Andean Report by Alfonso Rodríguez

Venezuela's Pérez to pump oil for Bush

The government is talking about getting $25 billion of foreign capital to raise output by 1 million barrels per day.

On the eve of his early-December trip to five South American nations President Bush told journalists that "I agree with [Venezuelan] President [Carlos Andrés] Pérez that we need to increase the production of oil from areas of the world such as Latin America," and that "private investment funds are available for this effort." He added unambiguously that he intended to use his visit to get Venezuela fully on board as a faithful supplier to the U.S. strategic petroleum reserve: "I look forward to discussing this issue with President Pérez and his advisers when I am in Caracas."

Bush did just that, and Pérez, it appears, is delivering.

About a week later, on Dec. 11, the *Financial Times* of London happily headlined a story from Caracas, "Venezuela plans $25 billion boost for state oil group." The article cited sources in PDVSA, the Venezuelan state oil company, saying that they will invest $25 billion between 1991 and 1996, in order to increase output from today's estimated 2.6 million barrels per day (bpd) up to 3.6 million bpd. There is little doubt that the U.S. would be the principal beneficiary of this increase.

But the announcement has raised more questions than it has answered. The biggest one is, where will the $25 billion come from? Although the *Financial Times'* source claimed that PDVSA "will finance most of the investment program from its cash flow," many observers think this is outlandish. Neither the state company nor the government in general have the funds to achieve these goals.

The furthest that a Venezuelan government official has gone on the record, is the statement by PDVSA Director Pablo Reimpell a few days prior to Bush's visit, that the state company would be investing $9 billion of its own money. But Energy Minister Celestino Armas himself denied this statement as he emerged from the Dec. 9 working meeting between Presidents Bush and Pérez, and reiterated that Venezuela's oil plan required foreign financing.

Direct foreign investment would of course be another possibility, but Venezuela's Petroleum Nationalization Law, as the law that regulates the oil industry is informally known, limits its hydrocarbon exploration and production activities exclusively to PDVSA. So the question is, how to get around this legal obstacle in order to hand the oil over to the U.S.

The original idea proposed by President Pérez himself, is that the funds would come from foreign investment in the form of "joint ventures" between PDVSA and the oil multinationals. A second, more recent, proposal is that the funds come from Venezuela's international creditors, who recently concluded an agreement to refinance the public foreign debt.

In the wake of Bush's visit, "a formula similar to that being used with Mexico" is also under discussion, Venezuelan Foreign Minister Reinaldo Figueredo told the daily *Diario de Caracas* on Dec. 9. In the Mexican case, the U.S. Export-Import Bank will reportedly guarantee $1.5 billion in commercial bank loans in 1991, to facilitate new drilling, to be the first installment on lending totaling $5.6 billion (see *Dateline Mexico*).

In early 1991, Congress will debate legislation which the government hopes will accelerate the process of exchanging the new bonds of the recently renegotiated public debt, for investment in oil, petrochemicals, aluminum, and other areas. They will also discuss free access by foreign banks to the Venezuelan financial system, as well as ways to reform or bypass Article 5 of the Petroleum Nationalization Law, which allows for the establishment of joint ventures only in the area of petrochemicals, but not in the area of hydrocarbon exploration or production.

A good example of how such joint ventures with PDVSA would work, is the production of natural gas on the peninsula of Paria, in a project known as "Christopher Columbus." It has never been stated whether or not natural gas falls under the provisions of the hydrocarbon law, but for now the deal has already been signed, without any prior discussion by the Congress, for a joint venture of PDVSA with Exxon, Shell, and Mitsubishi.

As Energy Minister Celestino Armas rationalized the matter before the National Executive Committee of the ruling Democratic Action party last July 2: "The Petroleum Nationalization Law provides the leeway, if one uses one's creativity, to develop agreements which do not compromise the essence of the [oil] nationalization, but which make it possible to develop new areas through foreign financing." He explained that the increase of production itself is the guarantee for the financing: "Venezuela could guarantee long-term supply as a means of paying for this financing and to also cover the new investments in refineries that we will eventually have to carry out."