



MYTH & REALITY: VENEZUELA'S OIL

Venezuela remains a strong oil producer and important provider of energy.

MYTH: Venezuela's crude oil production has decreased in the recent years.

REALITY: Venezuela's 2007 average crude oil production has stayed steady at 3.2 million barrels a day, as was stated in PDVSA's 2007 financial and operational report, which was audited by an affiliate of the internationally recognized auditing company KPMG. Additionally, this can be easily verified by dividing the total national income derived from oil sales by the average price for the Venezuelan oil basket (\$64.74 per barrel) and then adding the average domestic consumption.

According to the Energy Information Agency (EIA) Venezuela was the fifth largest exporter of oil to the United States during the year 2007, at approximately 1.4 million barrels of oil a day. Even though the U.S. Department of Energy claims that Venezuela's oil production has decreased, their own data contradicts these statements by showing that Venezuela's export level has been steady.

MYTH: PDVSA does not have enough investment capacity to increase its production.

REALITY: During 2007, PDVSA invested nearly \$11 billion in the oil industry, as stated in its audited financial reports. The company's positive financial situation has been demonstrated by its very high credit ranking. Furthermore, PDVSA's is one of the integrated oil companies with the lowest debt-to-equity ratios.

In addition, Venezuela is one of the few oil exporting countries that welcomes foreign investment in its oil industry. BP, Total, Statoil and Chevron are some of the many international oil companies attracted to invest in developing Venezuela's oil resources by becoming PDVSA's partners.

MYTH: PDVSA is not investing in exploration.

REALITY: After finishing the certification process of the Orinoco Oil Belt, Venezuela will end up with the largest proven reserves in the world – approximately 315 billion barrels. With almost no exploration risk and very low extraction and upgrading costs, it is also one of the most profitable oil reserves in the world.

According to the EIA, the average cost per barrel of 25 API degree oil in the Gulf of Mexico is \$68, including an approximate finding cost of \$60 per barrel. Since the Venezuelan Orinoco Belt does not require any spending in exploration and with a producing cost of around \$1 per barrel, the total average cost of a barrel in this region is \$7, including the upgrading costs to get low-sulfur, low-metal high quality crude oil.

MYTH: PDVSA has not been able to maintain the production levels of the Orinoco Oil Belt projects after the migration of international contracts.

REALITY: All Orinoco Oil Belt projects have maintained their production levels after PDVSA became the majority shareholder, with a total of approximately 500,000 barrels a day. Their production has only fluctuated when OPEC has established production cuts, which are always fully respected and followed by Venezuela.

Nearly all operating companies have negotiated favorable compensation terms and continue their operations under the new structure. Only ConocoPhillips and ExxonMobil have opted to leave, the production levels of their former fields has however been kept steady by PDVSA.

Furthermore, many new oil companies are now participating in the certification process of the huge reserves of the Orinoco Oil Belt. This process will conclude at the end of 2009, when Venezuela will become the largest reserves holder in the world with a total of 315 billion barrels. In coming months, Venezuela will start holding an international bidding process for some already certified blocks in the Orinoco Oil Belt. In cooperation with these companies, PDVSA will achieve its goal to double the production of this region in the medium term.

MYTH: Venezuela has not respected its contract with ExxonMobil.

REALITY: On March 17, 2008 a London Court dismissed ExxonMobil's attempts to freeze part of PDVSA's global assets and undermine an ongoing arbitration case. This ruling proved that PDVSA and Venezuela have respected international law and have



followed all steps to arrive at an amicable solution with its dispute with ExxonMobil.

Chevron, BP, Statoil, CNPC, Compañía General de Combustibles, Harvest-Vinccler, Repsol-YPF, Shell, Teikoku, Petrochina, Hocol, Inemaka, Petrobras, Perenco, Petrolera Mata, Suelopetrol and Tecpetrol among others have negotiated terms to continue operating in Venezuela, while Total and ENI opted to sell their assets to PDVSA and negotiated positive settlements. Even as ConocoPhillips filed an arbitration process, the company has maintained a parallel negotiation process with Venezuela and PDVSA. By introducing this coercive action against PDVSA, ExxonMobil became the only international oil company unwilling to negotiate and thus isolated itself.

MYTH: PDVSA's workforce is not qualified enough.

REALITY: It is PDVSA's workforce that managed to recover the lost production during the oil sabotage of 2002 in unprecedented record time. Furthermore, PDVSA continues to be one of the top five oil companies in the world, something that can only be achieved through a competent and efficient workforce.

Like all companies in the oil industry, however, PDVSA has been concerned by the global lack of experienced technical personnel. The company therefore implemented a very aggressive training program, aimed at achieving its medium term recruitment goals. Through different association deals with the most prestigious education institutions in the world, and after carefully analyzing the needs of the company, PDVSA will send over 1,000 students to institutions in Venezuela, USA, UK, Spain, France and Trinidad and Tobago in the coming year.

MYTH: PDVSA does not have enough rigs to keep up with production.

REALITY: There are currently 156 active rigs and other maintenance units in Venezuela, producing 3.2 million barrels a day. The current global scarcity of oil rigs has made it very difficult for PDVSA to acquire the additional rigs necessary for its production increase plans. In order to solve this problem, PDVSA entered into an energy agreement plan worth \$180 million with China that will provide 29 new rigs by 2010.

Through this plan, PDVSA will not only get the needed rigs, but also the know-how of their construction, since 16 of them will be constructed and assembled in Venezuela, with Venezuelan laborers.

MYTH: PDVSA's social investment has affected its financial health.

REALITY: As a state-owned oil company, PDVSA is accountable to the people of Venezuela, which are its only shareholders. Due to the company's commitment to poverty reduction and to social development, PDVSA distributed its 2007 operational profits of \$25.3 billion as evenly as possible. It returned \$14.1 billion in the form of social value directly to its shareholders and \$2.5 billion through dividends to the state and other minority shareholders. This also reflects the company's alignment with the national development plan with the clear objective of achieving economic and social development of the nation.

Furthermore, the distribution of its profits did not affect in any way the financial health of the company, allowing it to make the necessary investments contemplated in its strategic investment plans.

MYTH: Hemispheric energy security can be achieved without Venezuela.

REALITY: At the current rate of production, the reserves of the United States will be depleted by 2018, Mexico's by 2016 and the rest of the hemisphere excluding Venezuela and Canada by 2023.¹ Therefore only Venezuela and Canada can guarantee further oil production in the medium and long term.

Furthermore, even the most ambitious bio-fuels promoters do not see these fuels replacing more than 10 percent of the total energy matrix in the long term, marking the continuing reliance on oil for the coming years. Last but not least its effects on the environment, the human food value chain and therefore its impact in the cost of living are a danger to the world sustainability.

Venezuela will therefore continue to be an increasingly important player for energy security in the hemisphere in the future.

¹ Source of data: BP Annual Statistical Review of World Energy 2007