

The state of oil



The setting couldn't have been lovelier — or more awkward. As over a thousand members of the business elite from the world's heavy-oil producing countries gathered during the first week of November in Porlamar, Venezuela, palm trees swayed and waves gently broke on the south Caribbean sea.

But there was a lot more going on than picture-perfect scenery. The venue, a gorgeous Hilton Hotel resort, is undergoing a bit of a transformation. Even as delegates started arriving at the conference, workers were busy scraping the frosted-glass "Hilton" decals off the revolving main doors, and replacing them with new decals: "Venetur" — the name of the state-owned tourism department and apparently the new name of the hotel.

Days before the event, the socialist Venezuelan government seized control of the entire hotel and conference centre and nationalized it. This set quite a unique tone for the 2009 World Heavy Oil Congress, an annual event that brings together businesses and governments from around the world. Edmonton hosted a terrific event last year, and it is scheduled to welcome the congress again in 2011. But this year, it was Venezuela's turn to play host to the world.

The opening night's cocktail reception was quite a show. Poolside at the Hilton (oops, I mean the Venetur), delegates mingled over deep fried cheese sticks, while vaguely Spanish pop music filled the tropical night air.

Venezuela's state-owned oil company, *Petróleos de Venezuela, S.A.* (or PDVSA), was omnipresent at the reception, with its staff and delegates in lime green polo shirts. A UK-based event organizer may have assembled the four-day conference, but PDVSA is a primary stakeholder in the event. As such they — and by extension, the whole Hugo Chávez government — had a huge interest in making the 2009 Congress a smashing success. There were ripples of excitement in the air in anticipation that Chávez might show up for the opening event (he didn't).

Delegates came primarily from the heavy-oil producing regions of the world, including Canada, China, Russia, the Middle East, Norway and, of course, Venezuela. The world's big energy companies, such as France's Total SA, Norway's Statoil, and America's Chevron, were also represented, both as sponsors and with guest speakers.

Petroleum producers have seen their share of drama since Edmonton hosted the event in March 2008. Back then, the global economy hadn't yet slid into oblivion, and crude oil prices were rising higher by the minute. It was fully five months before prices peaked.

As the hundreds of globetrotting delegates got reacquainted around the pool, you could imagine the chatter. They might be saying to their heavy-oil brethren: "So, what's been going on with you since we last met in Edmonton?"

Since the Edmonton conference, oil prices spiked to \$US147 per barrel,

Wall Street was flattened, oil prices fell to \$33 per barrel, Iran paraded around nuclear weapons, and oil prices surged once again to their current levels of around \$80 per barrel. Other than that, not much!

But the questions on everyone's mind this year didn't actually have much to do with oil prices. While that issue never really goes away, the bigger concerns centred on the environment (especially leading up to the Copenhagen meetings on climate change), technical advances being made by producers and, most importantly, the dynamics of political gamesmanship.

Oil producers know theirs is a very political world, in which the very few remaining heavy-oil players are open to private investment. Canada, with its enormous tar sands deposits, sits in a league of its own in this regard. More often than not, state-controlled interests have cornered most of the globe's heavy-oil assets. Big government is alive and kicking in 2009, and it is not always on the same page as private investment.

Understandably, this gives the private oil companies goose bumps. If there is any question as to how socialism affects corporate decision-making, just ask Hilton Hotels. They've just seen their logo scraped off the hotel door.

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