GAO
Accountability·Integrity·Reliability

# Highlights

Highlights of GAO-06-668, a report to the Chairman, Committee on Foreign Relations, U.S. Senate

June 2006

# ENERGY SECURITY

## Issues Related to Potential Reductions in Venezuelan Oil Production

### Why GAO Did This Study

Venezuela is the world's eighth-largest oil exporter and among the top 10 countries in total proven oil reserves. Venezuela also supplies about 11 percent of current U.S. imports of crude oil and petroleum products and wholly owns five refineries in the U.S. Consequently, Venezuela is a key player in the future energy security of the United States and the world.

The current global oil market is tight and may be more susceptible to short-term supply disruptions and higher and more volatile prices. Recently, tension between Venezuela and the United States has caused concern about the stability of Venezuelan oil supplies. On several occasions, Venezuela's President has threatened to stop exporting oil to the U.S. or to close Venezuela's U.S.-based refineries.

In this context, GAO analyzed: (1) how Venezuela's crude oil production and exports of crude oil to the U.S. has changed in recent years, (2) the potential impacts of a reduction in Venezuelan oil exports to the U.S., and (3) the status of U.S. government programs and activities to ensure a reliable supply of oil from Venezuela. Commenting on a draft of the report, the State and Commerce Departments generally agreed with the report, but DOE contended that the report presents an "alarmist view" of U.S. energy security. We disagree and believe the report presents a contextually balanced treatment of the issue.

www.gao.gov/cgi-bin/getrpt?GAO-06-668.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jim Wells at (202) 512-3841 or wellsj@gao.gov.

### What GAO Found

Venezuelan oil production has fallen since 2001, but exports of crude oil and petroleum products to the United States have been relatively stable—except during a 2-month strike in the winter of 2002–2003, during which the oil sector was virtually shut down and exports to the United States fell by about 1.2 million barrels. Energy Information Administration data show that total Venezuelan oil production in 2001 averaged about 3.1 million barrels per day, but by 2005 had fallen to about 2.6 million barrels per day. Following the strike, Venezuela's President ordered the firing of up to 40 percent of Venezuela's national oil company employees. U.S. and international oil industry experts told us that the resulting loss of expertise contributed to the decline in oil production. In 2005, the Venezuelan government announced plans to expand its oil production significantly by 2012, but oil industry experts doubt the plan can be implemented because Venezuela has not negotiated needed deals with foreign oil companies as called for in the plan.

A model developed for the Department of Energy estimates that a 6-month disruption of crude oil with a temporary loss of up to 2.2 million barrels per day—about the size of the loss during the Venezuelan strike—would, all else remaining equal, result in a significant increase in crude oil prices and lead to a reduction of up to $23 billion in U.S. gross domestic product. A Venezuelan oil embargo against the United States would increase consumer prices for petroleum products in the short-term because U.S. oil refiners would experience higher costs getting replacement supplies. A shutdown of Venezuela's wholly-owned U.S. refineries would increase petroleum product prices until closed refineries were reopened or new sources were brought on line. These disruptions would also seriously hurt the heavily oil-dependent Venezuelan economy.

U.S. government programs and activities to ensure a reliable supply of oil from Venezuela have been discontinued, but the U.S. government has options to mitigate short-term oil disruptions. For example, activities under a U.S.–Venezuela oil technology and information exchange agreement were stopped in 2003, in part, as a result of diplomatic decisions. In recent years, U.S. oil companies have not sought assistance from the U.S. government with issues in Venezuela because the companies do not believe that federal agency intervention would be helpful at this time. To mitigate short-term oil supply disruptions, the U.S. government could attempt to get oil-producing nations to increase their production to the extent possible, or could release oil from the U.S. Strategic Petroleum Reserve. While these options can mitigate short-term oil supply disruptions, long-term reductions in Venezuela's oil production and exports are a concern for U.S. energy security, especially in light of current tight supply and demand conditions in the world oil market. If Venezuela fails to maintain or expand its current level of production, the world oil market may become even tighter than it is now, putting further pressure on both the level and volatility of energy prices.