

## Venezuela auctions off two major oil projects

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## Venezuela auctions off two major oil projects

By Benedict Mander in Caracas

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Venezuela auctioned off two major projects in the oil-rich Orinoco Belt on Wednesday night to international oil companies, requiring investments of up to \$30bn.

Although three projects were tendered in the Orinoco's Carabobo block over a year ago, only two were assigned – Carabobo 1 to a consortium including Spain's Repsol, and Carabobo 3 to a consortium including the US's Chevron.

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"We have put the Orinoco Belt at the world's disposition," said President Hugo Chavez, who claims that it is the largest oil field in the world, with around 270bn barrels of recoverable reserves.

"We need international investment. Alone we would not be able to develop these reserves," he said, highlighting that Venezuela would nevertheless maintain control of the reserves.

**PDVSA, Venezuela's state oil company, will keep a 60 per cent stake in both projects**, which will require investments of around \$15bn each and have the capacity to produce at least 400,000 barrels per day (bpd) each. [Mr Chavez said that existing projects in the Orinoco Belt are producing up to](#)

600,000 bpd.

Repsol will have an 11 per cent stake in its project, the same as consortium partners Petronas of Malaysia and ONGC of India, with two other Indian companies taking the remaining 7 per cent, according to a Repsol statement.

Chevron teamed up with three Japanese companies – [Mitsubishi](#), Jorgmec, and [Inpex](#) – and Venezuela's Suelopetrol.

The consortium that was assigned Carabobo 1 will pay the government a signing bonus of \$500m, while the consortium developing Carabobo 3, considered to be more promising, is to pay \$1.05bn. Both groups will pay an extra \$1bn to PDVSA in financing.

Venezuela's energy minister, Rafael Ramirez, said that the projects – which require the construction of complex and expensive "upgraders" to refine the extra heavy oil found in the Orinoco – could be fully operational by 2016, although early production could begin by 2013. The projects are expected to have a life span of 25 to 40 years.

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## Venezuela secures \$80bn oil investment

By Benedict Mander in Caracas

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### Venezuela secures \$80bn oil investment

Venezuela has signed deals with foreign companies in its oil-rich [Orinoco Belt](#) that require investments of up to \$80bn and could double its production capacity.

But despite being a vote of confidence in Venezuela just three years after a wave of nationalisations in the Orinoco, doubts remain over how long it will take for the country's sagging oil output to recover.

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As well as directly assigning projects that will require \$50bn (€36bn, £32bn) of investment in the Orinoco's

Junin block to Chinese and Russian companies and Italy's [ENI](#), consortia led by the US's [Chevron](#) and Spain's [Repsol](#) last week won minority stakes in two \$15bn projects in the Orinoco's [Carabobo block](#).

"Venezuela put itself at the mercy of the markets to test how much real interest there was in the Orinoco reserves. The results are positive but not overwhelming," says Patrick Esteruelas, an analyst at Eurasia Group. He points out that, despite an "unprecedented willingness" to soften contract terms by lowering royalties and eliminating some taxes, the government assigned only two of the three Carabobo projects it tendered more than a year ago.

Most of the companies that initially showed interest in what was Venezuela's biggest investment opportunity since President Hugo Chávez took power 11 years ago abstained from bidding. They include BP, Shell, Total and Statoil. But other interested parties including China's CNPC and Russia's [Lukoil](#) and [Gazprom](#) opted to concentrate on projects allocated in state-to-state deals in the less geologically attractive Junin block.

Despite the misgivings of some oil majors, the fact that the Carabobo received bids from reputable companies highlights the need to boost reserves. Venezuela's accommodative stance, meanwhile, may reflect a moderation in resource nationalism in a context of lower oil prices.

Interest in the Orinoco's extra-heavy oil also points to the fact that the world's future production will rely increasingly on reserves that are harder to develop, with Brazil's pre-salt deposits and Canada's tar sands also gaining in importance.

Rafael Ramírez, Venezuela's energy minister, says the Carabobo and Junin projects will double Venezuela's oil output from 3m barrels per day to 6m bpd by 2016. But observers question whether all these projects will be up and running so soon.

"The development of Junin and Carabobo at the same time will be quite challenging. Co-ordinating multiple . . . projects will require extraordinary investment and co-ordination between the Venezuelan authorities and investors. The learning curve will be vertical," says David Voght, managing director of IPD Latin America, a consultancy that works with oil companies in Venezuela.

"Given the technical requirements and capital commitments, these projects have a demanding path ahead," says RoseAnne Franco, an analyst at PFC Energy. "This serves as a reminder that the country's reserves remain too substantial to be ignored."

Mr Chávez claims that the Orinoco Belt is the largest oilfield in the world, with at least 270bn barrels of recoverable reserves.

Another major pitfall to their successful development is whether PDVSA, **Venezuela's state oil company, which is keeping a 60 per cent stake in the Carabobo projects**, allows its minority partners a fair degree of operational control.

PDVSA's own management track record is patchy. "PDVSA must allow partners to become more integral players in their mixed companies," says Mr Voght. Other complications include the remote locations of the projects and heavy financing costs that PDVSA is passing on to its partners.

Companies must also produce oil at more than twice the rate of existing projects. And Mr Chávez's penchant for expropriation will remain a threat.

But for now, companies are putting on a brave face.

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