VENEZUELA

By Gerald M Ellis

President Hugo Chavez scored impressively during the year 2000, nationally as well as internationally. No one can solve overnight the many problems of any one country in Latin America, but a strong leader has been able to attempt changing his country. This has been the case with President Chavez. He had called for a national referendum in 1999 shortly after assuming the presidency to reform the constitution. The constitution was reformed and it called for new presidential elections on May 28, 2000. President Hugo Chavez was duly elected, despite the fact that the opposition tried to defeat him. His popularity was still high in a country that has poverty levels reaching 80% of the population. He defeated Francisco Arias Cardenas, and Claudio Fermin. Mr Arias had been a close ally as an officer in the Venezuelan armed forces of Chavez during the attempted Military Coup of February 4, 1999, against the then President, Carlos Andres Perez.

Internationally, President Chavez has led his country in several areas. Prior to the second summit meeting of Petroleum Exporting Countries in September 2000 (the second such summit in almost 40 years, as the first summit was held in Algiers in 1975), President Chavez travelled to the member countries to extend a personal invitation to each leader.This trip included Saudi Arabia, Kuwait, Qatar, Abu Dhabi, Iran, Iraq, Indonesia, Lybia, Nigeria, Algeria and thence back to Venezuela. He was accompanied by the Minister of Energy and Mines, Ali Rodriguez who was to preside over the Summit Meetings in Caracas. Following this, President Chavez invited the Presidents of Central America and Caribbean States to a meeting in Caracas for a renewal of the San Jose Agreements whereby a number of countries are guaranteed petroleum supplies. The Dominican Republic receives 40,000 bbl/d from Venezuela and Mexico, the two major producers who years ago established this system of crude supplies at low prices. President Chavez later signed the Caracas Agreement by which the Dominican Republic was to receive an additional supply of crude. Later in the year, President Chavez signed a separate agreement with Cuba to supply this Caribbean island with crude petroleum.

Venezuela is the fourth major crude supplier of the US. President Chavez maintains that his drive to introduce reforms in the economic and judicial areas will permit the return of foreign investments. At the ARPEL meetings in July 2000, the president of the organisation (Regional Association of Petroleum and Natural Gas of Latin America and the Caribbean=Asociación Regional de Empresas de Petróleo y Gas Natural de Latinoamérica y El Caribe) stated that the region of Latin America will receive some US$200 billion in investments over the next ten years. In 1999 the total was US$70 billion of which some US$16 billion corrresponded to the petroleum industry. The Venezuelan state-owned petroleum company, PDVSA, signed an agreement with Brazilian Petrobras for the creation of two companies for the distribution and commercialisation of Venezuelan petroleum derivatives. Commercial offices were opened in Rio de Janeiro and Caracas. The agreement involves establishing some 600 service stations in both countries, as well as exploration and production projects in Venezuela. Investments in natural gas are expected to increase in this country which has enormous gas reserves (some 146 billion cubic feet). Investments in light and medium crude will not be substantial, but should be so for heavy crudes. In September the government invited bids from local as well as foreign companies to explore for and exploit natural gas in Cojedes, Barinas, Portuguesa, Zulia, Trujillo and Aragua covering some 13,500 km^2. in 11 areas. There are enormous reserves of heavy crude in Venezuela in the Orinoco Basin where at present PDVSA (Petroleos de Venezuela) is working in joint ventures with Phillips Petroleum and Texaco on the Hamaca Phase II project. Another project is Petrozuata with CONOCO, and other projects are with Suncor and Exxon-Mobil in Cerro Negro. These are multi-billion dollar projects some of which could last 35 years. PDVSA also obtained a credit of US$500 million from the International Cooperation Bank of Japan to expand the Puerto La Cruz refinery, aimed at producing 45,000 bbl/d of lead-free gasoline. Negotiations also were underway with the German firm, Veba Oel, interested in purchasing 50% of PDVSA. Elsewhere in the energy field, the US firm AES Corp. has offered to purchase 51% of EDC (Grupo Electricidad de Caracas).

At year end it was reported that foreign investments in Venezuela for the year 2000 were in the order of US$644.3 million, representing an increase of 24.9% over the previous year. The greater part went into the manufacturing sector with US$196.9 million.

In the minerals sector the year 2000 has been equally as impressive. In view of the fact that mining represents a tremendous income input to the national economy, the attitude and policy of the government are aimed at promoting and encouraging investment to develop a competitive mining industry which will enable the country to establish itself as a reliable supplier of mineral products in accordance with worldwide developments. This has been demonstrated by the Mining Law and its regulations, which strive to create a climate for investment that will be clear and stable, and will protect national and foreign investors. The policy of the government is to organise and strengthen the mining sector by continuing to reactivate it, using the available potential present, preserving the environment, and improving economic and social situations regionally. The following aspects characterise government policy:

- Strengthening of the legal framework with regard to mining,
- Reactivation and institutional strengthening of mining through the introduction of automatisation of mining concessions,
- Planning of national documentation on mining,
- Organisation of small-scale mining,
- A national mining plan,
- Strengthening of fiscal procedures.

The investments required and the viability of the projects underway or to be initiated can be seen in the following:

The Loma de Niquel project is located in the municipalities of Guaicaipuro and Santos Michelena between the boundaries of the States of Aragua and Miranda. The objective is to explore, exploit, transport and commercialise ferronickel. The companies investing in the project are Anglo-American, Grupo Federal of Venezuela, Jordex Group, and the World Bank through the IFC, forming Minera Loma de Niquel. The deposits comprise 49.85 Mt with reserves of 44 Mt. The estimated production of 1.2 Mt/y, starting in 2001, will produce some 16,000 t of nickel contained in ferronickel. The investment planned is in the order of US$548 million. The mine is actually under production, generating 513 direct jobs and 3,500 indirect jobs, utilizing local labour. Of the total investment more than 50% could be Venezuelan (between goods and services).

The only commercially exploitable kimberlite pipes that have been discovered on the South American continent to date are located in Venezuela in the Guaniamo Region, in the heart of the Orinoco-Apure Axis, Municipality of Cedeño, State of Bolivar. The kimberlite mantos are the most extensive in the world, measuring some 15 km in length and 5 km in width, with average content of 1.5 carat/t. Promoting this venture is the Venezuelan-Canadian-US consortium comprising El Toco, Teck Corp., Resources Finance Corp., and private US and Venezuelan groups. Initial investment for Phase I will be about US$5 million, followed by a second investment of US$14.1 million, and subsequently with the following phases the project will involve investment of up to US$800 million. In the year 2000 activities were limited to exploration followed by feasibility studies. The project will generate 2,000 direct jobs, with 4,500 to 12,000 indirect jobs. During the first year the production could reach 180,000 carats with a value of US$50/carat, and in the succeeding three years production could increase by 7,500 carat/y.

In the Kilometer 88 District of the State of Bolivar a group of mining companies is undertaking the exploration, exploitation, transport and commercialisation of copper-gold deposits with an estimated investment of US$570 million. Las Cristinas is a joint venture project between Placer Dome (70%) and state-owned CVG-Minerven (30%), but at present development has been suspended due to the prevailing low gold prices. If and when the project proceeds there will be 2,500 direct jobs and 4,000 indirect jobs generated. This is considered to be one of the largest deposits in South America, containing an estimated 7.4 Moz of gold reserves.

During the period Crystallex conducted some of its programmed 4,000 m drilling campaign on its wholly-owned Tomi concession and resumed work on the Albino 1 concession in the Kilometer 88 District. The drilling was to explore the potential of four main targets, the McKenzie, Charlie Richards, Milagrito and Fosforito deposits, where zones of thick mineralisation were encountered, in places showing 15 g/t Au. Some high-grade zones were intersected such as 39.04 g/t over 9.0 m, and 16.48 g/t over 20 m. At the Albino 1 concession Crystallex dewatered the open pit to prepare for the ramp that will access the higher grade underground Conductora ore zone.

Crystallex expanded its Revemin mill where throughput had averaged 1,400 t/d, which, with modifications, could handle 3,000 t/d. The company has projected production of 200,000 oz gold for 2002, with production costs of US$200/oz. It was reportedly producing 70,000 oz/y. In May it was stated that Crystallex had signed a letter of intent to acquire the Venezuelan properties of Bolivar Goldfields which included Dividival I and II, and Belen II concessions in the El Callao greenstone belt. Near the end of the year it was reported that a Legislative committee supported Crystallex's proposal to proceed with the development of Areas 4 and 6 in the Las Cristinas copper-gold project. The company has a budget of US$400 million for Las Cristinas. Placer Dome has a budget of US$575 million, also for Las Cristinas.

The Canadian company, Gold Reserve, through its subsidiary Compañia Aurifera Brisas del Cuyuni, has proposed to the Government of Venezuela to unify the Las Cristinas deposit with its Brisas del Cuyuni deposit to convert both into one of the largest gold deposits in Latin America. Gold Reserve has invested some US$70 million so far in its Brisas deposit.

Bema Gold has agreed to sell its 45% controlling interest in El Callao Mining Corp. to Crystallex International. Bema is selling the interest (in conjunction with a debt of about US$14.3 million) and a 2% royalty on the cash flow from a Lo Increible, project which hosts reserves of 11.4 Mt at a grade of 3.14 g/t Au. In return for the interest and royalty, Bema will receive US$6.7 million and a 1% net smelter return royalty. Crystallex has also agreed to make a takeover bid for the remaining shares in El Callao Mining.

The Block B project is located in the Municipality of El Callao, in the State of Bolivar where CVG - Minerven owns 1,795 ha which include the Laguna Chile, Santa Rita, Panama and Aluviones properties to be explored and exploited. The estimated investment is US$400 million for exploration and US$200 million for exploitation. The project is presently being promoted, and if it gets underway it should generate 100 direct and 500 indirect jobs during the exploration phase, and 400 direct and 2,000 indirect jobs during the mining phase.

Hecla Venezolana is working in the Camorra area, Sifonte Municipality, State of Bolivar, exploring for, and mining, gold. Financing the US$6 million investment are Monarch Resources Investment and Minera Hecla Venezolana. This project was underway in 2000, generating some 400 direct and 1,200 indirect jobs. It is presently operating.

The Brisas del Cuyuni project is located in the district of Kilometer 88, Sifontes Municipality, State of Bolivar. The objective is to explore and exploit gold deposits. It is being undertaken by Gold Reserve de Venezuela and Brisas del Cuyuni. An investment of US$400 million is required and during 2000, exploration was underway. During the construction phase some 900 direct and 1,800 indirect jobs will be generated. During the operating phase some 600 direct and 4,000 indirect jobs will be generated.

Iron-ore producer, Ferrominera del Orinoco will undertake investments of some US$2,037 billion during the period 2000-2004, generating 2,200 direct and 7,100 indirect jobs, at a number of projects.

On June 20, 2000, the Posven direct reduction iron-ore plant, was inaugurated by President Chavez. Eight firms from Korea, Mexico, the US and Venezuela are participating in this project which consists of the construction and operation of a direct reduction plant to produce briquettes, a development underway in the City of Puerto Ordaz. International Briquettes Holding (IBH) is the constructor of the plant which will have a capacity of 1.5 Mt/y of molten briquettes. The investment is US$378 million, generating some 860 direct and 2,700 indirect jobs. With the completion of Posven, Venezuela will have an installed capacity of 8.18 Mt/y, a level which will increase to 10.3 Mt/y when the Orinoco Iron plant is inaugurated.

CVG and Ferrominera Orinoco have approved an investment of US$350 million in Ciudad Guayana, Bolivar State, for the construction of a pellet plant to fill the deficit in the national market. At present the project is at the feasibility study stage. This project will generate 300 direct and 350 indirect jobs.

In Ciudad Piar, State of Bolivar, CVG-Ferrominera Orinoco are contemplating re-opening reserves of the low grade, soft ore in the Altamira mine. This will produce mill feed for the concentrating plant, requiring an investment of US$74.6 million and will generate some 80 direct and 100 indirect jobs. At present the project has reached the feasibility study.

Another US$211 million project in Ciudad Piar, Bolivar State aims to construct a plant to concentrate friable low-grade iron ore with an annual capacity of 8 Mt that will create 300 direct and 350 indirect jobs. CVG and Ferrominera Orinoco are the promoters of the project and at the moment a bidding process is underway while a pilot plant is operating.

The Guajira coal project is to exploit, transport and commercialise the coal in the Mina Norte and Cachiri mines, and requires an investment of US$1.34 million. The deposits are located in the Paez and Mara Municipalities, State of Zulia. The promoters of this project are Corpozulia-PDVSA, Carbozulia and Carbones del Guajira. Some 218 direct and 1,901 indirect jobs will be created. At present Mina Norte is in operation and the Cachiri mine is still being developed.

In northwestern Venezuelan, in the Municipalities of Democracia, Miranda, Urumaco, and Buchivacoa in Falcon State, a project is underway to explore, exploit, transport and commercialise coal from the Pedregal deposits in the Cerro Pelado Formation. This is a Ministry of Energy and Mines project and requires an investment of US$52.7 million. It could create 200 direct and 3,000 indirect jobs. The granting of properties is underway.

These projects were described by Engineer Jose Fernandez Betancourt, Director of Planning and Mineral Economics in the Venezuelan Ministry of Energy and Mines in his Report of February 28, 2001.

During 2000 Bauxilum, the Venezuelan State-owned bauxite company, was negotiating an agreement with the French group Pechiney to confirm a pre-agreement to invest in two companies that belong to the state.

It was reported at year end that the agreement between Bauxilum and Pechiney would mean an investment of US$260 million, which would increase alumina capacity from 1.7 Mt/y to 2.15 Mt/y, and in a second phase could increase it still further to 3 Mt/y. Participation by the French firm in Alcasa might also be considered in the future. Pechiney has been interested in a new primary aluminum smelter and rolling mill project.

Venezuela can look to progress in its mineral resources. The *Latin American Monitor* reported in November that President Hugo Chavez is aiming to cut dependence on the oil sector. The mining sector remains underdeveloped and will be a key focus over the next few years, with the government aiming for investment of US$6.9 billion by 2004.