# United States Senate

COMMITTEE ON FOREIGN RELATIONS

WASHINGTON, DC 20510–6225

November 29, 2004

David M. Walker
Comptroller General of the United States
U.S. Government Accountability Office (GAO)
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Walker,

I write to request that the Government Accountability Office undertake a review of the United States Government's plans with regards to the supply of crude oil and refined oil products from Venezuela.

Over the last two years, political instability within Venezuela has resulted in direct threats to suspend oil shipments to the U.S. A 63-day national strike, promoted by senior managers at Petróleos de Venezuela (PDVSA, the state oil monopoly) all but stopped crude oil and refined oil products from Venezuela. In today's climate of high oil prices, the politics and conditions of the U.S.'s fourth largest oil exporter are of critical importance to our country. The State Department has stated at various times that Venezuela has stopped being a trustworthy source of imported energy. Nevertheless, we continue to rely on imports from Venezuela to meet approximately 15 percent of U.S. oil supply. In addition, Venezuela continues to be a major player in the U.S. domestic market for refined products through direct imports from Citgo Petroleum, a 100% direct subsidiary of PDVSA.

The Venezuelan government is interested in maintaining a healthy level of activity in a sector that is overwhelmingly important to its economy. However, there are a number of public industry and media reports that paint a grim picture of the current state of PDVSA and its operations. In addition, changes in Venezuela's oil industry legislation and tax regulations have altered the conditions under which the private sector, foreign and local, can invest. Of particular note are the country's 2002 Hydrocarbons Law and the recent unilateral modification of the royalty provisions in existing contracts. These factors might affect not only future investment but also seasoned investments in the development of the vast Orinoco Oil region that were undertaken by a joint venture set up between PDVSA and a number of important international oil companies.

The prospects of achieving the reliable energy relationship with Venezuela that this country has had for decades has diminished, particularly over the last two years. We must make sure that all contingencies are in place to mitigate the affects of a significant shortfall of Venezuelan oil production, as this could have serious consequences for our nation's security and for the consumer at the pump.

There are a series of questions I would like the GAO to address in its investigation:

1. Have the U.S. Department of Energy and Department of State drawn up any contingency plans in the event of another suspension of oil exports from Venezuela? Have the U.S. Department of Energy and Department of State made arrangements with other regional oil producers to replace a Venezuelan shortfall?

2. Have any contingency plans been drawn up by our Energy Department and Department of State to cover Citgo Petroleum continued operation in the event of a long-term suspension of supply from its parent company? What agency in the U.S. government has studied the corporate governance implications for Citgo of a prolonged confrontation between the governments of the U.S. and Venezuela?

3. Have U.S. oil companies drawn up alternative supply plans in the event oil imports from Venezuela are suspended for an indefinite period? What is the approximate number of U.S. and non-Venezuelan nationals employed (including dependents) by U.S. companies in their Venezuelan operations?

4. What is the U.S. government's assessment of the operational conditions of PDVSA? What are PDVSA's current reserve levels? Production levels? Refining capacity? Quality of management? What is the quality of PDVSA's reporting to relevant local and foreign authorities on operational and financial matters?

5. What is the current level of coordination between the different U.S. government agencies on these matters? Please provide an explanation of the coordination which took place to mitigate the affects on U.S. supply during the previous Venezuelan oil shut down.

6. What would be the direct affect to the U.S. consumer in dollar terms in the event of a long-term suspension of supply from Venezuela?

7. Given the continued political instability in Venezuela and reports of occasional violence, are there any significant oil installations that could be targeted for attack? Is security adequate in the major refining centers of Paraguana and Jose? Are port installations vulnerable to sabotage?

8. What has been the reaction of U.S. oil companies to the changes in Venezuela's oil industry legislation? Have these changes been part of the agenda of our bilateral conversations with the Venezuelan government through the U.S. Department of Energy and Department of State? How would you define the quality of our bilateral oil-related dialogue? What format exists for continued dialogue? Have U.S. companies requested the intervention of the U.S. government on these matters?

I look forward to your response. An adequate review of current policy plans and contingencies will ensure that political instability in Venezuela does not translate into additional burden for American consumers and taxpayers or a threat to American energy security.

If you should have questions, please contact Carl Meacham of the Committee staff at (202) 224-4651. Thank you for your attention to this request.

Sincerely,

Dick Lugar

Richard G. Lugar
Chairman

RGL/cmk