

VENEZUELAN PETROLEUM INDUSTRY UPDATE
JANUARY 1994

In June 1993, the Commercial section of the Canadian Embassy in Caracas produced a detailed report entitled **Survey of the Petroleum Industry in Venezuela: Opportunities for Canadian Suppliers and Investors**. This paper is meant to provide an update of that survey outlining: in particular the impact of lower oil prices on the Venezuelan economy; recent changes in Petroleos de Venezuela's (PDVSA) long term plans; the impact of lower oil prices on the Venezuelan economy; PDVSA's procurement plans and major projects.

PETROLEUM INDUSTRY AND THE VENEZUELAN ECONOMY

Recent Government reports project that the Venezuelan petroleum industry will generate almost \$11 billion U.S. in revenues in 1994, of which \$10 billion will be in exports abroad. Almost 90% of Venezuela's export income is derived from petroleum sources. This income represents approximately 25% of the country's GDP and will account for 43% of Venezuela's national government budget expenditures (1994 national budget is based on average oil prices of U.S. \$13.50 per barrel). As impressive as these figures are they actually show a declining importance of petroleum, whereby in 1993 petroleum revenue covered 50% of federal budget costs. This is part of a long term trend and stated another way, income from petroleum per capita has declined steadily from a high of over \$1500 per capita in 1973 to about \$200 per capita in 1993.

This drop in petroleum revenue is in large measure a result of a steady decline in oil prices which are now at their lowest level since 1988. The Brent Blend of crude oil is now trading at year end at about the \$13.20 per barrel level. The benchmark started the year at \$18.00 but declined steadily so that, allowing for inflation, the real value of the barrel is now about where it was 30 years ago-before the first oil shock caused by the Arab oil embargo. Venezuela's basket of crudes ended the year at an average \$11.75 per barrel, down significantly from 1992. Although there has been a slight seasonal upturn in prices during the last few weeks as a result of the extremely cold winter being experienced in North America, the general trend in prices will likely continue flat for the next few years.

All of this, of course has a major impact on the Venezuelan economy and the ability of PDVSA to invest. The Government has been struggling with declining oil prices for several years and only recently has been successful in replacing some lost petroleum income (PDVSA is taxed at 66%) with other sources (ie. principally a new business asset tax and a value added tax). The government also seems to be becoming increasingly frustrated with OPEC (Venezuela was a founding member) and for the first time recently admitted publicly that they are considering the possibility of withdrawing from the cartel.