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GAS LICENSES IN VENEZUELA AFTER THE LIMITED LIFTING OF U.S. GOVERNMENT SANCTIONS: THE CASE OF CAMPO DRAGÓN AND CAMPO COCUINA

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This LEGA Outlook aims to summarily present the current landscape of offshore gas licenses in Venezuela, with a particular focus on the licenses granted in 2024 for the exploration and exploitation of non-associated gaseous hydrocarbons in the Dragon and Cocuina fields.

I. Legal Framework of Gas Licenses in Venezuela

The natural gas industry in Venezuela has undergone a significant evolution, going from being considered a business subordinated to oil production and without any commercial value, to its recognition as a relevant energy resource with a high social impact.¹

With the enactment of the Organic Law on Gaseous Hydrocarbons (LOHG) in 1999,² a legal framework was created that allowed the participation of national or foreign

¹ Caro, Rubén A., Diego J. González Cruz, Nelson E. Hernández Reyes, and Pedro M. Machado Segovia. The Natural Gas Industry in Venezuela. Caracas: J.C.S. Publicidad, 2023. Page 3. Available in: https://acading.org.ve/wp-content/uploads/2023/02/LA_INDUSTRIA_DEL_GAS_NATURAL_EN_VENEZUELA.pdf

² Official Gazette No. 36.793 of 23 September 1999.

private persons, with or without the participation of the State, who wish to carry out exploration and exploitation activities of non-associated gaseous hydrocarbons, by obtaining a license³. Licences are granted for specific projects aimed at national development.

II. Natural gas projects in the Dragon Field and Cocuina Field

II.1.- Dragon Field

In the early 1990s, Venezuela attempted to tap into the gas potential of the northern Gulf of Paria through the Cristóbal Colón Project, in which PDVSA/Lagoven, Shell, Exxon, and Mitsubishi signed a strategic partnership agreement to develop that potential. The project involved the Mejillones, Patao, Dragon and Rio Caribe fields and was approved by the National Congress,⁴ in accordance with the Organic Law that reserves the Industry and Trade of Hydrocarbons to the State⁵. Over time, the project was modified and named the Mariscal Sucre Project.

The Dragon Field, located in the northern Gulf of Paria, is currently subject to a new exploration and exploitation license granted by the Ministry of People's Power of Hydrocarbons⁶ to the companies Shell and National Gas Company (NGC).⁷ This field is part of the significant gas resources of the northern Gulf of Paria, the exploitation of which has been the subject of various attempts and projects over the years.

In accordance with the terms of the license, it is established that seventy percent (70%) of the natural gas produced will be destined for the liquefaction of the Atlantic LNG Plant, and the remaining thirty percent (30%) to the petrochemical sector.

II.2.- Cocuina Field

³ See Article 24 of the Organic Law on Gaseous Hydrocarbons.

⁴ Official Gazette No. 35.293 of 3 September 1993.

⁵ Official Gazette No. 1,769 of August 29, 1975.

⁶ Official Gazette No. 43.030 of December 17, 2024.

⁷ Official Gazette No. 6,793 extraordinary of January 29, 2024.

The Cocuina Field, located in Venezuelan territorial waters east of the Delta Amacuro state. Like the Dragon Field, this area is of significant strategic importance due to its proximity to the maritime border shared between Venezuela and Trinidad and Tobago.

In 2003, the then Ministry of Energy and Mines granted Statoil Venezuela (currently Equinor Energy Venezuela AS since 2018) a license to explore and exploit hydrocarbons in this region for a period of 35 years.⁸ As initial consideration, Equino paid US\$32 million at the time of the award, in addition to presenting a letter of credit for US\$60 million as a guarantee of compliance with the obligations arising from the minimum exploratory program.

However, by means of a decision published in the Official Gazette No. 42,439 of August 12, 2021, the companies Equinor Energy Venezuela AS and TotalEnergies EP Venezuela BV (which acquired a stake in the license in 2006)⁹ formalized their waiver of the rights granted by said license to carry out activities related to gaseous hydrocarbons in this territory.

In this context, the recent Manakin-Cocuina project has gained international relevance. This project, led by BP Exploration (Caribbean) Limited and NGC Exploration and Production Limited, is developed under various bilateral agreements between the governments of Venezuela and Trinidad and Tobago.¹⁰ These instruments include: the Framework Treaty on the Unification of Hydrocarbon Deposits (signed on 20 March 2007), the Unification Agreement for the Exploitation and Development of the Manakin-Cocuina Fields (signed on 24 February 2015) and the Framework Agreement on Energy Cooperation (also signed on 24 February 2015).

⁸ The License conferred on Statoil the rights to carry out the exploration and exploitation of non-associated gaseous hydrocarbons in Block 4 (Lots B and E) of the Deltana Platform, granted by Resolution No. 043 dated February 14, 2003, and published in the Official Gazette No. 37,641, dated February 27, 2003.

⁹ In accordance with official letter No. 031, dated January 24, 2006, the then Ministry of Energy and Petroleum authorized the assignment of forty-nine (49%) of the rights of the License to TotalEnergies EP Venezuela BV, with Equinor retaining fifty-one (51%) of participation in the aforementioned Exploration and Exploitation License.

¹⁰ Simón Herrera Celis. Considerations on Liquefied Natural Gas Projects. Law and Society, August 8, 2024. Available in: <https://www.derysoc.com/consideraciones-sobre-los-proyectos-de-gas-natural-licuado/>

In accordance with the terms set forth in the current license,¹¹ the natural gas produced will be exported to Trinidad and Tobago, of which seventy-five percent (75%) will be used for liquefaction at the Atlantic LNG Plant, while the remaining twenty-five percent (25%) will be allocated to the petrochemical sector.¹²

III. Conclusions

- The LOHG establishes a legal framework that allows the participation of the private sector in exploration and exploitation activities of non-associated hydrocarbons, provided that they have the authorization of the corresponding Ministry by obtaining a license¹³.
- The granting of licences, such as the Dragon Field to Shell and National Gas Company (NGC), as well as the Manakin-Cocuina project led by BP Exploration (Caribbean) Limited NGC Exploration and Production Limited, is part of an international cooperation strategy that is of great importance in the national interest.
- The collaboration between Trinidad and Tobago and Venezuela represents a strategic opportunity. Venezuela takes advantage of natural gas liquefaction infrastructure in Trinidad and Tobago, with the latter benefiting from Venezuelan natural gas reserves. This international synergy is beneficial for the efficient exploitation of resources, access to technology and the establishment of strategic alliances.
- The partial relaxation of economic sanctions imposed by the Office of Foreign Assets Control (OFAC) has created a more conducive environment for investment in the Venezuelan energy sector. However, it is critical to understand that these measures are temporary and conditional, subject to OFAC's discretion. Venezuela must take advantage of this favorable context to consolidate its position as a reliable supplier of natural gas, but acting with due diligence and adherence to national legislation.

¹¹ Official Gazette No. 6,826 of July 29, 2024.

¹² See the Sixth Resolution of the Official Gazette No. 6,826 extraordinary of July 29, 2024.

¹³ See Article 24 of the Organic Law on Gaseous Hydrocarbons (LOHG) of Official Gazette No. 36.793 of September 23, 1999.

- Venezuela should consider that these licenses can be revoked if the conditions that allowed the partial lifting of sanctions change. Therefore, licensees must act with foresight, ensuring compliance with contractual terms and safeguarding national interests.

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