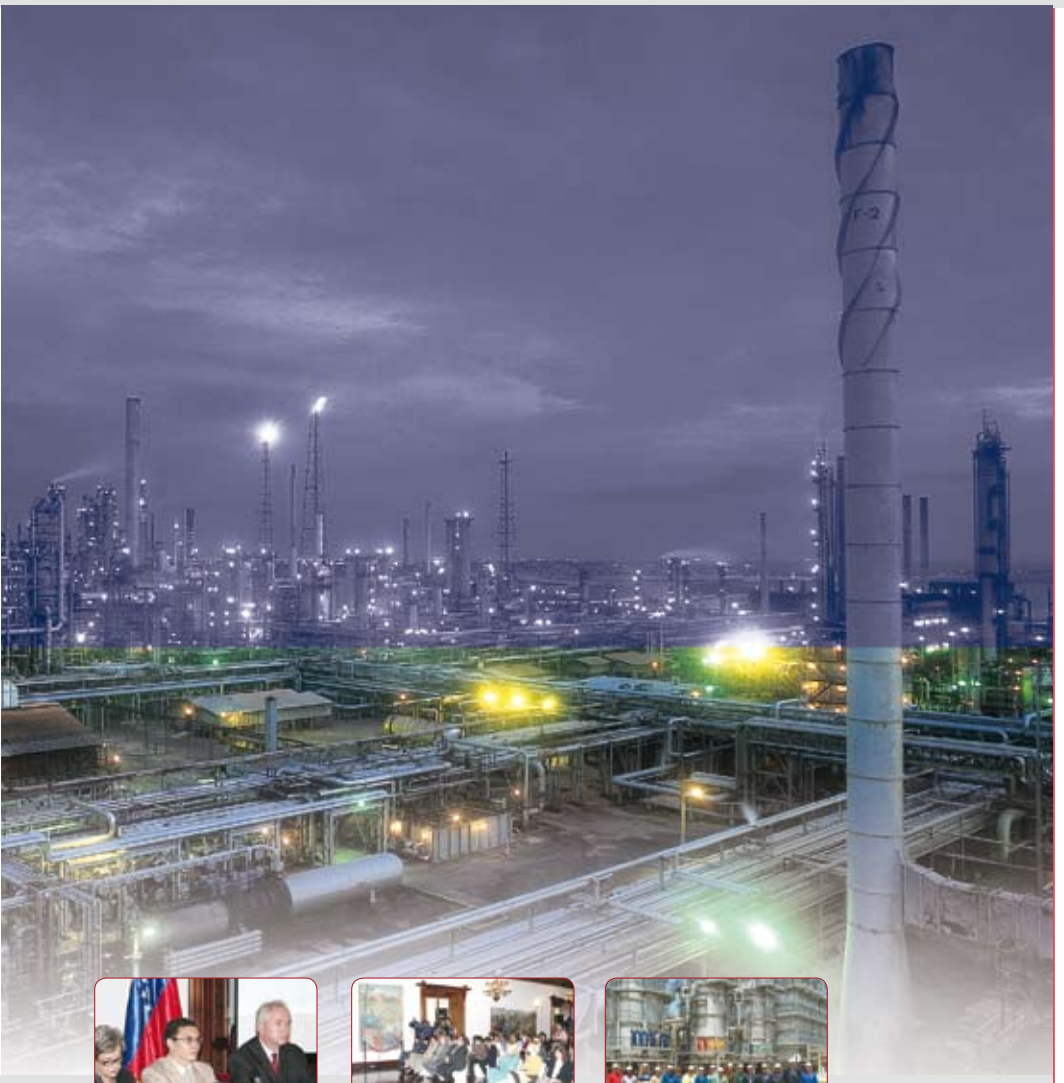


Full Oil Sovereignty:

A popular, national
and revolutionary policy





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A speech by the People's Minister of Energy and Petroleum and President of PDVSA, **Rafael Ramírez Carreño**, on occasion of the "Venezuela, Policy and Petroleum" cycle of conferences presented within the framework of the Organization of Oil Exporting Countries (OPEC), 45th anniversary celebration, and organized by the Casa Amarilla Civil Association and the Pedro Gual Institute for Advanced Studies in Diplomacy of the People's Ministry for Foreign Affairs of the Bolivarian Republic of Venezuela.

Caracas, Venezuela, 20th October 2005.

Conference Cycle

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Our oil policy is based on the principle of claiming and exercising our sovereign right over the administration of our main natural resource, petroleum.

“ I am pleased to point out that this conference takes place within the framework of the celebration of the 45th anniversary of the Organization of Petroleum Countries (OPEC), of which Venezuela is not only one of its founding members, through the then Minister Juan Pablo Pérez Alfonzo , but is also one of the fundamental buttresses that sustain the principles which gave origin to OPEC's creation. I would like to begin with this aspect, to dwell on the Bolivarian government's oil policy. I am always pleased to talk about oil and revolution because, definitively, all of our historical development, over the last 100 years at least, is closely linked to the oil question, as stated in the title of the book by Bernard Mommer, which I highly recommend as a reference source. Bernard Mommer is a university professor, vice minister of Hydrocarbons at the Energy and Petroleum Ministry, and a director of PDVSA.

Our oil policy is based on the principle of claiming and exercising our sovereign right over the administration of our main natural resource, petroleum. This issue, which seems to be a mere statement of fact, gave rise to OPEC's creation, and is the driving spirit behind all the measures which are necessary to effectively control and utilize the immense wealth placed fortuitously by nature in our hands for the benefit of our people.

We have recently increased our proven oil reserves from 77 billion to 80 billion 547 million barrels of oil, which means that we have the greatest concentration of petroleum in the Western Hemisphere; we are in the process of adding another 235 billion barrels of oil we estimate are concentrated in the Orinoco Oil Belt. At present we are in a process of quantification and certification of these resources, so that they may be included in our

The dismantling of the Oil Opening is fundamental to the development of a policy we have called Full Oil Sovereignty, a national, popular and revolutionary policy.

books as proven reserves. This would turn Venezuela into the country with the highest hydrocarbons concentration in the world, with an average of some 315 billion barrels of oil in proven reserves. This makes us the center of attention for economic and geopolitical interests on a world scale. During the past 100 years, of course, our oil has placed us under the “protection” of the North American imperialists, with permanent intervention regarding our republican life, and obviously, continues with the intention of controlling these resources.

In addition to the oil resources, we must also add to our proven reserves 151 trillion cubic feet of natural gas. This makes us the eighth country with the largest gas reserves in the world and we are in the midst of a highly successful process of adding another 100 trillion cubic feet of gas to our reserves, which are found offshore in the continental shelf. We are doing this through the process of awarding licenses for its development. This is to say that Venezuela is without doubt a very important player in world petroleum policy and in the geopolitics of the various interests circling the globe.

We have been developing a policy that rescues what is OPEC's origin and founding spirit: the sovereign right to administer our resources, their utilization for the benefit of our people, their use at an adequate production rate which enables us to preserve and increase their value. This is the international side of our oil policy, to which we have dynamically added our support to multipolarity and the diversification of our oil markets through the geopolitics of oil, with the aim of establishing a network of new geopolitical relations to further strengthen Venezuela's position in the world.

This international side of our oil policy also has a national expression and in it we are fighting a huge battle for the purpose of recovering the control of our prime resource and our principal industry. At the same time, for instance, we are carrying out the titanic job of powering our country so that it overcomes the problems associated with the economic cycles of oil production, turning it from an oil rent economy into one based on a productive, non-rentier model. To deal with these issues, we must go over what we are doing and where we are going. A fundamental element to be able to implement our oil policy is to dismantle some aspects of what was once called, at the beginning of the nineties, the Oil Opening. This established a well-designed strategy, orchestrated together with transnational interests, to expropriate -via a number of modifications and violations to the then current legal framework- the control of our oil resources through the Oil Opening policy. The dismantling of this policy is fundamental to the development of what we call the Full



New members of the Venezuelan Foreign Service staff during the conference given by the People's Minister of Energy and Petroleum and President of PDVSA, Rafael Ramírez, at the Casa Amarilla.

Oil Sovereignty policy, a popular, national and revolutionary one.

We say that this is a national policy because through it we seek to recover the absolute control of the oil activity in the country, as is set down in the current Constitution of the Bolivarian Republic of Venezuela, and also in the 1961 Constitution and in the Decree issued by the Liberator, Simón Bolívar, in Quito in 1829, which reserved for our new republics the control and handling of all our mineral resources. The Constitution of the Bolivarian Republic of Venezuela clearly establishes, leaving no room for doubt, that it is the State, as a representative of the collective interest of all Venezuelans, which is the owner of all the resources found in our subsoil and, in the present case, of the oil and gas hydrocarbon resources.

We say that this is a policy of full oil sovereignty because we are going to respect the concept of effective control of our resources, just as it is established in the Constitution.

We are going to recover fiscal control, the control of everything, which implies

the charging of our royalty and taxes, and the just administration of the exploitation of these resources.

This is a national policy which must bring together all Venezuelans in the defense of our principal wealth; this is a policy which leaves no doubt that this issue concerns all Venezuelans, and there should be no differences regarding its implementation.

It is also a popular policy because in order to develop it, it must be supported by the people; the people must be fundamental players in all of its implementation, not only through the representation of the Venezuelan State, but also through its workers, its technicians and its communities. We must inform, establish and spread the oil issue throughout the country; we must be capable of embracing what is an extraordinary effort by the Venezuelan State to gain effective control of our resources, to place them at the service of the national economy, our people and the country as a whole. We also say that it is a national policy and that it is a popular one, and we also say it is a revolutionary policy and here is the element

The people must be fundamental players in oil affairs, not only through being represented by the Venezuelan government, but also through its workers, technicians and its communities.

that places us apart from any policy developed in Venezuela in the past. It is the case of who captures the oil rent and how this is distributed.

We have to make an extraordinary effort so that the oil rent is not captured by transnational capital, that it is not spirited away by the companies. This has been the slogan of all the progressive movements in Venezuela up until the oil nationalization. This was the great battle: what to do to collect and maximize the Venezuelan State's participation in the revenues from our oil. Pérez Alfonzo already dealt with this in his Petroleum Pentagon seminar. What sets us apart from some OPEC countries, and also from all the governments which have preceded us in our republican history, is how the oil income is distributed.

This brings up the revolutionary aspect of this policy.

we are not interested in the oil rent being collected by transnational capitalism and shipped off, but neither are we interested that it remains in the hands of the local oligarchy which has been benefiting from it all these years and enjoying the fruits of the oil surpluses.

This is our greatest concern, which is why we are articulating policies, we are promoting initiatives and why we are willing to use all the strength of the new PDVSA and the Venezuelan State to capture the oil rent for the benefit of our people, ensuring that it reaches them directly. This, I think, is the most important component of our oil policy.

Our task at the head of PDVSA and at the head of the Ministry of Energy and Petroleum, is to guarantee achieving the maximum benefit of the main resource and place it in the hands of the Venezuelan State for the distribution of the benefits among the people; additionally, we have an extraordinary debt with the people, who have been excluded from these benefits during the almost 100 years of oil development in the country, and we are committed to the concept that the oil rent must be captured for the benefit of the people, for their development and to overcome the huge asymmetries which at the moment distinguish our country and our economy.

The Five Elements of the Oil Opening

We must mention here the five fundamental elements of this Opening policy which we have tried to isolate and that are part of a whole. The first of these has to do with the control of our oil industry. As you are well aware, the creation of our national state operator to administer, develop and produce our own main resource, oil, was captured by interests which were diametrically opposite to the interests of the Nation. This case has already been studied. Venezuela has not been the only country where transnational interests have



been successful in capturing national operators and have put them to work in the service of their own interests. The process goes through an ideological capture; this has already been pointed out by Pérez Alfonso: convert the oil industry's management into a technocratic elite divorced from the interests of the Nation, trained in the opinion centers of the consuming countries, turn them into militant partisans for their side, with a completely antinational vision of our oil policy development. This was an initial objective of the Oil Opening policy developed in the past and which had various fronts, from sending managers and industry leaders abroad to obtain an education in the centers which spread the gospel and the interests of the consuming countries, to creating a terrible and pernicious system called "meritocracy", which was used to weed out any dissident element regarding the use of our oil and the way it was being handled.

This was not by chance, nor was it an isolated element produced at the close of the nineties and which exploded into view with the oil sabotage. This was powered by an elite that was absolutely divorced from the interests of the nation and was fully committed to a doctrine accepted by a good part of the world and, particularly, in Latin America: the neoliberal doctrine to diminish and eliminate the role of the State as custodian, administrator and regulator of the oil industry.

PDVSA's capture by transnational interests took place concurrently with the breakdown of the State's capacity to develop its own oil administration, management and regulation policies. The Ministry of Energy and Mines (which became known as the Ministry of Energy and Petroleum since 2005), and all the departments concerned with administration and regulation were allowed, through attrition,

PDVSA's gas compression, transmission and injection systems were being privatized, so that soon there would be nothing left of our oil industry.

to exist without any proper staff at all. Oil policy and decisions, however, did not lie idle, because they were being designed and implemented at the PDVSA headquarters in Caracas, and were carried out in violation of the legal framework then in force.

The subject of our oil industry's capture by transnational interests is one open to debate. How did this happen? With what privileges, remuneration and facilities was this technocratic elite accommodated? The origins of this major deviation are to be found in the nationalization itself, because the same managers that heretofore had represented the transnational interests, were then placed at the head of *Petróleos de Venezuela*. It is not surprising that the same interests, ideology, values, habits, practices, procedures, criteria, technological dependence and commercial agreements were thus transferred to the new oil industry. We have already mentioned that the oil nationalization was incomplete. I share the position held by Pérez Alfonzo, Salvador de la Plaza² and many other patriotic intellectuals who questioned the whole process of our oil policy's development and nationalization. Here we have the first problem.

When does the capture of the Venezuelan oil industry come to a head, concurrently with what was happening in the rest of the country?

The answer is in the sabotage of December 2002. In 1999 when President of the Republic Hugo Chavez was democratically elected as President of our country and initiated the constituent process, a mechanism aimed in the opposite direction to that established as oil policy by the Bolivarian Government began to be activated at the executive core of the Venezuelan oil industry.

We personally suffered through all this process. The events of the coup d'etat of 11th April 2002 took place when Professor Carlos Mendoza Potellá³ and myself were members of the Board of Directors of PDVSA, honorably presided over by Dr. Gastón Parra⁴. PDVSA was involved in this coup to the point of financing it. This is the only PDVSA budget which I, as Minister, had not signed. It is available for analysis by the regulating bodies, inspectorates and controllers because we are certain that the whole anti-democratic mobilization carried out to lever the coup d'etat was financed at the time by PDVSA. This elite saw its plans shattered when the people began to take strong action to rescue our oil sovereignty, not only in the international field, where the policies of President Chavez, together with the strengthening of OPEC, have been fundamental for the organization to regain the specific weight which it has in the world oil market today, but which is also related to the reiterated intents made by the government of the Republic to place PDVSA on the same road being traveled by the Venezuelan state, a road of discarding old privileges and of changing the situation of poverty and exclusion which we had here.



What happened in December 2002 is a milestone for various reasons. It not only clearly exposed the terrible contradictions existing in this company with a technocratic elite that had controlled our main industry, but it also shattered the existing myth that the oil industry could only be operated by this technocratic elite, a sort of human group that was beyond any earthly considerations.

The people of Venezuela mobilized together with their component players: the military, officials, university professors, students and volunteers heeded the call by President Chavez to guard the company and put it back into operation, as we effectively did. We have stabilized it and put it to work in an extraordinary manner. This is an element of the Oil Opening that we have now eliminated, a traumatic event; what happened in this country has no precedent in

the world. No occupation force attacks and destroys oil infrastructure and facilities. During the invasion of Iraq, there is a photograph which is interesting to pass around because it shows that, although all the ministries had been bombed and destroyed, (Telecommunications, Defense and Agriculture, among others), the headquarters of the Iraqi Ministry of Energy and Petroleum was guarded by some 800 US marines. This was the first objective to be guarded in Baghdad. In Venezuela, the PDVSA people, this elite, who directed the oil sabotage, destroyed our oil infrastructure in a systematic, studied and planned manner

The reports we handed over, together with the 2003 audited financial statements, to the Securities & Exchange Commission (SEC), determined, with the help of the external auditors who provide the service, the cost of

Venezuela is an important player in world oil policy and in the geopolitics of the various interests that move around the planet.

the oil sabotage. This is in the order of \$17.4 billion and the people responsible for this must provide answers to the Nation, because this was simply a massive destruction of the value of the country's assets. We now have control over our oil industry.

Another aspect of the Oil Opening that we have managed to dismantle, and are currently working to eradicate, is the issue of the famous outsourcing policy which was being developed in PDVSA. This was one of those technical and managerial euphemisms which they teach at I don't know which universities abroad, to mask the privatization which was taking place in our oil industry. Privatization through various means; the outsourcing policy was used to hand over fleets of ships and gas compression systems in eastern Venezuela, among others, these being fundamental for maintaining oil production at steady volumes. Under this outsourcing policy, port facilities were being handed over. Well, Commander Chavez arrived and put a stop to this looting. They had already privatized the terminals and the gas pipelines; which is to say, they were privatizing the company and, as you yourselves know, the sum of quantitative changes ends up by resulting in qualitative changes. PDVSA's gas compression, transport and injection were being privatized, and there was to be nothing left of our oil industry. It was going

to be decimated, privatized, because of an ideological conception, besides entering into some questionable business ventures against the interests of the nation. This policy, which was another of the Oil Opening's elements, we have stopped in its tracks and we are terminating the last contracts, the last remnants of this outsourcing policy and taking over the control of our activities and assets. This is why, in the case of the tanker fleet, for example, we need to buy 42 tankers because, if anything, what the oil industry sabotage of December 2002 showed us, is that we cannot depend on some international shipping companies to transport our oil and product exports.

Privatization, then, was a harmful exercise, if we look back to what has happened in Latin America because of this process. We can see Argentina's lamentable situation where everything was privatized, the only thing retained being the tango, and we have ascertained the terrible living conditions in that country, above all because they cannot count on a national company to handle their energy resources. One of the most outstanding cases of this outsourcing policy in our oil industry was the Intesa5 company, a case well worth analyzing. A transnational company, clearly linked to North American interests, participated in the consortium which was set up by PDVSA and SAIC (Science Applications International Corporation), a company headed by ex US State Department, CIA and FBI officials. This is not a leftist story. This has been recorded. With one million bolivars a company was set up to handle, and have discretionary access to, the strategic information of an oil producing country, such as geological data, reserves,



all the fundamental aspects of an oil industry, including all the operating systems which in PDVSA were highly automated, and which was a spearhead for the collapse of operations during the oil sabotage in December 2002.

These are the issues which must be brought to light and disseminated and which must be punished – something which has not yet happened -- not only so that they can never be repeated but also for our people to understand what happened here and the magnitude this risk involved. Why did they engage in a coup d'etat? Why did they undertake the oil sabotage and why have we been fighting and resisting a permanent aggression policy against our country? This aggression is not being carried out by the internal political opposition, but by our real enemy, the United States, because what we are debating here is

the control of the administration of the western hemisphere's main energy resources. However, the privatization policy also has another major element that has remained hidden because all of these processes were well planned in the past, and this is the subject of operating agreements, which I would like to dwell on. Professor Mendoza Potellá has written on these issues and warned us of the attendant dangers. It is important to read these studies, to go deeper into the subject, and realize that what at one time was regarded as a cry in the wilderness, was really that the groups who opposed the oil opening policy were being silenced by a disinformation campaign, the real "black box" being not disclosing the facts about what was taking place.

Through the operating agreements PDVSA's production was privatized; 500,000 b/d of

Venezuela has not been the only country where transnational interests have managed to capture a local operator and place it at the service of its own interests.

oil were handed over to private national and international companies, clearly violating the laws in force at the time, the Organic Law which reserves to the State the Exploitation and Industrialization of Hydrocarbons. The Nationalization Law contains the polemic Article 5 inserted by the then President of Venezuela, Carlos Andrés Pérez, thereby giving in to the pressures of international interests and leaving open a window to private participation in the oil business. This window had to do with the association agreements which were later established in the Orinoco Oil Belt and which had to be approved by the former Congress of the Republic. Under the legal scheme of service contracts, and after a judgment handed down by the former Supreme Court of Justice, it became clear that the responsibility for overseeing these new forms of association did not fall to any of the controlling entities established by law to oversee the oil industry. PDVSA then decided to award service contracts to a number of national and international companies of the private sector for the production of 500,000 b/d of oil.

I have heard diverging opinions on whether a service contract is better than a joint venture, as established in the new law. Such a

difference does not exist, simply because these are not service contracts. What was handed over under the table here as service contracts were really “operating agreements”, which in fact were really oil concessions in disguise. I invite you to visit the installations of the operating agreements where you will be able to see that who really runs the business here is the Operator, who in turn produces, exploits, explores and links his income to the price of oil, which converts him into a concessionaire, in the framework of what is established clearly by the law, and is defined in the previous law as well as in the present one. That is why we say that those operating agreements were not only part of the privatization policy and of a fundamental component of the so-called Oil Opening, but were also absolutely illegal, and are bad business deals which go against the interests of the country, and that is why we maintain that the so-called and much publicized technocratic “meritocracy” set up a fraudulent operation based on the fiscal sacrifices extended to these business ventures. In these operating agreements - so that we can have an idea of how much they weigh on PDVSA's economy - to produce 500,000 b/d of oil we have to pay the operators \$4 billion a year, which is almost the same as all our investment budget for exploration and production. This is absurd.

The cost of production, if we can call it that, really is a sales cost, which for each of those barrels is \$20, when our own production cost is \$4 per barrel. This was a situation in which, right from the beginning, a number of advantages and favorable conditions were handed over. The Campo Boscán field in the

state of Zulia, which was rated as “marginal”, was awarded directly. The field was at that moment producing 80,000 of crude per day, a volume that in many cases is equal to the production of any Latin American country, which shows that the production was not marginal at all. Similarly, some financial incentives were established. For example, once a producer had achieved a certain extraction volume, he was paid a bonus. We currently have companies here which are among the most powerful in the world, such as Shell, which was paid an incentive of one million dollars every two days, so that it would continue to produce oil. This is an absolutely absurd situation.

At present we have the oil industry under our control and have access to these contracts, but I want you to know that we had to fight to obtain copies of the contracts, the numbers involved and who signed them. We have been reconstructing the whole history to show it to the country and we have handed over copies to the National Assembly, which did not have the documents and neither was there any record of them.

On the 12th of April 2005, the Ministry of Energy and Mines instructed the PDVSA Board of Directors to establish maximum payments for these operating agreements. We cannot pay more than 66.66% because these operating agreements do not even pay royalties, which are disbursed by PDVSA. In other words, it is a great business deal for the operators, a deal in which one does not understand why so many “experts” proclaim the purity of these business deals, because they bear administrative responsibilities, and of every other kind, for



having signed and authorized contracts so detrimental to the interests of the Nation. Our instructions included not only a 66.66% maximum for disbursements, but also ordered that by the 1st January 2006, there should be no more operating agreements here in Venezuela. Not only are they illegal and harmful as regards their economic impact on the Nation but, because additionally, in the framework of the new law, the space for private capital participation is very clear, as long as the Venezuelan state has definitive control of what we consider within the boundaries of the law, which are the mixed companies. We have instructed PDVSA not to sign and not to agree to the transition to mixed companies unless the contracting parties comply with our laws. They will not be able to operate in Venezuela starting from 1st January 2006. We have taken the appropriate provisions in our investment budget so that PDVSA's Exploration

The Orinoco Oil Belt associations did not pay royalties, and instead paid the low non-oil income tax, a serious matter from the conceptual, economic and anti-national points of view.

and Production divisions can take direct charge of the operating agreements of those companies that do not agree to convert to the mixed company framework, as set out by the law. Of the 32 existing agreements, 22 have already been signed, and we lack ten, and are prepared to take control of these fields because they are now absolutely outside the law. At this point we can close the matter of privatization and will now touch on one of the fundamental elements of the oil opening policy: internationalization.

The internationalization of the oil industry was a strategy deployed in the '80's to extract control of the oil industry from the Venezuelan State, including the administration of important resources, the management of assets and the handling of the dollar income. Then, since 1986, with the excuse that a strategy had to be developed to place our crudes, which certainly have very special marketing characteristics, because they are heavy, extra heavy and sour, a constant and massive acquisition of a number of assets began to take place. We have estimated that this required investments in acquisitions abroad in the order of \$14.7 billion. It should be recalled that this massive investment transfer took place at one of the worst moments, when our economy was crumbling and continued to do so throughout the eighties, and then was followed by the terrible events which are well known by all,

and are the reason why all Venezuelans are poorer today than we were at the beginning of the '80's.

The internationalization scheme laid bare another aspect well worth examining: there was no oil planning sovereignty. For over 100 years, our energy planning centered solely on providing oil and products to the North American economy. This was the role we had been assigned. We are now revising our international policy. I have read some newspaper headlines where we are accused of using oil as a geopolitical factor but, why should we not do so? It is one of the stronger elements in establishing a policy, Venezuela's own geopolitical policy; it is not a case of developing a geopolitical policy in the interests of the planet's most powerful economy. It is a case of a policy suited to our own interests and which enhances our presence in the Caribbean, South America, Europe, Africa and, of course, the United States. It is a case of redesigning PDVSA's international policy, because this is linked to the country's new geopolitical orientation, our new international policy, as I said at the beginning, fulfills the concept of multipolarity and we are committed to that philosophy.

The internationalization policy developed through the oil opening turned us into owners of more than 9 refineries in the U.S., hundreds of terminals, pipelines, storage facilities, 14,000 gas stations and refining systems and petrochemical plants in Germany, shares in Swedish companies, among others, within a strategy that was designed to evade the control of the Venezuelan state. No one had any knowledge of what was being



invested in these PDVSA companies abroad, and what their results, benefits and costs to the Venezuelan state were.

Now that we have control over the oil industry, we have found various further hidden aspects. We have incontrovertible proof that discounts were being given on shipments of crude and products to the United States. What an absurd situation! Venezuela, an oil producing country with poverty and underdevelopment problems was giving away discounts of between \$ 2 and \$ 4 per barrel to the planet's most powerful economy. This makes no sense. Furthermore, the royalty was paid based on the discounted price, besides the fact that, when granting a discount on the price per barrel, a fictitious profit, liable to taxation in the United States and not in Venezuela was generated. Old PDVSA's financial engineering geniuses preferred to pay taxes in the United States, where the oil rate

was 30%, rather than in Venezuela, where the same rate was 67%. Such an attitude would be understandable in companies such as General Motors or Ford, but made no sense in a State-owned company, unless the managing elite had become imbued with transnational strategy doctrine. We have been uncovering other facets of this internationalization policy.

We discovered, for example, that the country never received any dividends from its ventures abroad. It is not that they were never generated, because indeed they were. It is just that they never entered the country, since those same geniuses decided where they would be reinvested, so PDVSA subsidiaries PDV Finance and PDV Holdings took the pertinent decisions and bought another refinery, and so on, one after the other. In January 2005, for the first time in the history of PDVSA's internationalization policy, and after taking a number of measures

The oil rent is for the people of Venezuela; we are not interested that it remain in the hands of the oligarchy which has been handling and enjoying the fruits of the oil surpluses.

with instructions to the managers modifying policies, we obtained \$422 million in dividends which were handed over to President Chavez for the undertaking of the Misión Mercal, because the population had high investment needs. This is the reason why we refer to it as the capture of the oil rent. We have, however, discovered and established other aspects of the internationalization policy. The closing of financial 2003 established that we spent more than \$30 billion on the purchase of crude and products to supply almost half of these refineries that PDVSA owns abroad, and nearly all of the service stations. It is valid here to ask ourselves a strategic question. Is it our business to be oil and fuel traders, or to use all of our resources to explore and produce oil and gas? The resulting vision must focus on the interests of the country.

It is important to keep in mind that some of these businesses, at the moment, are yielding profits because of market price circumstances, and we are going to avail ourselves of all of these profits to try and replace the \$14.7 billion invested in these ventures, obtained from the Venezuelan state. Every investment must show a profit. It is absurd to buy refineries abroad and not obtain any type of return. We are slowly reversing this policy so that, once we estimate that this temporary market situation is changing, we will decide which business ventures we will keep in the US, given that we will always maintain a presence in that country,

our principal market, but we have **to diversify our international energy presence.**

A New Vision of Internationalization

We are supporting the initiatives launched by the Bolivarian government headed by President Chavez in PetroCaribe, PetroSur, Europe, China and India, among others. We recently opened offices in China where we are going to sell 300,000 b/d of crude. All the producing countries are doing this, and we have the right to position ourselves too. Canada is going ahead in this same direction. The world is positioning itself in a new geopolitical scenario, and Venezuela is going to be present there. Similarly, we signed the latest technical agreements for the supply of fuels and crude, as well as infrastructure, under the PetroCaribe agreements. Concerns have arisen among some international interests, but we will continue with this policy. This is the third facet of the Oil Opening to be dismantled, and we are setting a new course to the benefit of our own internationalization geopolitics.

The other fundamental aspect is related to the association agreements in the Orinoco Oil Belt. Use was made of the already mentioned Article 5 of the Nationalization Law, in force at the time, for the establishment of the association agreements, which hindered Venezuela's control over its resources. The lawyers of the transnational companies did active lobby work in the National Congress and obtained various modifications, which were backed by the former Supreme Court of Justice, with such honorable exceptions as the abstention of Dr. Hildegard Rondón de Sansó. One of the decisions taken

was that it was not necessary for the State to have a majority in order to exercise control, since this could be attained through the Golden Share. The Golden Share was useless. To achieve control you need a clear majority for decision making. What are the real facts behind the agreements and associations? The transnational companies have a number of employees who are the ones handling and managing these businesses, and they have done their job against the interests of the Nation.

The previous Congress approved the provision prohibiting the State from holding a majority interest, which is absurd. How far did the PDVSA people go in their ideological identification with this conception of privatizing the country's prime enterprise, despising the role of the State. Making use of Article 41 of the Hydrocarbons Law then in force, it was decided to provide an additional incentive to the companies by lowering the 16 2/3% royalty to 1%. This provision went against the interests of the country because a royalty is the confirmation that the State is the owner of the oil. The royalty is not only related to Venezuela's reality, it is a legal manifestation which has existed in the economy for a long time, through which the owner of the land and the resource within it receives something so that another can exploit these resources which continue to belong to the owner. The royalty is the only element that identifies the Venezuelan state as the owner of the resource being exploited. Taking it to zero or accepting it at 1% was to imply that we are not owners of this resource, because the resource could be freely taken away by the international companies. That is why I spoke at the beginning about our oil policy being a national oil policy.

We have reestablished the principle using the same article employed by the companies, using



the same law. The article in question has two paragraphs, the second part of which was as if it had been erased, because it stated that once economic and technical conditions had been restored, which is to say, that this incentive was no longer needed, the Government, through the Ministry of Energy and Mines, (currently Ministry of Energy and Petroleum), had the right to adjust the rate, and that is what we did on October 10, 2004, when we adjusted the royalty from 1% to 16 2/3%. There is an debate over whether we should raise the rate to 30% or not. This decision is the purview of the National Assembly because it was the former Congress which authorized that set of regulations; which is to say, the Ministry, the Executive, was deprived of its right to set the fiscal and production conditions applicable to these projects in the Orinoco Oil Belt, a responsibility which was transferred to Congress (the current National Assembly). We are awaiting a report from the Special Commission which is investigating these charges in the National Assembly, regarding the treatment

It is important that the Foreign Service staff supports us by disseminating the Bolivarian government's oil policy around the world.

to be given to the Oil Belt's association agreements as well as the operating agreements on the subject of the royalty to be charged. It is important to point out that the exploitation of the Orinoco Belt barrels by the strategic associations paid 26 cents of a dollar for each barrel, much less than at the time of ex President General Juan Vicente Gomez, at the beginning of the 20th century. We were being stripped of our assets.

When we discussed the nation's various budget scenarios, the figures supplied by the companies were minimal, 600,000 b/d of crude in contrast with the yield of PDVSA's production. In economic terms, an expropriation of our main resource was taking place through the association agreements established for the Orinoco Oil Belt. But that is not all. The old PDVSA managed to have inserted in Article 53 of the current income tax law a special provision which established that the association agreements of the Belt would pay a non-oil income tax, which is to say 34%, as if these companies were drug stores, groceries or any other commercial business. It makes no sense that what is a clearly oil activity does not pay oil rent, being accorded the same treatment as a plumber or an electrician providing a service. We have also determined that the Belt's operating agreements and associations did not pay the tax because they disguised their disbursements as a debt incurred with their

parent companies located abroad. This is why each dividend and profit was not declared as such, but rather as a payment of a debt to the parent companies. This was an artful financial engineering maneuver especially designed for the expropriation of all income due to Venezuelans, not only in terms of royalty, but also of income tax.

The income tax on the oil rent is now being collected because we work in coordination with all the pertinent entities of the Venezuelan State, the Ministry of Energy and Petroleum, PDVSA, and the National Integrated Service of Customs and Taxes Administration (SENIAT, for its initials in Spanish). We are working to recover the unpaid income tax due to us from all the companies, including PDVSA, for each barrel produced and profit generated. We are even thinking of reforming the Income Tax Law because up until the 70's, this had a chapter for the oil rent, because this was a country whose principal economic activity was oil but this chapter was spirited away and oil matters were treated as if they were in the nature of a neighborhood association or a condominium. The chapter on oil will be reestablished in order that we can collect what is due to us.

It is also important here to comment on the matter of the recovery factor⁶. President Chávez has provided an excellent explanation on how foreign companies have been exploiting our resource with a recovery factor of barely 6%, abetted by old PDVSA and the former Ministry of Energy and Mines. When you produce oil, for technical and economic reasons, you cannot extract 100% of the volume in place. There must be a rationale between production volume and economics;



“The new PDVSA is distinguished by having managers committed to social development”, Minister and PDVSA president Rafael Ramírez stated.

which is to say, you may lift 30%, but 70% remains in the ground. Using enhanced recovery and special technologies, recovery can be increased, but at a cost. In other areas, such as the North Sea and parts of Canada, the oil recovered is 50 or 60% of the original volume in place. Well, in order to keep down investment in Venezuela, these companies were recovering only 6% of the crude, which means that of each 100 barrels in place, 94 barrels remained in the subsoil forever. Our oil resources were being skimmed, exactly as the transnationals did in our country in the past. An example of this predatory policy can be found in Lake Maracaibo, in the State of Zulia. These companies have a very high degree of technological capability and in other parts of the world produce using a much higher recovery factor, while in Venezuela they only managed to achieve 6 or 8%.

We have been going over all of these aspects. We had to put pressure on the companies to bring back the signed contracts from their home offices, because there were no copies in the Congressional archives. The former Congress apparently never kept copies, and neither were they filed in the Ministry of Energy and Petroleum nor in PDVSA. We think that these documents may have been removed at the time of the 2002 sabotage. Many incriminating documents and contracts had to be sought in Europe, and we brought them back to Venezuela. What did we find? The former Venezuelan Congress approved a number of conditions that were thereafter violated by the companies; for example, some of these companies were authorized to produce 114,000 b/d and were producing 200,000 b/d. Those contracts stipulated that secondary recovery should be undertaken, and this was not done. The original assigned area of 250 square kilometers was

At the new PDVSA we want to contribute not only what is due to the people through the royalty, but also to place our talent and financial capability at the service of the Venezuelan people.

expanded in some cases to 500,000 sq. kms. This cannot be allowed to go on.

We must reestablish our sovereignty. The waves of opinion campaigns launched against PDVSA during the first half of 2005 sought to undermine its prestige. Why? Because we were attacking powerful interests in charging a 30% royalty to the companies for the surplus not covered by the authorization of the old Congress. That is almost 100,000 barrels per day and we are charging the 30% they owe us in arrears, starting from the enactment date of the Organic Law on Hydrocarbons. We are increasing taxes and demanding an increase in the recovery factor. Look at all the work we had to do to establish sovereignty over such important areas. There will be no new Orinoco Oil Belt projects with these companies until they bring their affairs within the law.

Another subject I would like to examine in depth is the anti-OPEC strategy deployed on the Orinoco Oil Belt, classifying it as a Bitumen Belt. You may recall this, because there was a heavy communicational campaign on the subject. Venezuela has no bitumen; it only exists on this continent in some areas of the US and Canada, and it requires a mining operation for its extraction. They dig it out of the ground with shovels, dump it on a truck and take it to the processing plant, where it is melted, its fractions being separated to extract the oil. This is not what we have in

Venezuela. Why the interest in calling it as a Bitumen Belt? Because an anti-OPEC policy; it was a policy maintaining that bitumens, which included Orimulsion, could not be classified as a conventional crude. Even today, the Belt production is classified as synthetic crude, so that it does not fall within the conventional category, and thus can be kept out of the OPEC quota. The barrels extracted from the Belt in the form of Orimulsion and the crude produced by the Belt associations were excluded from the quota, thereby turning Venezuela into one of the greatest violators of the OPEC quota; in other words, a cheater country. Did OPEC know this? Of course it did. When we talk about these matters within the Organization, the present ministers state very clearly that the policy was liquidating OPEC, pointing the crude price direction to \$9 per barrel, or the \$7 it was when President Chavez took power. We believe that we need to cut back production; it becomes necessary to absorb this loss in order to increase and maintain a fair price for our oil. The world's reserves continue being depleted, and when we run out, we are going to have a serious problem if we do not previously take the necessary steps to convert to a new economic scheme. The country and the world were being lied to with the Bitumen Belt denomination since, purportedly, it was very difficult to produce. It was argued that we had to lower the royalty to 1% because how else was anyone going to come here to produce! We had to be grateful to the people that came and extracted this crude, that today is converted into a sweet 32nd API synthetic that sells for \$60 per barrel. But with the bitumen label on Orimulsion, the World Trade Organization classified it as such, and its reference price was set at that of coal. All the



Orimulsion contracts were signed at coal prices, and still today we have a few contracts despite the fact that we have cancelled many of them because we are opposed to this subterfuge. Even today, we are selling barrels of crude at \$9 equivalent, while this same barrel if blended we can sell at \$32 or \$44. They tried to associate Orimulsion with the technological breakthrough achieved by Intevep, PDVSA's research and development subsidiary, we are all proud of. They wanted to convert the Oil Belt into a coal Belt because of a volumetric anti-OPEC policy in detriment to the interests of the nation.

Now, the most important issue is the distribution of the oil rent. The defeat of the December 2002 and beginning of 2003 sabotage was a tremendous disclosure leap in the conscience of our country. This was when "meritocracy" collapsed and the people could see the oil industry close up and from the inside. We showed that we could operate it, and the players changed, the orientations changed, and our whole oil industry changed. This

marked the beginning of a debate on how the oil rent was to be divided and we have said in the new PDVSA that we now want to contribute not only what is expected of us through royalty income, which is normal, but we want to contribute even more. I would like to remind you that when the Organic Hydrocarbons Law was being discussed in the Presidential Commission of the National Assembly, PDVSA's then President, General Guacaipuro Lameda, was opposed to the royalty. In his viewpoint it was too high, and could bankrupt PDVSA. What was bankrupting PDVSA were the operating agreements and the Belt associations, not the royalty.

We are now paying royalty at 30% and we are paying income tax. We have paid this year \$8.7 billion in income tax and close to \$20 billion in royalty. We are very pleased to be able to make this contribution to the State, so that it rapidly becomes a lever for national development. We have estimated that at the end of 2005 we will have distributed \$4.4



billion in the social area through the Ribas, Barrio Adentro and Mercal missions, as well as the Zamora Development Fund for Agriculture and the Infrastructure Development Fund, among others. In the Special Development Fund (FONDESPA) we have \$2 billion which are being managed by a trust fund with the Venezuelan Economic and Social Development Bank (BANDES) to undertake construction work in roads, electricity, trains, mass transport and investment in systems that are going to provide our economy with the capacity to undertake a forward leap. We are already contributing \$4.4 billion assigned to us as a responsibility derived from Article 5 of the new Organic Hydrocarbons Law, which establishes that the income from oil must be assigned to the development of the Nation.

Many people have suggested that it might be better if we wrote out a check and washed our hands of the social area. The new PDVSA is distinguished by having managers committed to social development, they are patriotic and are coordinators of the Misión Ribas and coordinators of the plans for Misión Barrio Adentro. It takes a lot of hard work to change the values passed on by the transnationals to the old PDVSA with regard to the Corporation's relationship with the people. The important thing is the contact PDVSA managers have with the people, popular participation in all of PDVSA's affairs, tearing down the fences of those old oil camps: fences that were not only physical but also mental and were in people's consciousness. The new PDVSA has no room for managers who underestimate the social aspect, turn up the air conditioning and close

the blinds. The new PDVSA is distinguished by having managers involved with their people, that contribute their knowledge, their social awareness and their capacity to the Endogenous Development Nucleuses of the Misión Barrio Adentro. I would like to share with you the fact that, when we recently went to inaugurate the Ministry of Energy and Petroleum's headquarters in the State of Zulia, it was most gratifying to find that the ground floor of the building also held the offices of the Ribas and Barrio Adentro missions.

Our country is involved in a heightening of social awareness. This is why the initiatives such as PetroCaribe are criticized. They question it as a business proposition and they do not realize that we are linked to our Caribbean brothers by values such as solidarity which for us are fundamental. We are a giant in the Caribbean and we have the moral and ethical obligation to lend a hand to the smaller and poorer economies, as we do here in our own country. These are character forming activities. We are in the presence of a new kind of oilman in our industry. A new ethical relationship has sprung up between the oil industry and our society and we still have many debts to pay.

The distribution of the oil rent is fundamental to our oil policy and President Chavez has said so publicly. We are going to look for all the mechanisms that will guarantee that this oil rent surplus is first placed in the hands of the people and secondly to carry out the necessary investments which will enable us to reverse that terrible economic scheme that exists now, with all of its asymmetries. There is still a lot to be done. The Ministry of Energy

and Petroleum oversees the electrical, oil and gas sectors. We handle the Misión Barrio Adentro and the Misión Ribas, looking after everything that needs attention because the Venezuelan state should be deployed in this battle we are fighting against inequality and social injustice.

There is still much to be done. You who are in Foreign Affairs and are taking active part in the process should be aware of these key elements of our oil policy. Help us to disseminate what is happening here in each of the countries where you serve, because we are sure that they are going to change our destiny forever. We are fighting very powerful interests; we have done no less than to have wrenched the largest reserves of the continent from the hands of North American imperialism, and we are going to make sovereign use of them. We are going to continue supplying our traditional markets, but we are also going to establish our own geopolitical strategy for the first time, using the oil in the service of new sovereign policies that strengthen our international position and allow us to continue going forward in this extraordinary construction of a better world.

Thank you very much.

Notes

1. Juan Pablo Pérez Alfonso

Venezuelan lawyer, promoter of the policy known as “no more oil concessions”. He was the main author of the legal reform adopted in 1948, which established the formula known worldwide as “fifty/fifty” for sharing the surplus oil income between the National Treasury and the foreign concessionaires. He headed the Venezuelan delegation to the First Arab Petroleum Congress, held in Cairo, Egypt, in 1959, where the first steps were taken towards the foundation of the Organization of Petroleum Countries (OPEC). He considered the regulation of oil production to be the best way to maintain control over prices. In this direction, he suggested in Cairo the creation of a consulting body of the oil exporting countries, the Coordinating Commission for the Conservation and Commerce of Hydrocarbons, OPEC’s immediate predecessor, an initiative which was supported by Sheik Abdullah Al Tariki, then Saudi Arabia’s oil minister. Together with Al Tariki, Pérez, Alfonso structured the basis of what would later become OPEC, established that same year in Baghdad with five founding members: Saudi Arabia, Iran, Iraq, Kuwait and Venezuela, the countries responsible for 88% of oil exports in that year. This is why he is considered to have been the “father” of OPEC.

2. Salvador de la Plaza Venezuelan lawyer, expert in oil economics and a prominent Marxist personality since his exile during the Gómez dictatorship. He graduated from La Sorbonne, France, in 1924. In Cuba he was very active in political publications. In México, together with the Machado brothers (Gustavo and Eduardo) he founded the Venezuelan Revolutionary Party, an offshoot of the Venezuelan Communist party and its newspaper, *Libertad*.

3. Carlos Mendoza Potellá

Venezuelan economist, co-founder of the Hydrocarbons, Economics and Administration post graduate course at the Central University of Venezuela (UCV). He was a member of the PDVSA Board of Directors from February to April 2002. He also served as Venezuelan Ambassador to Norway, Russia and Saudi Arabia.

4. Gastón Parra Luzardo Venezuelan economist, member of the National Constituent Assembly (1999), and co-author of the polemic Hydrocarbons Law. Together with Carlos Mendoza Potellá, he opposed the Oil Opening. He was appointed President of the Central Bank of Venezuela in January 2005. He was President of PDVSA from February to April 2002 and was Dean of the University of Zulia for more than 30 years.

5. Intensa (Informatics, Business & Technology, S.A.) is the company which resulted from an association agreement entered into in 1996 by PDV and IFT, S.A., with a 40% ownership share, and the U.S. company SAIC (Science Application International Corporation), and its subsidiary SAIC Bermuda Ltd, with a 60% ownership share. The object of this partnership was to provide computing services to PDVSA for an initial five-year period (1997 – 2001). The dispute between SAIC and PDVSA arose because of the latter’s decision not to renew the services contract and to negotiate its dissolution, since INTESA and SAIC abandoned their core obligation of providing computing services to PDVSA during the December 2002 sabotage.

6. Recovery Factor It is the relation, expressed in terms of a percentage, according to oil industry accepted methods, between the hydrocarbon that can be recovered from a reservoir and the hydrocarbon originally in place in the same reservoir.



SPEECHES
SERIE

Full Oil Sovereignty:

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A popular, national
and revolutionary policy

A speech by the People's Minister of Energy and Petroleum and President of PDVSA, Rafael Ramírez Carreño, on occasion of the "Venezuela, Policy and Petroleum" cycle of conferences presented within the framework of the Organization of Oil Exporting Countries (OPEC), organized by the Casa Amarilla Civil Association and the Pedro Gual Institute for Advanced Studies in Diplomacy of the People's Ministry for Foreign Affairs of the Bolivarian Republic of Venezuela.



Bolivarian Government
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People's Ministry
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