Venezuela’s Oil Industry: Managing the collapse...
(and offering some opportunities for foreign investors)

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Venezuela’s oil industry key trends

• Production (2.2 mbd) declining for almost two decades (-35% from peak), but collapsing in 2016 (-12%).

• Net exports (1.5 mbd) declined faster than exports (exports down/imports up for domestic market and diluents >200 tbd). About 400 tbd to China and 60 tbd to agreements. Cash flow from less than 1 mbd. Exports to the US significantly declined (-7%) in 2016 to a 25 year low.

• PDVSA’s operated production fall is the source of the collapse (-47% from peak), JVs have actually gone up (+62% since 2009).

• Conventional production has been collapsing since 2009 (-36%), Orinoco Oil Belt was increasing until 2015 (+30% since 2009). Production getting heavier (>60% H-XH). Still new projects in OOB producing less than 200 tbd, less than 20% of the original target. Upgraders 500 tbd (100 tbd below capacity). Blending is what grows.

• PDVSA faces severe cash-flow problems, which got much worse with price collapse (-$7-9 bn. in 2016). Oil rigs in operation declined significantly in 2016 (-23%).

• Pretax break evens are competitive at current prices. Post-tax OOB new projects are not. FX rate issues cloud analysis of costs. Above ground risks are very high.
Official oil reserves: 300 bn. barrels of which 41 are conventional and 259 XH

OIL PRODUCTION (2015)
Main Fields

West
783.73 MBD
10 Petroboscan, 104
11 Tia Juana Lago, 88
12 Bloque IV Ceuta, 78
13 Petrozamora, 68
14 Bachaquero Lago, 55
15 Petro regional del Lago, 53
16 Lagunillas Lago, 48
18 Petroquiriquire, 37
21 Petrocabimas, 30
24 Petrolera Bielovenzolana, 16.5
31 Petropetrolia, 8.1

Apure-Barinas
30 MBD
27 Guafita, 9
30 Borburuta, 8.27
32 La Victoria, 6.16
33 Sinco, 4.59

East
748.8 MBD
1 El Furrial, 258
4 Santa Bárbara, 174
17 Petrodelta, 37.7
20 Petrosucré, 33.1
22 Petrolera Indovenzolana, 26
26 Petroquiriquire, 10

Orinoco Oil Belt
1183.02 MBD

OOB - Diluted Crude Oil
677.42 MBD
2 San Tomé, 229.1
3 Morichal, 202.7
5 Petrolera Sinovensa, 156
19 Junín 10 Sur, 34.5
23 Petroleíndependencia, 20.7
25 Petrocarabobo, 16.2
28 Petromiranda, 8.8
29 Petrojunín, 8.3
34 Petrourica, 1.1

OOB - Upgraders
506 MBD
6 Petropiar, 150
7 Petromonas, 130
8 Petrocedeno, 120
9 Petroanzoategui, 106.2

* 2015 estimates. Source: PDVSA, IPD and CIEA-IESA.

PDVSA (Self Management)
1621 MBD

Joint Ventures
1125 MBD

TOTAL
2746 MBD
Unconventional reserves added, domestic consumption increased until 2013 and then collapsed, net exports declined faster.

Source: BP SRWE 2016

Changes in Crude Oil Production (kbd), right axis

Crude Oil Production (kbd), Direct Communication left axis

Crude Oil Production (kbd), Secondary Sources left axis

Source: OPEC Monthly Oil Market Report, various years
PDVSA’s production collapse (-47% from peak in 1997), JVs increase (+62% since 2009)

Source: PDVSA
Producción de petróleo de Venezuela por regiones (2008 - 2015)

(Millones de barriles diarios)
Crude oil production classified by API gravity (1970-2014)

Thousand barrels per day

PDVSA
Venezuela Oil Rig Count

Source: Baker Hughes

Feb 27 2017, 12:03PM EST. Powered by YCharts
Venezuela’s pretax break-evens (at a reasonable FX) are below current prices

Source: Wood Mackenzie
Fraser Institute Global Petroleum Survey 2015:
Policy perception index

- Trinidad and Tobago
- Uruguay
- Brazil—Offshore CC
- Colombia
- Brazil—Offshore Pre-salt Area PSC
- Mexico
- Peru
- Brazil—Onshore CC
- Argentina—Chubut
- Argentina—Neuquen
- Bolivia
- Argentina—Salta
- Argentina—Santa Cruz
- Argentina—Tierra del Fuego
- Argentina—Mendoza
- Ecuador
- Venezuela

Legend:
- Mild deterrent to investment
- Strong deterrent to investment
- Would not pursue investment due to this factor
Challenges and policy outlook

– Massive policy failure due to a mix of ideology, incompetence, short-term horizons, and the incentives provided by the price and investment cycles.

– Future: unconventional (extra-heavy), conventional enhanced oil recovery, and offshore-gas.

– Main constraints: cash flow, operational, and HR limitations of PDVSA, but also wider institutional context.

– Oil institutional and regulatory framework could limit potential expansion. Lacks flexibility and requires excessive government control.

– Overall national policy, macro, and political environment. Regulatory and political risks. Political instability. Lack of political and social consensus over oil policy a problem in the long run.

– A liberalization cycle is ongoing and there are structural reasons for it to last. Specially with an opposition led government. But oil prices, ideology, regime change, and political stability could limit the impact.

– Pragmatism has increased in the last 5 years, as new investments are needed (given that production and prices collapsed). But very limited results. Increasing desperation.
  • Pragmatism: JV loan contracts (Chevron Boscan, etc.), windfall taxes and FX, PERLA Gas project ($5 bn., 9.5 tcf, 400 mcf to max 1.2 bcf), gas exports to Trinidad, recent contracts with service companies, talk about returning small service companies to private owners, and pragmatic change in OOB strategy.
  • Desperation: sale of Petromonagas and Mariscal Sucre to Rosneft, recent contracts with service companies, bond swaps and loans, CITGO guarantee, etc.
Thanks for your attention.

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