INTEROFFICE MEMORANDUM

to: Raymond Vernon and Dennis Encarnation

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subject: **Comparative/** *major paper* / *EXPANDED VERSION*

date: 21/03/12

A relevant change in Business & Government relations: Petroleum market openness in Venezuela

I.- Introduction:

In 1996, the government of Venezuela decided to open up the commercialization, exploration and exploitation processes of the country's oil, and to incorporate important inflows of private investments into the oil industry . That was the most relevant decision taken in years, regarding business and government relations. Indeed, the nationalization of the oil industry (1976) became the most important and noticeable achievement of the incipient democracy, and thus, in some way, one of its unavoidable symbols. However, internal and external circumstances imposed a new path to the political establishment. The extent to which the process of the openness itself is to be expanded and its implications is the topic of the paper.

A country with such a dependency on one commodity takes continuos risks . But at the same time, the commodity in question becomes a national symbol and an important identification item of the citizenship. Everything is related to petroleum. Everything is to be solved by petroleum revenues. We were rich because we have a lot of oil underground and maybe the most important reserves in the world. Therefore, petroleum became known as the *jewel of the crown* . A symbol as important as the national flag itself.

While this new ideology was in formation, the mineral kept going out from the wells . Suddenly we forgot that it could not last forever and that very characteristic explained the strategic management of its price. As a result of that, we forgot that our sudden richness o conceptualize our richness was temporary.

After the oil boom of the 70's , we ended up worse off. The terrible effects of the Dutch disease changed dramatically our production frontier and recession and inflation overwhelmed our country. Then, the debt repayment crisis appeared as a terrible sequence of the yet cruel story. The path to this terrible situation was clear enough: most oil-exporting countries, as Venezuela, used the revenues of the oil boom for inefficient subsidies, consumption, and weapons or to increase the level of the most inefficient government services. At the same time, little or literally none non-oil development was stimulated. So, when the boom was gone, we discovered the face of the disaster itself.

However, petroleum was still there, coming out from the wells, and perhaps waiting for better times. Then, we started thinking on its exhaustibility. However, as M.A Adelman said, world' oil shortage is a fiction but belief in this fiction is a fact. So, we found, after a little while that petroleum was more likely to disappear technically and economically before disappearing physically. We don't agree with this statement, however, the successive findings of more and more proved reserves and the location of probables is giving a sense of non-real scarcity threat which leaves the entire work to the market that has been increasingly changing.

II.- Approaching to real circumstances :

a)The Government as owner:

Since 1974, our state-owned oil holding, PDVSA (Petroleos de Venezuela) replaced the former multinationals and took good care of our industry. Before that, the reversion law (1971) represented a disincentive to the multinationals and they decided not to invest any more in Venezuela because of the imminent nationalization.[1]

The state became the owner of a huge fortune. Moreover, as owner of oil resources, it managed the industry in a very peculiar way :

The State as the owner	
Characteristics	***Implications***
• No profit maximizing orientation	• Many investments were imposed by other interests but business requirements
• No diversification of its exports-business	• It was considered useless because oil revenues covered almost all imports
• Short-time horizons became the key misleading factor	• More income, faster and processes with peaks and falls were openly promoted instead of gradual rises and long term vision. • The problem was to match requirements to cover the increasing level of consumption and the instrument was the excise tax. • Low savings and high spending • No lesson was captured from the previous episodes : constant oil prices are preferred to peaks and fluctuations • As a reserve owner, Venezuela was expected to assume the logical strategic action: getting more profit by promptly selling the petroleum. Unfortunately, since the initial oil boom Venezuela did exactly the opposite : retaining the production in order to set a fictitious scarcity and continuously try to rise the world price
• The ownership was a	• A constant tension between top managers of the state-owned oil

[1] The real origin of this disincentive comes from the 1960's, when Perez Alfonzo, the father of the OPEC informed the oil companies that no- more-concessions was the new policy of the government.

constant source of discomfort for the people of the industry	company, well known by their skills and training, and governments' procedures and plans. • The personnel of the oil industry, as a response, considered themselves non-public officials but representatives of the industry.
• Multinationals were stigmatized by Government itself	• They were identified as the enemy, as a peculiar way to stimulate the national industry. • This was a step to create a special climax of public opinion and the promotion of new political ideas, such the non-aligned organization membership
• Modernization of the industry was continually postponed	• It never was such a national priority • Because of the excessive excise tax, industry had to borrow money form foreign and domestic sources to achieve a minimal plan of renovation. • Since no appropriate investment was made to cover the required updating adjustment to keep our competitive cost , the cost of the oil increased. In fact, little proportion of the oil revenues were reinvested in the industry • Since the updating cost became higher and higher, it also became harder and harder for the government to implement cutbacks to redirect the investment.

b) The openness as a necessary step :

After the take over of the industry by national governments in the 1970's, many of the OPEC members started to invite the multinationals to join some of their projects , at the time they were noticing potential domestic economic problems. Libya was the first one.

In the case of Venezuela, the first steps were: a) the reactivation of old fields by using the figure of service contracts to avoid legal barriers; B) strategic associations for the potential exploitation of extra heavy crude oil in the Orinoco Belt.

But, Why we had to bring the 'bad guys' back into our industry?

Why we had to call them back	
Circumstances	**Final requirement**
• High capital requirements needed to increase the level and cost of the oil production • Petroleum exploration is such a risky business and we need to share that financial burden with someone able to do it • Multinationals were willing to return. In fact it was still very good business and reserves are required. So, they could accept even high fees and bear the high risk involved. They wanted to invest in the search for acceptable returns, in spite of the fact that they do not own the reserves since 1970, but the right to develop and the private equity participation in PDVSA them is highly profitable.	• The need to find strong partners
• The state owned company knew that competition was needed to improve the current standard and nobody can compete with the second most important state-owned company in better terms than multinationals • The openness was supposed to include the market of gas stations and that required some expertise and strong financial capabilities/	• The need to get strong competitors

c) Domestic Capital vs. Multinationals: an endless fight.

As it is known, petroleum is a natural monopoly and an increasing-cost industry that requires high, sometimes unimaginable, levels of investments. Oil multinationals are highly specialized companies with a precise Know -- how and profit maximizing spirit. The binding magnitudes to compete in this market are difficult to handle by the domestic capital but PDVSA . Therefore, as we are going to see it, the problem might come when openness becomes excessively crowded by multinationals and domestic capital participation is harder to get or uncertain (a sort of crowd out).

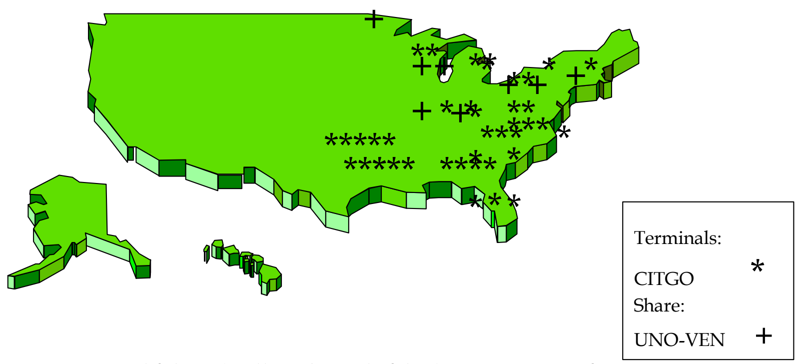
d) PDVSA's internationalization:

Following the path of the multinationals and since it was the only way to go global with no required further approvals from the political establishment, PDVSA decided to invest in foreign assets in the early 90's.

PDVSA's reasons to go global *PDVSA followed the path of the multinationals by going global.*	
• No legal impediment (in contrast with the many barriers that detained the openness)	• As there was not way to legally associate with foreign investors within our borders, the state Oil Company tried to compensate the loss of competitiveness by doing good business abroad
• Strategic action to secure rapid market access	• That was a way to ensure the allocation of the Venezuelan oil (to instantaneously place it in the market).

• Good opportunity and good business perspectives	• It was the correct time: some refining centers became not supplied with oil and their prices fell to incredible low level, ensuring short-term amazing rates of return.

PDVSA International Operations
USA-1995



Refining Capacity total/Pdvsa (million barrels/day) : 990/675
Terminals: 66
Gas Stations : 15,270

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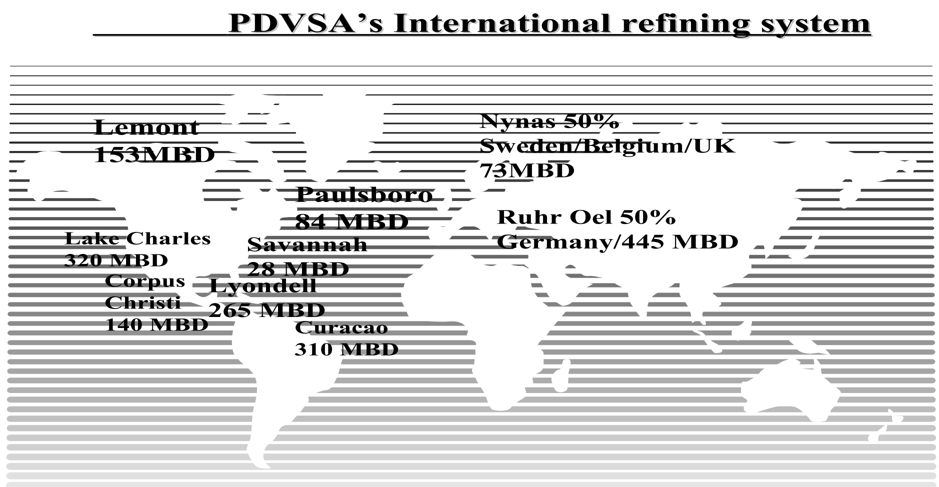

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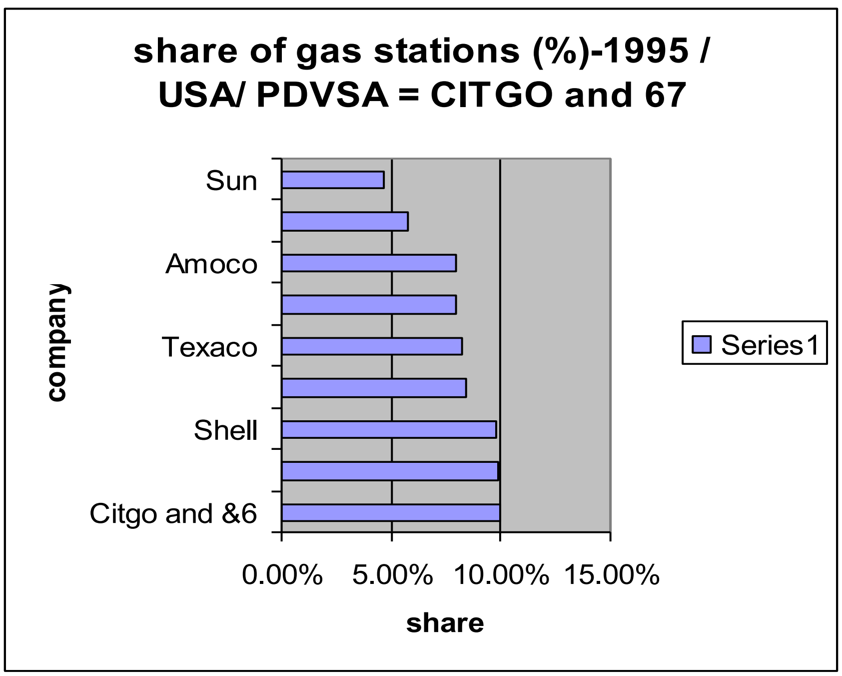


II.-Reasons for the openness:

a) Loss of competitiveness/ updating needed/production costs

As said, after the reversion law (1971) companies openly slowed main investments in Venezuela's oil industry having to know that nationalization was imminent. So the production capacity was declining and obsolescence became a threat. The cost of extracting our oil increased not only because of the non-investments but also, because better deposits are found first and the cost of renewing the mineral reserves keep rising as deposits are deeper and became more difficult to exploit (also well decline may operate due to the fact of pressure loss, water encroachment) and as output declines (higher operating cost) the cost per barrel rise. Finally, the development cost is linked to drills and completed connectors. Then, the cost kept rising and on top of that, the industry is in constant movement. Also, this was a sort of vicious cycle because the more investment was required, the more expensive the cost was also expected to be because investment process explain the mineral cost, too.

PRODUCTION COST PER COUNTRY(1989)	
• Production cost below US$2 per barrel	• Saudi Arabia • Kuwait • Arab Emirates
• Production cost between US$2 and US$3.50 per barrel	• Venezuela (previous was $1.01 per barrel) • Iran • Iraq
• Production cost between US$7 and US$9.00 per barrel	• Algeria • Mexico • US(west coast)

	• Indonesia • China • Argentina
• Production cost between US$9.00 and US$12.00 per barrel	• United Kingdom • Norway • US (Alaska) • Colombia
• Production cost over US$12.00 per barrel	• European Economic Community • Zaire

In any case, Venezuelan oil remained accessible in spite of the rise in the cost just because Venezuela was the only OPEC member not directly or indirectly involved in any current or potential war conflict. Then, being a reliable source was the key origin of an impressive comparative advantage in risk in contrast with the progressive loss of competitiveness.

The preceding story explains why in different parts of the world, since 1994, there was a special interest in letting the private companies develop the marginal fields. There is still much oil that to extract from those fields and those companies have the expertise and the financial capacity to make it profitable.

The initial rejection to the openness forced PDVSA to domestic and foreign borrowing as a desperate action to stop the decline in productivity that irritated the public opinion.

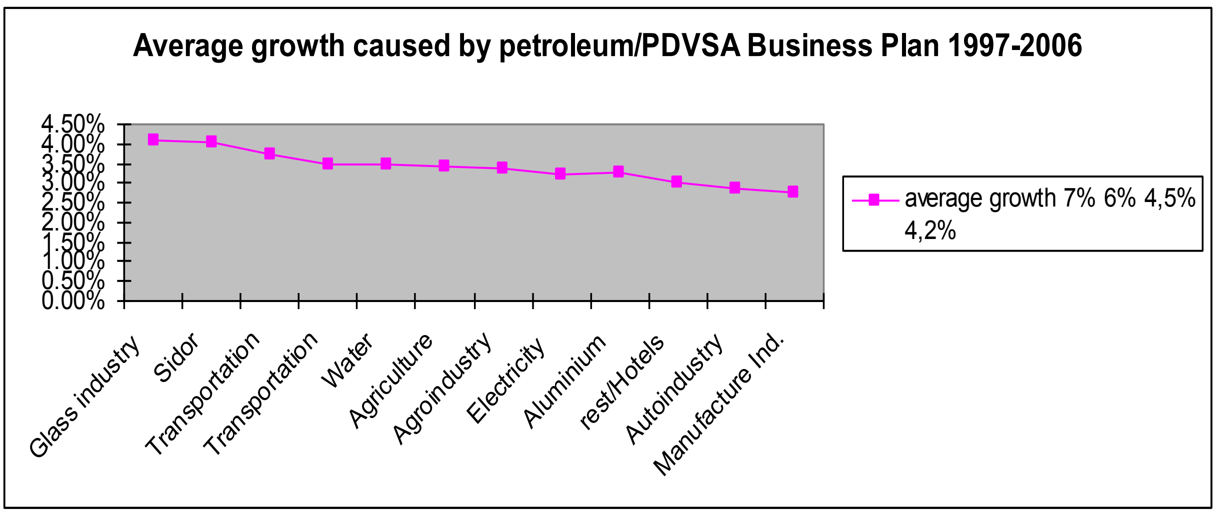
Finally, the decision to expand the capacity and update the industry in order to depend on the production rather than on the price was made . At last.

b) Economic general constraints:

Growth with no development caused that no other commodity but oil itself, has such capacity to spill over on the rest of the economy.

After the boom, the Dutch Disease, the recession, the debt repayment crisis, the new boom and the immense pressure over the industry, to get the most from it, distortion was the proper definition to the situation. In fact an ongoing adjustment plan reached with the IMF demanded some important back up to ensure rapid achievements and, so, hold the possibility to offset the public reactions to this severe program.

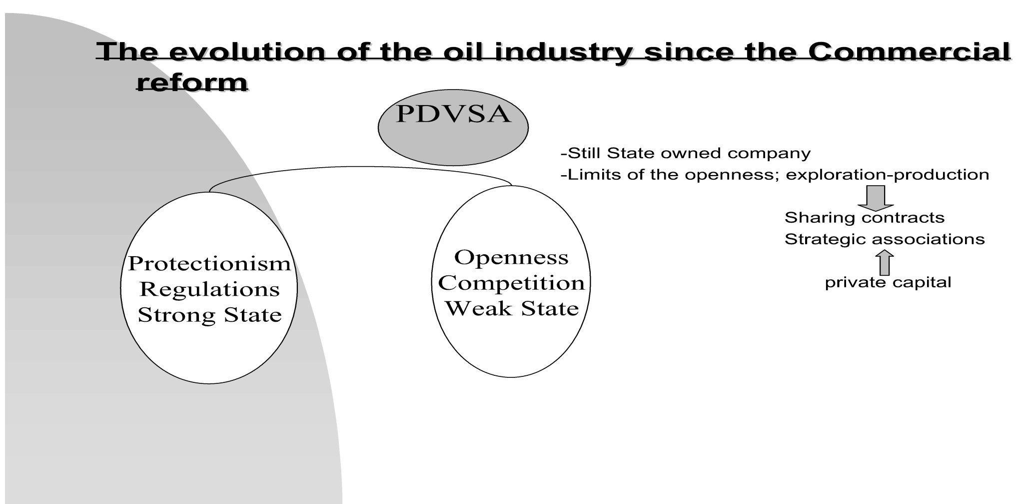
Openness looked like the only alternative to reactivate the entire economy while the rigorous plan was leading to a recession.



c) World ongoing processes / the commercial reform and the globalization:

In 1989, an important trade reform was undertaken by the national government impulsed by techno yuppiesin power . It was the time to open up the trade to the new global wave. Oil did not continue at the same speed but the ongoing deregulating process definitively pushed it. New horizons and the fear of ending up in a worse position at international markets drove the industry to deep and intense reflection. The impressive potential oil market could no be just an island in moments in which competitors were diversifying their investments and preserving their niches of the market. PDVSA's isolation involved a great risk, greater than going completely global indeed. So, the then ongoing reform forced the openness, not at the same speed but eventually it finally was moving forward.

In some way, the oil market was an important part of the strategy of bringing everything together in the real search for a concrete industrial policy that did not exist. To puzzle out the entire situation the general globalization process could not afford to tolerate such an immense black sheep.



d) The political establishment against the wall: economic failures vs. political success, a constant dilemma.

When we suddenly became rich the political success was not questioned, but when poverty knocked at our door the political establishment decided not to face the burden of an immediate adjustment. They thought that general irritation could be temporarily handled and oil revenues were to sort it out. So, political survival was financed by an increasing economic failure that in the medium and long run finally demonstrated the extent to which became negative. Then, the new enemy duplicated : political rejection and economic crisis at the same time, and interconnected.

Government considered the oil-revenues a cash stream into which all stakeholders could satisfy their appetites. Since cutbacks were out of question. We soon reached the top level of the crisis and the unexpected revenues from the instability caused by Kuwait-Iraq conflict could not even detain that situation.

In 1992, two coup attempts brought out the extent to which most Venezuelans rejected the status quo and the adjustment. Nobody understood how a rich country was full of poor inhabitants. The political establishment had no other way but to accept that no alternate source of financing for the current level of expenditures was available but opening up the oil market and letting the foreign investors bring in fresh money. The other option was a deeper fiscal deficit and an even higher stagnation, with the expected political instability.

Nevertheless, the permission could not be that easily granted. In that achievement, the current president of the company has a great credit. In fact, as a salesman visited every stakeholder group and made such persuasive presentations that reinforced the empirical evidence: there was no way out from the dilemma. He used to say …' or we open up the business or we are going to face an intense agony; political and economic factors are about to explode '. At the end, no one could neglect to agree with the proposal, which was expected to have a certain translation : again much money to spend and to finance the public expenditure.

However, still the permission could not be granted in blank. In fact, the political establishment decided to open up the exploration, development and exploitation but refused to do the same with the ownership of the state-owned industry and the fiscalization over its activities. Even down, the status quo representatives were shooting from the floor.

The equation they worked with was simple: the country has a tremendous dependence on the oil industry. We cannot lose a sort of control and we cannot forget that the unique spill over that is expected in the next five years is the one that is supposed to come from the oil industry activity (65% of the purchases are components made in Venezuela ,while the standard is 35%). Then, capital inflows and economy reactivation could come together.

One more word: their attitude toward multinationals could be satisfied by the exercise of the tremendous bargaining power that emerged from the fact that our oil was still a very good business and a reliable commodity. They enjoyed it.

e) The anxiety for new reserves and the need to share the risks.

The price of this commodity usually changes because of the relative scarcity and market control shifts . Sudden war impacts work on the first sense, while long planning changes work on the latter.

In this case, Venezuela is one of the most important reserves of extra heavy crude oil (reserves) and light oil, so, it was attractive enough for any investor (attraction for investors depends on the possibility to create inventories or proved reserves and price and cost are accessible), especially when the world market was changing. In fact, after the oil boom of the 1970's, the developed countries set a strategy that offset the cartel's actions to raise permanently the world price: the decrease in the consumption and the promotion of non-OPEC oil exporting industries. Also, an essential factor helped them got a good result: because of the increasing loss of competitiveness, the cost of OPEC's countries rose. Then, an important investment was required to bring it back to the competition.

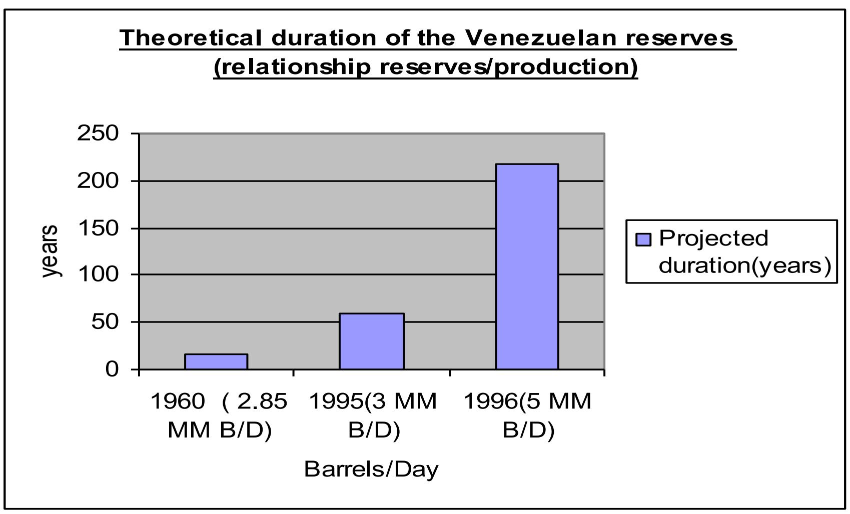
The growth of reserves is caused by research and development. It is driven by estimates which, in turn, are related to proved (inventories) and probable reserves. Then, estimates are an economic forecast, that might be changeable and that could worse off or push up the perspectives of a country. And multinationals are such great sensors and constant skillful new reserve tracers.

Few definitions appeared as necessary before continuing :

Types of reserves	
• Proved	• Those that have been quantified by drilling and production testing

	• They composed inventories, so they are called either way
• Probable	• Those founded in little explored fields or those that could be extracted from known fields if extraction means could be improved.
• Possible	• Those whose existence is based on the clues that emerge from discoveries and findings or by analogy with similar geologic condition areas

Venezuela's energy potentiality			
Type (In Billion Dollars)	**1960**	**1995**	**1996**
• Proved oil reserves	17,000	76,000	86,000
• Probable	10,000	28,000	42,000
• Possible (Orinoco Belt)	24,000	123,000	270,000



It is important to point out that recent resource discoveries of reserves may make us think that there's no possible scarcity in the long-term but that one that is caused by the production quotas, and the way to offset it is the indirect incentive to non-OPEC producers (north sea, Mexico, Ecuador, etc).

Their production cost used to be higher but they were continuously investing while OPEC members (low-cost producers) started to face the obsolescence of some equipment [2]. Then, when the price rose not as a response to an increase in the cost but as a need to get additional resources, developed countries turned their faces to non-OPEC producers. Then, reserve discoveries and an alternate strategic element set a different table. The market had changed. So, it was time for OPEC-members to find themselves depending on the oil production rather than on the oil price. On this road, OPEC quotas became obstacles to overcome, or simply, to ignore. In addition, OPEC membership became a burden, because the cartel exists to maintain the price above marginal cost and to strategically utilize world oil prices for its own gaining. And, furthermore, OPEC's long-term objective was to raise the price to that of the synthetic liquid of hydrocarbons. Also, the organization was an attempt to globalize the monopolized management of this certain market. And now, countries wanted to behave as private companies in times when the monopolic control was questioned.

The story is simple : in 1974, demand fell and the capacity was in excess, but the cartel still continued raising the excise tax. The sovereigns assaulted the industry

f) OPEC's (global monopoly attempt) weaknesses to set the price

The membership became a burden, just because the strategic reason to get together into a cartel has progressively disappeared. In fact, OPEC has been unable to raise the price since 1986, except for the instability and focalized

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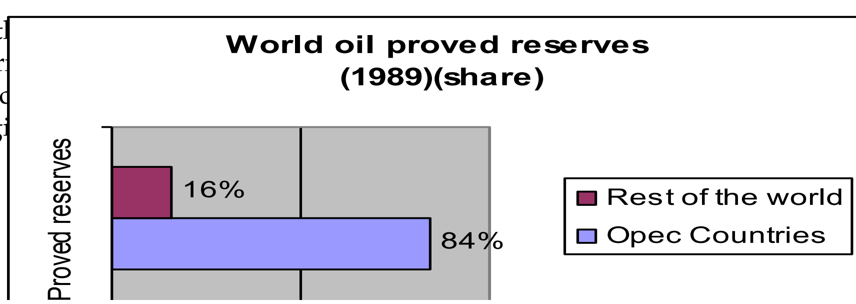


crises. The problem with it is that Venezuela, at least, cannot cooperate to eliminate the cartel. First because of the historic fact that the father of the organization was a Venezuelan, Juan Pablo Perez Allfonzo. Secondly, because what could be done if OPEC disappears and a sudden event makes it possible to return to the old raising-price practices? . It is much better to preserve it at any cost. Otherwise, it might appear again later with different members and diverse interests.

The first OPEC member to reform its legal regulations in order to let the private companies return was Algeria, in 1986. Then, by 1989 most OPEC countries were looking for foreign oil companies to renew and expand marginal fields. By 1993, Kuwait decided to open its oil market in order to reconfigure the fields after the war.

However ,there was something common to all these agreements : they all were secret but in the case of Venezuela.

III. - Openness characteristics

a) Actors involved and their characteristics

• The Government and the political establihment	• Supported the openness and the necessary legal reform • Conferred room to maneuver to PDVSA's top hierarchy • Not willing to support an additional expansion such as the private equity participation in PDVSA.

• PDVSA and its subsidiaries	• Still state-owned • In charge of the openness, coordination, due to the fact that according to Venezuela's laws, the ownership of the mineral extends to the entire amount of the reserves in situ. Once extracted from the ground is subject to the commercialization rules set by the Oil Company. • To meet the new market's requirements PDVSA decide to create DELTAVEN (a new subsidiary to compete in the gasoline market) and to reactivate the old CVP (Corporacion Venezolana del petroleo) in order to let it invest in the marketing process of the oil and allowing it to join up to 35% of the business. • UNOVEN was created to commercialize the Venezuelan-oil-related products in the domestic market, which is already open and that will cause the return of MOBIL , Exxon, etc, gas stations.
• Multinationals	• Competitive know-how and an immense financial capacity • Willing to compete in rude terms with the national company. In such competition, the first characteristics are easily noticeable: these foreign companies with impressive severance packages have hired top human resources of the industry. • Main goal is the maximization of the profits in terms of return rates, and the renewal of inventories that might allow them an aggressive approach to the market at certain moment, and the strategic action of keeping their ability to cope with the fluctuations of instable markets.

For many politicians, the return of multinationals was not a quite clear possibility. Not only because there was, a sort of hidden issue related to them, but also because there was not such a conviction that they were interested in this market again. The reality showed that in spite of the high taxes applied to the industry it is still a

How good business is the openness to the Multinationals ?

** Revenues from production sharing programs after*

Deductions:

-Taxes
-Royalty
-CVP association to finance the business - up to 35%
-Additional utility to the State(PEG)-up to 50%

→ 92%

Final Revenues for companies:

-Remainig revenues : → 8%

- Revenues from marginal fields exploitation :

-$ 368 Million in the first year for the first 15 fields

*

really good business.

b) Previous agreements on marginal fields:

The first step was this one just because PDVSA had to pay excise taxes up to 67% over the declining production of these fields that were not exhausted but in such conditions that a new investment was needed. The taxes onexploitation made by a private company represented only 34%, stating an increasing profit for PDVSA. Therefore, the first 15 marginal fields are producing 185000 barrels per day. The next year will be available 20 more and altogether are expected to produce by the year 2000, 200000 barrels per day. Before this agreements the Strategic Partnership approved by the Congress was the only precedent . By them Cristobal Colon Project (natural gas with Lagoven, Exxon, Shell and Mitsubishi) and the production and improvement of the extra heavy crudes found in the Orinoco belt (with Conoco,, Total, Inochu, Marubeni) were provided with the funds to cover the estimated investment of $6 billion.

Positive consequences of the partnership with foreign investors	• It added up technological benefits • It guaranteed additional and stable foreign markets for our oil • It covered huge investments required to update the industry • It introduced a partner but at the same time a competitor in sensitive areas and competence is healthy, even in the oil industry • It encouraged the profit maximizing orientation

c)Ways of participation of the private capital:

Type and activity	
• Operative Agreements	• Reactivation of marginal fields
• Strategic Associations	• Production of oil in the Orinoco Belt and Gas exploitation off shore • Not bearing risk ventures but concrete joints to ensure a profitable operation. Contractor is then, a partner in the operating costs and the mineral has been already located. So, no exploration risk is to be carried, but the private company takes the development risk.
• Production sharing contracts:	• Exploration and exploitation of conventional crudes • Private Companies undertake oil operations and cover the entire financial and technical support required to it, and also, they are to bear the immense risk of the exploration • Development cost will be shared, but the private contractor will lead the process. In return, they are to share the profits in a certain percentage, convertible into petroleum at the PDVSA set market price. • The first investment is reimbursed and the profit is calculated on the additional production.
• Orimulsion	
• Petrochemical development	
• Outsourcing (transfer of not essential activities to the private sector)	
• Participating in the domestic gas-stations market	
• Industrialization of refining streams	

d) Risk bearing:

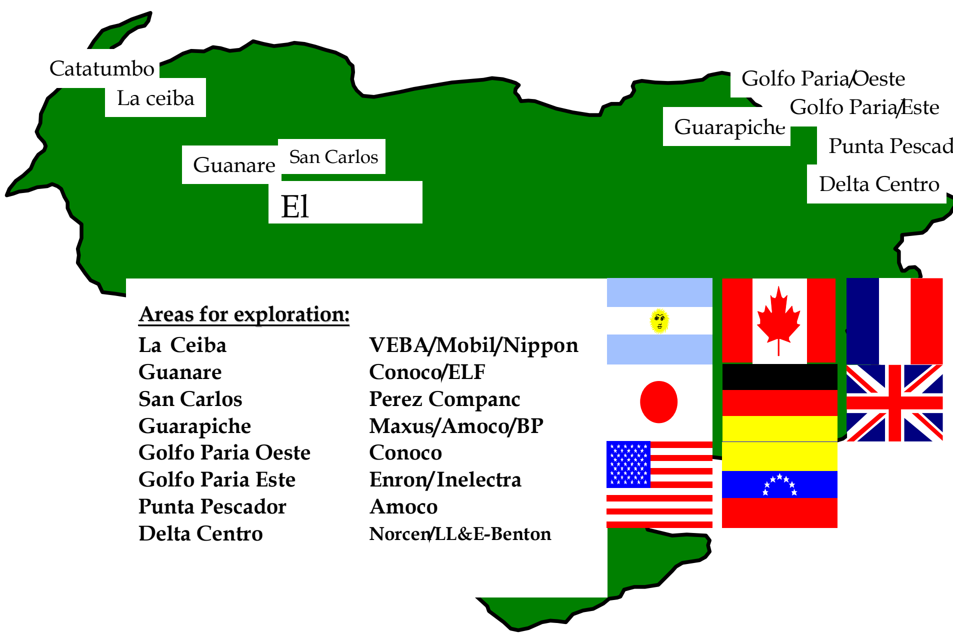
The different kinds of risk for private capitals:

Risk	***Complication***
• Exploration	• There is always a possibility of not discovering profitable reserves
• Exploitation	• Increasing cost in contrast with technical investment
• OPEC	• OPEC production quotas still are supposed to take formal effects
• Further regulations	• Whether to change the current regulatory frame or some terms of the agreement
• Political	• Instability (in 1992 two coup attempts) • Incomplete macroeconomic stabilization
• Revenue	• Uncertainty on the size and profitability of the reserves • Changeable price

The First round of the openness indicated two different facts:

Bidding was the only way to proceed, we suddenly were on the road from the monopoly map to the mosaic of multinationals.

Production Sharing Contracts (March 1997)



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e) Extension and the future:

The current political establishment has bearded the costs of the openness. In fact, the most conservative and extremist groups of the country have joined the lawsuit filed in the Supreme Court in pursuit of the invalidation of the entire process of the openness. But as there was not other way out of the crisis, most of the political establishment still firmly embraces the openness. However, they do not seem to be interested in further expansions such as the sale of an important part of the equity in the state Oil Company. Moreover, it is connatural to the State itself the tendency to overwhelm the managerial level of the main industry, as it happened in the past, as well as the tendency to extract from the industry budget whatever considered necessary and urgent at certain moment. However, recent signals showed that at least there is some special reticence to this type of actions and a sort of remorse. These latter feelings are caused by the previous attempts to avoid the openness that led PDVSA to a severe domestic and foreign debt, up to 5,000 Million Dollars. Let' assess the possible scenarios in this case:

Private Participation in PDVSA/ options	
• Equity participation up to 49%	• It still ensure the current OPEC membership that might be important in case of a relevant instability time • It allows an operational enrichment by the new control and requirements set by the private shareholders • It secures healthier management of the revenues and long-terms policies more based on volume • It could preserve the control over the industry and so, the political burden will not be so heavy or different from the current • The political establishment is limited by the previous attitude toward multinationals and it brings out a severe threat: the possibility of wasting those new resources and end up worsen again. • This alternative allows some room to maneuver and preserve some control over an acceptable openness that in turn, will attract the funds suffice to repay the external debt and the domestic at the same time • It ensures survival of OPEC membership

• Equity participation up to 50% or more (privatization):	• Similar to the previous one, but with two key differences: • OPEC could refuse to accept the presence of Venezuela in it because the strategic control over the industry would not be hundred percent secure. • The political establishment could face an important difficulty in managing the public opinion
• Privatization of the Subsidiaries	• It involves a sort of partial privatization of only a part of them is sold or a total one if all are privatized (PDVSA would disappear in the latter). • Political risk due to the strong association of the oil companies symbols with our own citizenship • It does not provide any special incentive to the search for economic and redistribution efficiency while ripens out many of the most intense feelings Venezuelans have
• Full privatization of certain sectors of the industry (petrochemicas and orimulsion):	• It does not involve any political risk • It represents a great expansion of the auxiliary industry, which cannot be promoted or covered by PDVSA.

Most alternatives do not represent a threat to anyone but to the political establishment. In favor of it, we might say that there is a way to sort it out: the dilemma of economic failure vs. political success could disappear this time, by ensuring the economic stability, while political success could be easier to accomplish. Finally, it is important to admit that economic efficiency and redistributive efficiency may be achieved by PDVSA even in the first scenario. Then, economic and efficiency are not apart of the state ownership exercised within rational boundaries but it could allow a more stable development of the political situation than the other one, and political establishment is already moving forward. Pushed, that is true, but moving forward, anyway.

IV. -Lessons to capture

a) Good business conditions brought along multinationals and government again despite previous disputes and a higher bargaining power of the political establishment, translated into very high taxes and important risks to bear. Multinationals as an expression of globalization brought in technological inflows that upgrades as well as capital inflows.

b) Globalization is constantly pushing. The openness has no reversal and as globalization gained momentum, the Venezuelan government became, indirectly, a global player. The problem might be the further extension. Anyhow I think that we are already moving forward to the equity participation up to 49%, which will bring up positive aspects and would involve no major political risk. The rest of the road has to await better macroeconomic, microeconomic, and political scenarios. And the political establishment will discover by itself the extent to which the government may preserve its sovereignty even in a globalized economy .

c) Mature leadership and an appropriate circumstance led the industry top executives to an important role in the decision making process. Only the mature hierarchy of the state owned oil industry could possibly get this process to more competition. They knew in advance that this could involve potential risks to PDVSA converted into one competitor through its subsidiaries but that was healthy. And so was sold. They also knew that the status quo was change resistant but a well designed and intense campaign got it to the desired point.

d) A relevant change emerged from the process. The political establishment has conceded credit to the own leadership of the industry and has accepted the irresistible necessity to go global . However, it is still acting to preserve some of the current status quo. Further steps have much to do with the results of this one. The new role of the government is not of the owner but of the government that is holding steady but not intervening. Today, we might say that business and government in Venezuela are in search for an industrial policy. A real one. A final one that could ease the success of both government and business and ensure a long-term win-win situation. And the oil market openness put them both in the right path.

e) Venezuela is facing a new challenge: competing with top companies in our own territory at the time we are stating that future is not more a matter of luck but a matter of choice and ours is the expansion of our capacity. In addition, according to the most recent estimates world oil consumption shall increase by only 1.2 % per year until the end of the century. Nevertheless, anyhow, this small rate of increase represents 800,000 barrels per day per year, and the World Energy Council has predicted that the world oil demand will double before the year 2020 . At the same time, an increasing decline in production is expected to affect the United States, and it will not be possibly offset by higher productions in countries as Colombia and China. The key demand will rest on OPEC's members. Venezuela, in this new path will be ready to meet this challenge.

f) A great lesson that most Venezuelans must learn : oil price peaks are negative, especially for us.

Oil price peaks and Venezuela's economic performance	• They increased risks of distortions in management of new revenues • We ended up more likely to get into a new Dutch Disease • They are Misleading factors • They encouraged investments in technology in

	order to find alternate energy sources and substitutes • They encourage a fall in consumption

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Variables linked to the world energy requirements
• Economic performance of industrialized countries • Economic performance of developing countries • Advances in technology • Production costs • Market price of parallel energy sources

- Environmental protection measures
- Climate or natural disasters