Gearing up to face new challenges

Interview with RAFAEL RÁMIREZ CARREÑO

MINISTER OF ENERGY AND PETROLEUM AND PRESIDENT OF PETRÓLEOS DE VENEZUELA (PDVSA)

RAFAEL RAMÍREZ graduated in mechanical engineering from Los Andes University, Venezuela, and also holds an MSc in energy studies. He was the founding President of Enagas, the entity charged with the responsibility of structuring Venezuela's National Gas Plan, and thus responsible for the design, development and promotion of the government's policies for the gas sector. He was appointed Minister of Energy and Mines in July 2002 (subsequently re-designated Minister of Energy and Petroleum in January 2005) and has held the post of President of PDVSA since 2004.

Venezuela's oil and gas reserves have always been a matter of intense international interest. Where do these reserves stand currently?

Venezuela's proven oil reserves are estimated at 215 billion barrels, including the heavy and extra-heavy crudes of the Orinoco Oil Belt; this is roughly half the reserves of the whole Middle East. At the moment we are developing a plan to tender 27 blocks of the Belt, each with reserves of around 30 billion barrels.

Regarding natural gas, we have the largest reserves in Latin America, with 150 trillion cubic feet (tcf) in proven reserves and expectations offshore of another 200 tcf. We are working successfully in both areas together with some of the world's most experienced companies in this field.

What is your strategy for developing these reserves?

Logic tells us that, since our heavy oil reserves are so large, we should first concentrate on the Orinoco Oil Belt. This covers an area of some 55,000 square kilometres (km^2), and less than one fifth of it is currently under production. We already have four associations and are talking to seven other interested parties, and we expect many more to join us. The results obtained from early operations in this area provide encouraging projections for the future.

What future do you see for the country in the natural gas sector?

Perspectives for offshore natural gas development are very encouraging, given that Venezuela's continental shelf covers a considerable area, both in the Atlantic and Caribbean fronts. Taking the eastern region alone, the Plataforma Deltana reservoirs located closer to the State of Sucre hold some 55 tcf in gas resources, in just two areas and at depths of less than 1,000 metres, the maximum used for calculation purposes.

Helping hand: PDVSA plays a key role in society

Have you found a market for the additional gas to be produced?

The largest share of production will go to supply the internal market. Surplus volumes will be exported, mainly as liquefied natural gas (LNG). We are planning to bring the gas to a central collection point on shore, where we intend to build CIGMA, the Gran Mariscal de Ayacucho Industrial Complex, a US$3 billion centre to serve as a base for offshore oilfield services, the manufacture of LNG, the processing of crude, the pumping of gas to the internal market, and the export of LNG from it own facilities.

What role do you expect the private sector to play in this development?

We envisage the private sector playing a very important role in all our activities, because we need partners for the long term throughout the world while we expand our capacity in exploration, production and technology. Russian companies such as Gazprom, the world's largest gas company, will operate with us for the first time in our history, and we want to achieve a balance in foreign company presence. Our new Hydrocarbons Law allows private capital participation throughout the hydrocarbons chain in a clear and transparent manner. There is no longer any need for complicated contracts and political agreements, because the law clearly establishes that private capital can have a share of up to 49 per cent in upstream activities, and up to 100 per cent in the downstream sub-sector.

PDVSA's growth plan envisages a US$56 billion investment for the 2006-2012 period, of which PDVSA will cover 70 per cent, with the remaining 30 per cent, approximately US$16 billion, to be contributed by third parties. The major part of this investment will be devoted to our core businesses: exploration, production and refining, the other two investment sectors being natural gas and petrochemicals.

The press took a fairly negative view of Venezuela's decision to raise its tax and royalty rates earlier this year. What are your own views on this matter?

Venezuela is one of the few countries in the world that still has important concentrations of oil and natural gas, and we need to monetise our resources in a solid and sustained manner for the benefit of our growing population. This has driven the State to exercise its sovereignty over the hydrocarbon resources, to recover the oil rent that had been lost over the years, and to manage these resources in the light of world needs, trends and conservation.

Among the main achievements of the Ministry, and of the 'new' PDVSA, have been the recovery of control of the industry and the cessation of practices that were draining the country of income to which it had a legitimate right, through the so-called strategic associations and operating agreements.

PDVSA has been adapting its business agreements with the private sector so that they comply with the new Organic Law on Hydrocarbons. Royalties for the Orinoco Oil Belt operators had previously been set at the extremely low rate of 1 per cent, which is unsustainable because it implies yielding our sovereign rights over the resource. The new Law sets the royalty at 30 per cent, which is to be the rate for all future contracts. However, the previous standard royalty of 16.66 per cent has been applied in the case of the original contracts because that was the official rate at the time those contracts were signed.

We have also successfully migrated from the operating agreements to transition agreements for the formation of 'mixed companies'. In the companies devoted to oil production, the State will have majority ownership. All the operating companies have aligned with the transition agreements, a major step towards normalcy and full compliance with the Organic Law on Hydrocarbons. We believe that we are on the way to restoring the balance which must exist between private companies and the State if the relationship is to be fruitful and long-lasting.

Given Venezuela's huge hydrocarbon reserves, what role can the country play on the international scene?

PDVSA's role in the world economy will become increasingly significant. As far as oil production is concerned, we expect to produce 5.8 million barrels of crude per day by 2012, with a large expansion in the production of heavy and extra-heavy crudes. We will also have a greater refining capacity than at present.

With regard to the exploitation of our natural gas reserves, we expect to increase production significantly, from 7 billion cubic feet per day to approximately 20 billion by 2020. While the internal market will naturally have priority, we hope to have considerable surpluses available for export. At the same time we feel we will continue have an important role in the US market, being one of its three main oil suppliers. We are improving our gas transmission systems, and will be undertaking interconnections with Colombia and Brazil. Another of our objectives is for PDVSA to continue being one of the world's major companies, in full control of our activities, but developing our natural resources in a rational way, so as to help meet world demand, while supporting and promoting our country's social and economic development.

Similarly, we intend to have a more direct and active role in the Caribbean and in Latin America. We will continue to support OPEC as a regulator of the oil market and thereby preserve the rights of the oil producing countries. Moreover, we are thinking of contributing to meet the needs of the world's new emerging economies, such as China and India.

What is the 'new' PDVSA's guiding vision?

The new PDVSA has a much broader vision, and it now truly fulfills its mission of distributing the oil rent for the benefit of our people, being fully aligned with the Venezuelan State's strategic orientation, and the new PDVSA has also proved it has sufficient technical and operating capacity to overcome the damage caused by the late 2002 and early 2003 sabotage. The oil industry's social contribution to the country is precisely a policy that PDVSA is undertaking in depth, not only through the government's highly successful social missions, but also through national development projects in infrastructure, highways, transport, agriculture and housing. In 2005 PDVSA invested more than US$4.8 billion in development projects. Its committed labour force is fully identified with corporate objectives in this field, and is therefore a valuable ally in carrying out these aims. ■

Venezuela plans to boost refining capacity significantly

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