

## Client Alert

# Venezuela Opens Oil & Gas Sector to Full Private Participation

On January 29, 2026, the Venezuelan National Assembly approved a reform of the Organic Hydrocarbons Law (the "**Hydrocarbons Law Amendment**"). The Hydrocarbons Law Amendment broadens the scope for private sector participation in the Venezuelan hydrocarbons sector by permitting private companies to conduct upstream hydrocarbon activities (exploration, production, and initial transportation and storage) ("**Primary Activities**") in Venezuela, as well as to commercialize natural hydrocarbons and derived products.

Before this amendment, Primary Activities could only be carried out by wholly-owned state entities (such as PDVSA) or joint ventures in which the State was majority (and controlling) shareholder. The previous legislation reserved the right to commercialize crude oil exclusively to wholly-owned state companies.

The Hydrocarbons Law Amendment brings Venezuela's legal framework for upstream hydrocarbon activities significantly closer to international standards in a number of areas.

We summarize the key changes introduced by the Hydrocarbons Law Amendment in this alert.

**Primary Activities:** Primary Activities which could previously only be performed by: (i) the National Executive or wholly-owned state companies or their affiliates; or (ii) joint ventures in which the State holds more than 50% of the share capital, may now also be performed by (iii) private companies domiciled in Venezuela under contracts executed with wholly-owned state companies or their affiliates.

**Joint Ventures:** The Hydrocarbons Law Amendment makes the joint venture regime more flexible. Joint ventures are now formed by Presidential Decree, rather than requiring authorization from the National Assembly.

Private sector minority shareholders may also be authorized by the Ministry of Hydrocarbons to (i) conduct operations and technical management of the joint venture; (ii) commercialize all production of the joint venture; and (iii) open and operate bank accounts.

Joint ventures are excluded from the application of the Public Procurement Law and may establish their own procurement rules.

Each joint venture has an initial term of twenty-five (25) years and is renewable for an additional fifteen (15) years.

**Contracts for Primary Activities ("Production Contracts"):** Private companies domiciled in Venezuela may now enter into Production Contracts with wholly-owned state companies (such as PDVSA) for the performance of Primary Activities. Under a Production Contract, the private operator will assume full management, responsibility, risk, and cost of operations and must demonstrate technical and financial capacity consistent with a business plan approved by the Ministry of Hydrocarbons. Hydrocarbon reservoirs will remain the property of the Republic.

In consideration for performing the Primary Activities under the Production Contract (and for bearing the associated costs and risks), the private operator may be compensated with either: (a) a percentage of production, which the private party may commercialize after payment of taxes; or (b) a profit-sharing mechanism.

Under Production Contracts, private operators may have the right to use state-owned operational assets and land. In return, private operators will pay the state-owned counterparty a percentage of the volume of produced hydrocarbons.

<sup>1</sup> A limited type of production service agreements known as CPPs were authorized by the Antiblockage Law of 2020, but its scope was limited and its legality questioned by certain commentators. Agreements entered into pursuant to this legislation will have to adapt to the new Production Contract regime within 180 days.



While other hydrocarbon-producing countries allow fully private operatorship under concessions or production sharing contracts, the enhanced authorizations available to private sector joint venture minority shareholders and the new form of Production Contract under the Hydrocarbons Law Amendment move the Venezuelan framework closer to the private operatorship models used in other hydrocarbons jurisdictions.

**Contractual Stabilization:** The Hydrocarbons Law Amendment introduces a stabilization mechanism applicable to joint ventures and Production Contracts. These agreements must include provisions designed to preserve their original financial and economic equilibrium, as well as any additional benefits granted to private companies in subsequent amendments.

If changes in the legal, tax, regulatory, or contractual framework occur after execution of an agreement which materially and adversely affect project economics, the agreement must be adjusted to restore such equilibrium. Adjustments may be made through modifications to royalties, taxes, fees, contract terms, conditions, or compensation.

Venezuela's new contractual stabilization mechanism is comparable to investment protection clauses typically included in production sharing and equivalent contracts in the international market.

**Dispute Resolution:** The Hydrocarbons Law Amendment allows parties to refer disputes arising under joint ventures and Production Contracts for resolution by mediation and arbitration. The Ministry of Hydrocarbons will issue guidelines for dispute resolution clauses. If a dispute resolution clause follows these guidelines, the clause will be exempt from the standard requirement for authorization by the Office of the Attorney General of the Republic.

While investors will need to review the guidelines once published, our expectation is that these changes will materially improve investment protection in the sector.

**Commercialization of Hydrocarbons:** Although commercialization of hydrocarbons remains formally reserved to wholly-owned state companies, and the Venezuelan framework still provides for a higher degree of State control over marketing activities than can be seen in other jurisdictions, joint ventures and private parties under Production Contracts may now be authorized to market all or part of the volumes they produce.

Direct commercialization does not imply transfer of ownership of reservoirs, nor does it constitute authorization to grant security interests over them.

Commercialization is subject to: (i) the Ministry of Hydrocarbons' commercialization plan; (ii) market-based pricing that is equal to or better than prices obtained by wholly-owned state companies; (iii) domestic supply requirements established by the Ministry; and (iv) compliance with tax and environmental obligations.



**Tax Regime:** The Hydrocarbons Law Amendment reduces the current tax burden on oil production as follows:

	Previous Position	Following the Hydrocarbons Law Amendment
<b>Royalties</b>	Thirty percent (30%) royalty from volumes of hydrocarbons extracted and not used in operations, which could be exceptionally reduced to twenty percent (20%) to make a project economically viable. However, this could be restored to thirty percent (30%) if the project was liable under the increased rate.	Up to thirty percent (30%) royalty from volumes of hydrocarbons extracted and not used in operations, with the precise rate to be determined by the Ministry of Hydrocarbons, taking into account the nature of the project, necessary capital investments, project feasibility, and international competitiveness.  This rate may be adjusted as necessary to restore the economic equilibrium of the project.
<b>Hydrocarbons Sector Taxes</b>	Various hydrocarbons sector taxes, including surface tax, extraction tax, own consumption tax, windfall tax.	Up to fifteen percent (15%) in Integrated Hydrocarbons Tax on gross annual revenues. This rate will be determined on a per-project basis.  This tax may be paid in cash or in kind, in whole or in part. Although liquidated annually, it must be paid through monthly advance instalments.  This rate may be adjusted as necessary to restore the economic equilibrium of the project.
<b>Income Tax</b>	Fifty percent (50%) fixed rate of income tax.	Fifty percent (50%) rate of income tax, which may be reduced to restore the economic equilibrium agreed at inception.

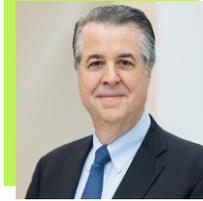
State-owned and private parties are now also exempt from several taxes generally applicable to businesses in Venezuela which previously applied to oil-related activities, including the large wealth tax, and special contributions under the Organic Law of Science, Technology and Innovation, the Organic Law on Sports, the Organic Law on Drugs, and the Law for the Protection of Social Security Pensions. Social responsibility contributions under the Public Procurement Law, as well as state and municipal taxes, are also disappplied.

While the Integrated Hydrocarbons Tax remains a revenue-based tax, the Hydrocarbons Law Amendment introduces an overall more consolidated and flexible fiscal regime.

# Key contacts



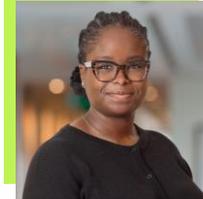
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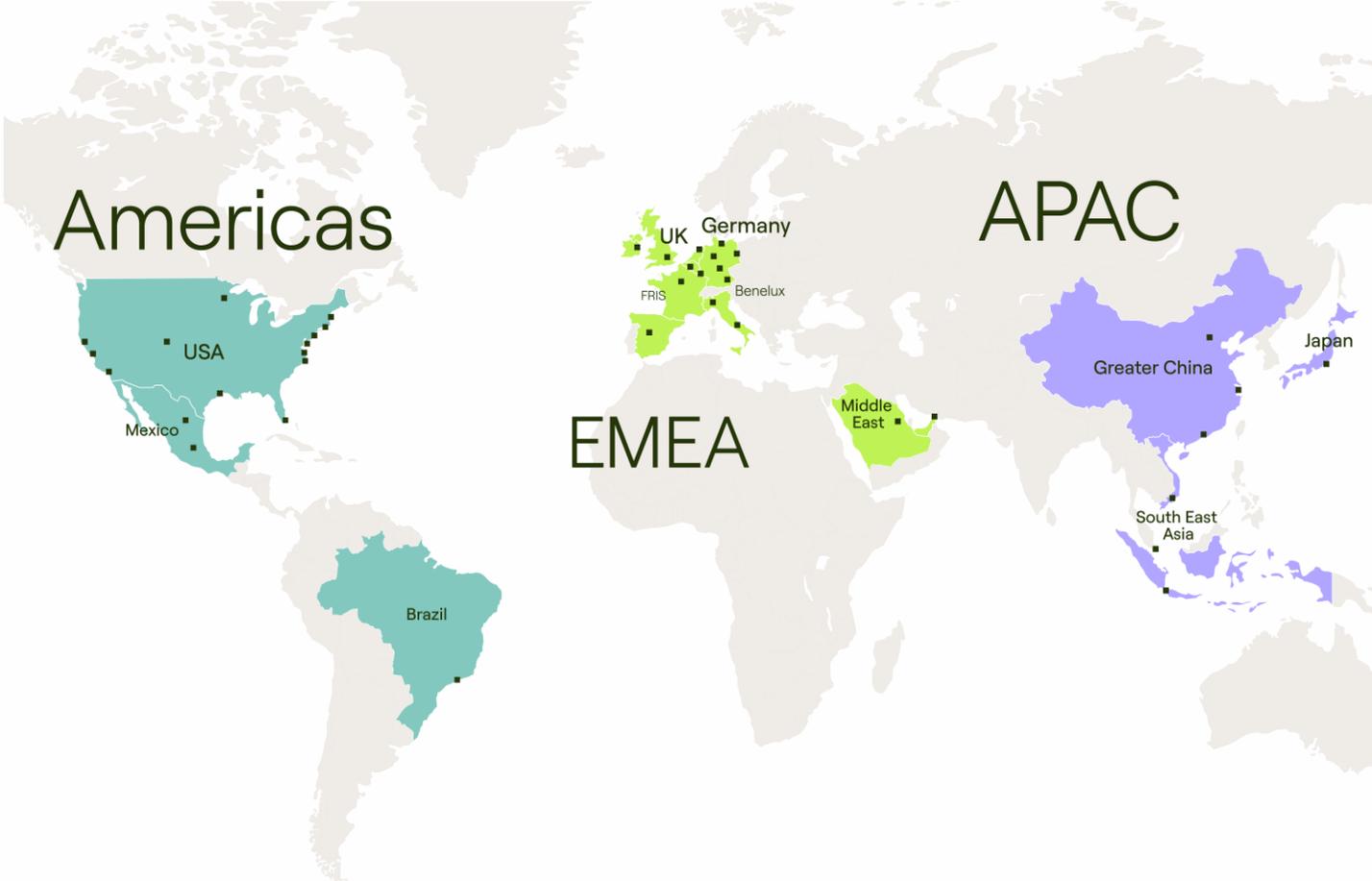
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