



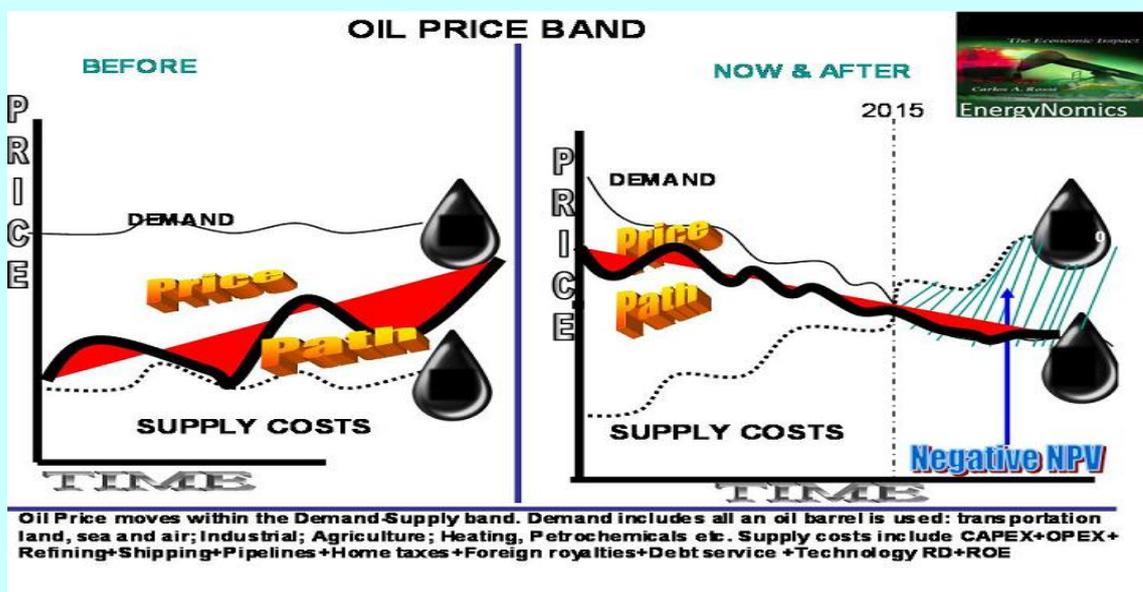
PERMANENT NEGATIVE NPV FOR OIL PROJECTS?  
& VENEZUELA

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I have been permitted to publish the following abstract of a much larger work:

**ABSTRACT**



- 1) The low price scenario of the oil market is determined now by demand dynamics, including inventories. Essentially the demand from highly industrialized oil importers in the EU and APEC. The EU in particular cannot afford another Greek Bailout much less if it happens to larger countries such as Spain or Italy (France declared economic emergency weeks ago), which explains why they are buying oil but only consuming the minimum necessary to keep the wheels of their economy running at minimum tolerable speed (>0%<1%) while nearly breaching their inventory capacity. EU has only grown 0.1% on average in the last 8 years, Japan 0,2% and the 37 most advanced nations less than 1.0%. Critical thresholds in their fiscal budget and balance of payments must be respected and the collective fear of triple oil prices again (2011-2014) has economic ministers applying "induced coma policies" to restrain consumption. Political backlash is getting hotter every day. **Under no circumstances WHATSOEVER will the EU and APEC be allowed to depress. They are too strong too populated and too rich and will drag down everyone else with them. This is World National Security to its highest expression.**





- 2) The GCC countries plus Russia on the supply side, and the most influential OECD nations plus China on demand, are the ones determining the oil prices now. OPEC, for all practical purposes, is dead as became all too evident in their last meeting in Doha. Saudi Arabia, by refusing to cause and be blamed for a world recession/depression, has been pursuing altruism low priced oil policies.
- 3) On supply, CAPEX, OPEX and other costs have increased to the point of breaching and surpassing the highest price that the EU and APEC can afford to pay. This has put most oil projects in the red with **negative net present values**. New expensive offshore investments, critical for the future of oil supply have been suspended, companies have gone bankrupt, professional workers have been dismissed and blue chip oil companies have suffered negative gaps in their sources and uses of funds, to the point of increasing debt and selling assets. The recent downgrade of Exxon from AAA standings by S&P is a tip of a larger iceberg. **EnergyNomics** believes that this dire situation can be reversed but many things need to happen first in 4 fronts: A) inside the oil companies themselves B) inside the countries that they invest C) inside the countries that they sell their products and D) Within the scope of the Energy industry.
- 4) Until then these **negative present values** will become long lasting, maybe permanent, unsustainable, and with a strong risk of metastasising through the entire industrial complex and financial industry of the OECD nations.
- 5) **EnergyNomics** expects that the proposed IPO of Saudi Aramco will become a necessary trend with the rest of the NOC nations because they cannot invest in a permanent negative NPV environment. As opposed to IOC's, NOC's don't have access to hard currency from independent share holders, they do not spend on R&D nearly as much nor do they pay their priced personnel nearly as well. Many have all but topped their bank borrowing capacity. Most importantly, IOC's do not have to drag and support the dead weight of rentier societies of 30+ million people; like PDVSA does.
- 6) The Geopolitical situation across the World Map of oil importers is apprehensive and tense because of its incapacity to grow and fulfil citizens expectations. This is driven in part by the ignorance of economists and the people in general about the overwhelming impact that affordable energy (especially oil) has on every aspect of their economic structure: production, consumption, transport, finance, economic growth and prosperity.
- 7) With the exception of highly money reserve GCC nations and tightly controlled Russia the geopolitical situation of oil exporting countries is more anxious than importers because of their almost complete reliance on oil revenues. In some backlash, repression and political instability have begun.





- 8) **EnergyNomics** believes that in Venezuela the economic situation is impossible to resolve for both the energy and non-energy sector given the quasi-religious dogma that the present government upholds “Chavism”. It is insoluble for these people to think or act outside of the Chavism box and this is what has brought historic statist, incompetence, corruption, insecurity and a near breakdown of the entire social fabric of this country. Foreign and national investors cannot possibly contemplate serious investment when their government partners across the table uphold this un-business mentality.
- 9) The economic collapse of Venezuela (growth of -14% since 2014) has percolated in horrid scarcity of goods (>80%), poverty levels (>73%) and hyperinflation (160% in 2015 and projected by the IMF to more than quadruple to 720% this year and possibly hit the 4 digit area as early as 2017).
- 10) This has led to a collapse in the political polls of President Maduro, now in the mid teens, and also led to a resounding victory of the MUD coalition parties in the December 6<sup>th</sup> National Assembly elections (although the government party PSUV out voted any of the coalition parties).
- 11) The government quickly inflated the Supreme Court with cronies and they have successfully blocked any initiative from the AN, like the Amnesty law to free political prisoners and the law for an accountable Central Bank. However, a recall referendum of the Maduro government is all but imminent, which makes Venezuela, alongside Brazil, as the most politically unstable nation in the Western Hemisphere.
- 12) Any change of paradigm that would start by acknowledging the failure of the rentismo model of Venezuela has already happened, but the important thing is that no one dare believe it; not while the Maduro and PSUV remain in power.
- 13) **EnergyNomics** does have some possible recommendations to arrive at solutions to all of this. Please subscribe.

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