

Reviving Venezuelaâ€™s Oil Sector: The Role of Western Oil Majors

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Washington, DC - After years of mismanagement and, more recently, crippling sanctions, Venezuela's central economic engine—the oil sector—is in collapse. It's increasingly clear that the disputed president, Nicolás Maduro, will not take the necessary steps to revive the sector and tackle Venezuela's economic crisis. Although the timing and nature of a political transition in Venezuela are uncertain, there is little doubt that the oil and gas industry will be the immediate linchpin of an economic recovery under a new government. With Venezuela's state oil company in disarray, international oil companies will be the key to tapping the country's oil resources. What would it take for these companies to ramp up Venezuelan oil production in today's global competitive landscape?

The Inter-American Dialogue interviewed eight large Western oil companies about the conditions that will determine how rapidly, and to what degree, they start or ramp up operations in Venezuela under a new government.

This [new report](#) by the Energy, Climate Change & Extractive Industries program, finds that the key conditions for most companies to boost investment are the lifting of US sanctions, a favorable regulatory and fiscal framework, a sense of political stability, and solutions to address infrastructure bottlenecks, lack of human capital, security concerns, and safety and environmental hazards and liabilities. Conditions outside of Venezuela, including a highly competitive global supply outlook, concerns about carbon-intensive oil, and a re-balancing of oil markets since US sanctions were imposed, will also affect investment decisions. In addition, nearly all of the companies surveyed agreed that there would be a higher bar to invest in Venezuela as a new country entry than to increase investment if they are already operating in the country.

The authors conclude that the fiscal regime designed by a new government will have to be more flexible and reduce the breakeven price of extracting oil in the country in order to compensate for a number of costs and risks not present in other producing regions. In addition, a new government will have to send a signal that there will be political stability and long-term regulatory certainty. The authors also find that there are numerous challenges to recovering Venezuela's oil sector, and it will take months or even years for substantial amounts of investment to flow in, so managing the population's expectations and finding alternative revenue sources will be key.

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