCA TO THE STATES OF RORAIMA AND AMAZONIA (BOA VISTA AND MANAUS)
✓ A 400 KV LINE FROM MACAGUA II TO THE BORDER AND A 500 KV FROM THE BORDER LINE TO MANAUS
✓ PROPOSED TRANSMISSION SYSTEM OF 1,000 MILES
✓ SLATED TO BE OPERATIONAL IN YEAR 2000
✓ $ 470 MILLION INVESTMENT FOR A 1,000 MW TRANSMISSION CAPACITY
✓ ADVANCED DISCUSSIONS ON SUPPLY AND PRICING ARRANGEMENTS