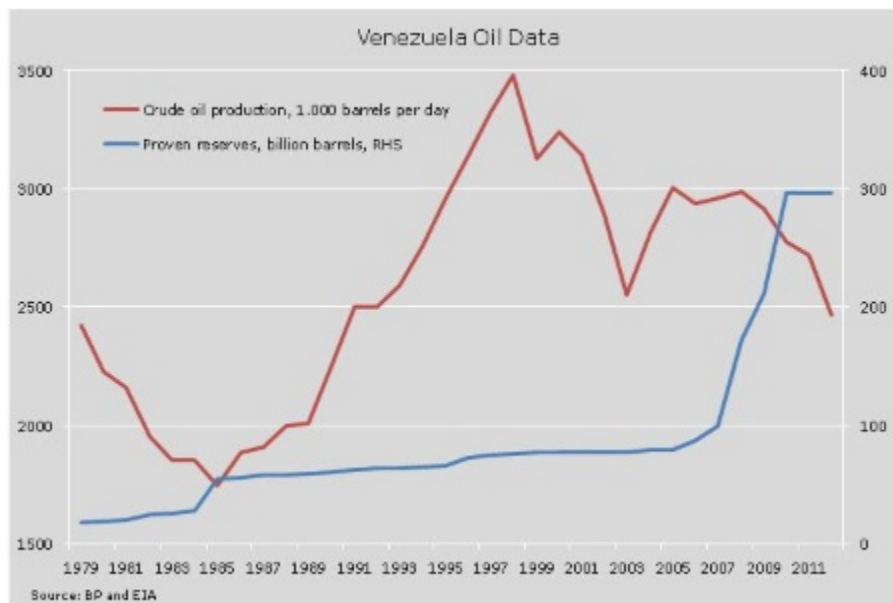


Impact on oil markets from the death of Hugo Chavez

Bottom line: Venezuela's massive oil reserves will not be unleashed on global oil markets anytime soon, while the near-term impact on prices will be limited.

The death of President Hugo Chavez yesterday, after 14 years at the helm, has raised a few questions about the impact on global oil markets considering the enormous reserves the country holds. Let us first take a look at these numbers. Venezuela at the end of 2011 held 17.9 percent of the world's known oil reserves compared with 16.1 percent in Saudi Arabia and 11 percent in Canada (Source: BP). Against this, it only represented 3.5 percent of global production compared with 13.2 percent in Saudi Arabia.



A decade that created a hostile environment for foreign oil companies and eventually led to some of them being thrown out has led to a drop in production of almost one million barrels per day during this time. The state oil company PDVSA has increasingly been handing over its income to fund various government programmes, leaving it with negative cash flows for the past five years, according to Reuters. The result of this has been a lack of investment as old fields matured and new ones were not explored, hence the drop in output.

Going forward, a near-term change in the current political situation is not expected anytime soon. The upcoming election is likely to lead to a victory for the United Socialist Party, but with Chavez and his charisma gone the move towards market reforms could eventually begin with the opposition standing ready to take control. Reforms and the re-introduction of foreign investment will not happen overnight, possibly not for a few years, but once it does another source of increased supply will further help to alleviate some of the worries about future supply not keeping up with an increase demand, especially from emerging economies.

Venezuela's oil is of the heavy crude variety, which is also what the Canadians produce around Alberta. Companies operating in Alberta will be able to export their know-how, which is good for the companies. However, this maybe less so for the overall economics around Alberta, with Venezuelan heavy crude being much cheaper to extract.

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