COMPREHENSIVE LEGAL & TECHNICAL SUMMARY

General Regulation of the Organic Law of Hydrocarbons (Decree No. 2026-H1)

Promulgated By:	Executive Presidency — Delcy Eloína Rodríguez Gómez	**Counter-Signature:**	Paula Kristina Henao Vera
Jurisdiction:	Bolivarian Republic of Venezuela	**Scope:**	National Territory & Sovereign Waters

1. General Provisions, Objective & Scope (Title I)

The decree codifies the operational structures necessary to implement the **Organic Law of Hydrocarbons (Ley Orgánica de Hidrocarburos - LOH)**. As outlined in **Article 1**, its core objective is to execute technical-administrative guidelines, optimize sovereign fiscal collection, and govern public, mixed, and private capital operations across the entire petroleum and derivative value chains.

The regulatory scope covers all liquid and gaseous hydrocarbon resources within national borders. It strictly establishes that all hydrocarbon deposits belong to the Republic's public domain, are inalienable, and cannot be subject to prescription or liens.

2. Formal Definitions & Structural Framework (Article 2)

To eliminate ambiguities in contract management and administrative oversight, **Article 2** institutionalizes precise operational definitions:

- **Primary Activities:** Upstream operations encompassing geographical and geophysical exploration, field appraisal, technological drilling, extraction in its natural state, collection, field-level transportation, and initial storage of liquid and gaseous hydrocarbons.
- **Joint Operating Agreements (AOC - Acuerdos de Operación Conjunta):** Binding administrative and corporate contracts that delineate equity distribution, technological transfers, investment obligations, risk mitigation mechanisms, and operational management protocols between the State and joint venture partners.
- **Operating Companies (Empresas Operadoras):** State-owned corporate entities, public corporations, mixed enterprises (Empresas Mixtas where the State retains a strict majority equity share of >50%), or contractually delegated entities directly tasked with executing downstream or upstream hydrocarbon projects.
- **Fiscal Production Acts (Actas de Fiscalización de la Producción):** Legally binding, co-signed administrative documents that record quantitative measurements (volumetric flows) and qualitative specifications (API gravity, sulfur, and water content) taken at official custody transfer points. These serve as the absolute baseline for national royalty and tax collections.

3. Guiding Administrative Principles (Articles 3 & 4)

All ministries, public corporations, and private operators must conduct operations in compliance with core public administration principles:

- **Legality and Proportionality:** State interventions and auditing measures must strictly conform to written statutory parameters, maintaining a justified balance between public interest and operational corporate autonomy.
- **Transparency and Legal Security:** Guarantees stable and clear contractual environments to safeguard capital investments, subject to explicit public reporting metrics.
- **Financial & Economic Equilibrium:** Formally recognizes that joint ventures and concessions must maintain a sustainable internal rate of return, allowing technical modifications to financial burdens when macroeconomic conditions deteriorate unexpectedly.

4. Upstream Operational Governance & Strategic Plans (Title II)

No operating company can engage in upstream extraction without securing explicit technical authorizations from the Ministry of Petroleum. Operations are bound by three foundational regulatory blueprints:

1. **Minimum Exploratory Program:** A mandatory schedule of physical, geological, and seismic interventions required during the initial phase of a contract area. It guarantees that public land assets are actively appraised rather than held speculatively.
2. **Business Plan (Plan de Negocios):** A comprehensive technical-economic multi-year framework. It must explicitly outline calculated Capital Expenditures (CapEx), projected Operating Expenses (OpEx), production curve goals, drilling configurations, and technological deployment timelines.
3. **Extraction Work Plan (Plan de Trabajo de Extracción):** An mandatory annual tactical-operational mandate submitted before each fiscal year, outlining month-by-month well interventions, fluid reinjection schemes, and short-term production quotas.

Heavy and Extra-Heavy Crude Upgrading (Articles 39–41)

Recognizing the physical characteristics of the Orinoco Oil Belt, the regulation classifies heavy and extra-heavy crude upgrading as a **Primary Activity** associated with extraction. Upgrading projects must submit extensive process descriptions, specifying blending diets, diluent ratios, catalyst cycles, and industrial subproduct yields (such as petroleum coke and sulfur).

Private and public consortia are authorized to build and operate upgrading infrastructure under a regulated tariff regime. Tariffs are strictly calculated to cover CapEx amortization and operational maintenance, ensuring fair distribution under service agreements with state-controlled operating companies.

5. Fiscal Regime: Oil Rent Capture, Royalties & Taxes (Title II, Chapter III)

The regulation outlines a rigorous fiscal model designed to ensure maximum national rent capture while preserving project bankability. Taxable subjects are limited strictly to the Operating Companies executing primary activities.

Fiscal Instrument	Maximum Rate	Liquidation Interval	Regulatory Mechanism & Base Assessment
Hydrocarbon Royalty (Regalía)	Up to 30%	Monthly Assessment	Assessed directly on gross volumetric outputs at custody transfer points. Calculated using monthly average market quotation indexation. Applies to all liquids and non-reinjected associated natural gas.
Integrated Hydrocarbons Tax	Up to 15%	Monthly Advances / Annual Close	Levied directly on the gross operating revenues generated by Operating Companies. Subject to monthly provisional advances with a final comprehensive settlement at the end of the calendar fiscal year.

Fiscal Adjustment and Relief Mechanisms (Articles 45–46): If an asset faces structural economic hardship or declining production due to mature field kinetics, the Ministry of Petroleum holds the executive power to adjust the Royalty and Integrated Tax rates downward to guarantee project continuity. If broader relief is justified, the Ministry can coordinate directly with the Ministry of Finance to issue special, temporary Income Tax (ISLR) exemptions or rate reductions.

Liquidation Rules: All finalized fiscal notifications must be completely settled in liquid capital within five (5) business days. The Ministry reserves the statutory right to demand these payments either in cash (convertible currencies) or in-kind (direct allocations of physical crude oil barrels).

6. Commercialization, Logistics & National Hydrocarbons Balance (Title IV)

All downstream activities, processing, and distribution networks are subordinated to centralized national energy planning through the **National Hydrocarbons Balance** (Article 77). This document acts as an annual mandatory matching model that analyzes total national refined output against domestic industrial, thermoelectric, and commercial energy demands.

- **Domestic Market Priority:** The uninterrupted supply of motor fuels, LPG, and industrial inputs to the local economy takes legal precedence over export commitments. During national energy deficits or force majeure events, the Ministry can implement emergency allocation vectors to divert export-bound products to critical domestic infrastructure.

- **Import Substitution Framework (Article 78):** The regulation mandates that operating companies prioritize domestic engineering and refining solutions to eliminate reliance on foreign diluents, light crudes, and imported chemical additives used to lower heavy crude viscosity. Joint ventures must invest in domestic modular stabilization and dehydration units.
- **Foreign Trade Authorization:** Exports of crude oil, upgraded synthetic crudes, or refined products require an approved annual **Commercialization Plan** authorized by the Ministry. The regulatory framework incentivizes high-value downstream derivatives and upgraded crudes, penalizing the unrefined export of low-value, high-sulfur mixtures.

7. Technical Inspection, Fiscalization & Digital Systems (Title VII)

Oversight is executed permanently through the Ministry's **Regional Administrative Units**, which exercise unannounced auditing authority over all technical, financial, and environmental performance vectors.

Advanced Surveillance Technologies (Articles 94–95): State inspectors possess unrestricted access rights to all operational assets. The regulation establishes a shift toward risk-based digital auditing. Facilities must integrate digital telemetry networks, including automated flow-metering computers, ultrasonic level sensors, and real-time pressure transducers linked directly to the Ministry’s central data network. Furthermore, inspectors are authorized to deploy Unmanned Aerial Vehicles (drones) and thermal imaging sensors to verify asset integrity and discover unmapped greenhouse gas emissions or venting.

Digital Transition Mandate (Article 92): To remove bureaucratic delays, the Ministry is legally required to implement a centralized **Digital Procedure System (Sistema Digital de Trámites)** within ninety (90) days of this decree, digitizing all permitting, environmental licenses, and operational authorizations.

8. Penalties, Contract Revocation & Sanctions (Title VIII)

Administrative infractions lead to enforcement actions managed by the Regional Directorates. To insulate the penalty framework from local monetary volatility, all monetary fines are explicitly indexed to the official exchange rate of the highest-value currency published daily by the Central Bank of Venezuela (Banco Central de Venezuela - BCV), designated as **"T/C"**.

Statutory Penalties and Fine Classifications:

- **General Administrative Violations:** General failures to submit data, minor reporting delays, or minor operational deviations trigger graduated fines ranging from 50 T/C up to a maximum of 50,000 T/C, along with temporary partial shutdowns.
- **Domestic Supply Shortfalls:** Unjustified or negligent failure to comply with allocated domestic delivery quotas under the National Hydrocarbons Balance results in immediate fines up to 50,000 T/C and structural suspension of operating permits.
- **Fuel Diversion & Contraband:** Any unauthorized transport or diversion of heavily subsidized domestic fuel for cross-border contraband or parallel markets leads to immediate contract cancellation, permanent blacklisting from the national energy registry, and a penalty equivalent to double the market value of the seized cargo.

- **Quality Adulteration:** Artificially altering fuel properties or distributing commercial derivatives that fail to meet approved technical and environmental specifications triggers fines between 15,000 T/C and 50,000 T/C, alongside immediate facility closure.
- **Revocation of Upstream Operating Rights:** The State reserves the absolute right to unilaterally terminate concessions, joint venture licenses, or operating contracts if the entity:
  1. Fails to execute the approved multi-year Business Plan or minimum exploratory commitments.
  2. Defaults on final fiscal payment notifications beyond regulatory timelines.
  3. Ceases primary production activities for an accumulated twelve (12) months within any given three-year window without formal, verified technical justification.