Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

By: TA | AP Insight

Venezuela allowed privatization of the oil sector to attract investors

Venezuela's acting President Delcy Rodríguez on Thursday signed a law that opens the nation's oil sector to privatization, reversing a tenet of the self-proclaimed socialist movement that has ruled the country for more than two decades.

The reform will undoubtedly be her government's signature policy as it positions the oil sector – Venezuela's engine – to lure the foreign investment needed to revamp a long-crippled industry.

Rodríguez enacted the measure less than a month after the brazen seizure of then-President Nicolás Maduro in a U.S. military attack in Venezuela's capital, Caracas.

Rodríguez, facing oil workers and ruling-party supporters, signed the bill less than two hours after the National Assembly approved it.

At the same time, the U.S. Department of Treasury officially began to ease punishing economic sanctions on Venezuelan oil, which were imposed by the first Trump administration, and expanded the ability of U.S. energy companies to operate in the South American nation.

Rodríguez on Thursday also spoke with U.S. President Donald Trump and Secretary of State Marco Rubio, who a day earlier explained to U.S. senators in a hearing how the administration is planning to handle the sale of tens of millions of barrels of oil from Venezuela and oversee where the money flows.

Venezuela has the largest proven reserves of crude in the world.

The moves by both governments are paving the way for yet another radical geopolitical and economic shift in Venezuela.

"We're talking about the future. We are talking about the country that we are going to give to our children," Rodríguez said of the reform.

Rodríguez proposed the changes earlier this month, after Trump said his administration would take control of Venezuela's oil exports and revitalize the ailing industry by luring foreign investment.

Private companies to control oil production

The legislation promises to give private companies control over the production and sale of oil, ending the state-owned Petróleos de Venezuela SA's monopoly over those activities as well as pricing.

A private company "will assume full management of the activities at its own expense, account, and risk, after demonstrating its financial and technical capacity through a business plan approved by" the nation's Oil Ministry, according to the law.

The legislation provides that ownership of the hydrocarbon reservoirs on which a company will carry out activities remains vested in the state.

> Rodríguez's government expects the changes to serve as assurances for major U.S. oil companies

The new law also allows for independent arbitration of disputes, removing a mandate for disagreements to be settled only in Venezuelan courts, which are controlled by the ruling party.

Foreign investors view the involvement of independent arbitrators as crucial to guard against future expropriation.

Rodríguez's government expects the changes to serve as assurances for major U.S. oil companies that have so far hesitated about returning to the volatile country. Some of those companies lost investments when the ruling party enacted the existing law two decades ago to favor Venezuela's state-run oil company, PDVSA.

Additionally, the revised law modifies extraction taxes, setting a royalty cap rate of 30% and allowing the executive branch to set percentages for every project based on capital investment needs, competitiveness and other factors.

Potential economic improvements

Ruling-party lawmaker Orlando Camacho, head of the assembly's oil committee, said the reform "will change the country's economy."

Meanwhile, opposition lawmaker Antonio Ecarri urged the assembly to add transparency and accountability provisions to the law, including the creation of a website to make funding and other information public.

He noted that the current lack of oversight has led to systemic corruption and argued that these provisions can also be considered judicial guarantees.

> Oil workers dressed in red jumpsuits and hard hats celebrated the bill's approval

Those guarantees are among the key changes foreign investors are looking for as they weigh entering the Venezuelan market.

"Let the light shine on in the oil industry," Ecarri said.

Oil workers dressed in red jumpsuits and hard hats celebrated the bill's approval, waving a Venezuelan flag inside the legislative palace and then joining lawmakers in a demonstration with ruling-party supporters.

A reversal of policies

The law was last altered two decades ago as Maduro's mentor and predecessor, the late Hugo Chávez, made heavy state control over the oil industry a pillar of his socialist-inspired revolution.

Chávez, elected in 1998, expanded social services, including housing and education, thanks to the country's oil bonanza which generated revenues estimated at some $981 billion between 1999 and 2011 as crude prices soared.

Hugo Chávez nationalized huge assets belonging to American and other Western firms

His 2006 changes to the oil industry law required PDVSA to be the principal stakeholder in all major oil projects.

In tearing up the contracts that foreign companies signed in the 1990s, Chávez nationalized huge assets belonging to American and other Western firms that refused to comply, including ExxonMobil and ConocoPhillips.

They are still waiting to receive billions of dollars in arbitration awards.

From those heady days of lavish state spending, PDVSA's fortunes turned — along with the country's — as a drop in oil prices, corruption and mismanagement eroded profits and hurt production, first under Chávez, then Maduro.

By 2013, the fell into the dire economic crisis that has driven more than 7.7 million Venezuelans to migrate.

Sanctions imposed by successive U.S. administrations further crippled the oil industry.