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Venezuela's oil industry

Skint

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Expropriating accounts payable

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UNTIL a few weeks ago, the Venezuelan government was encouraging private investment in oil services. But in a sudden about-turn, President Hugo Chávez changed the law to make the whole industry a preserve of the state. On May 8th the National Guard began to occupy dozens of drilling rigs, docks and boats operated by private contractors, both local and foreign, hired by PDVSA, the state oil company.

The gas-injection will come from Hugo

Mr Chávez invoked national security. PDVSA complains that the oil-services firms did not cut their prices when the oil price plummeted last year. But the real reason seems to be that PDVSA has run out of cash. At the end of last year it owed contractors $14 billion, according to a report to the National Assembly.

Mr Chávez says that PDVSA will save $700m a year by ending the outsourcing of activities ranging from docks to maintenance and to the pressurised gas and water injection that many Venezuelan oil wells require. But there will be a cost, and not just in lost technology.

The constitution sets prior judicial review and “fair compensation” as conditions for expropriation. But the oil-service firms will get only the book value of their assets, paid in government bonds and with deductions for any labour or environmental liabilities the government adduces. Many of the service contracts allow for international arbitration, so PDVSA is likely to face expensive lawsuits. And other service contractors not yet taken over may scale back their investment in Venezuela.

Despite years of record oil revenues, PDVSA accumulated liabilities of almost $70 billion by last September, up from less than $30 billion in 2006, according to the company's financial reports. The company is itself owed more than $24 billion, mostly by Cuba and other neighbours to whom Mr Chávez supplies oil on easy terms.

PDVSA's decline stems in part from the fact that Mr Chávez has turned what was an efficient oil company into an all-purpose vehicle for implementing "21st-century socialism". PDVSA, whose workforce has more than doubled since 2003, now builds houses, imports food, runs farms and pays for adult-education projects.

The government insists that Venezuela continues to produce over 3m barrels per day (b/d) of oil. Independent sources put the figure at around 2.2m b/d. The government's main hope of boosting output lies in the Orinoco heavy-oil belt. It has been seeking foreign partners for the big long-term investment required. Already the adjudication of seven new blocks has twice been postponed. "PDVSA is demanding bidders renounce arbitration rights," says Pedro Palma, an economist. "Given what has happened, that could be suicidal."

The cash crunch in the oil industry has a wider impact. "We don't supply PDVSA directly," says the owner of a small office-supplies company in the eastern city of Maturín. "But most of our clients do. We're owed 120,000 bolívares [about $56,000 at the official exchange rate] in overdue payments, and we're down to 12,000 bolívares in the bank." So goes Venezuela.