HYDROCARBONS REGULATION

VENEZUELAN DECREE NO. 2026-H1

Comprehensive Legal, Technical, Operational, and Fiscal Analysis of the New Regulatory Framework

Constitutional & Legal Scope

Article 1: Technical & Operational

Establishes rigorous oversight protocols over the entire industrial chain, including exploration, extraction, upgrading, and internal commercialization.

Enforces permanent sovereignty of the Republic over national deposits and guarantees maximum rent capture from state natural resources.

Article 3: Guiding Principles

Institutionalizes contract transparency, good faith, technical accountability, environmental compliance, and macroeconomic-financial equilibrium.

Recognizes that private and public operator concessions must remain economically sustainable to ensure ongoing technical investment.

Official Operational Definitions

Primary Activities

Defined as core upstream tasks including seismic exploration, drilling, extraction, initial field collection, and baseline storage of crude and associated gas (Article 2).

Joint Operations (AOC)

Corporate contracts defining risk allocations, costs, technological transfers, and operational management protocols between the State and joint venture partners.

Fiscal Production Acts

Legally binding volumetric records of fluid quality and quantity taken at transfer points. Serves as the absolute baseline for all royalty assessments.

Upstream Authorization Regimes

- **Minimum Exploratory Program:** Mandatory physical field interventions, geological mapping, and exploratory well configurations to actively appraise public land assets (Articles 15–16).
- **Strategic Business Plans:** Comprehensive multi-year projections outlining Capital Expenditures (CapEx), Operating Expenditures (OpEx), targeted drilling schedules, and expected production curves (Article 26).
- **Annual Extraction Mandates:** Obligatory technical-operational schedules detailing month-by-month extraction quotas, reservoir management, and pressure maintenance schemes (Article 28).
- **Performance Guarantees (Fiel Cumplimiento):** Binding corporate performance bonds required to secure execution of upstream plans, subject to administrative grace periods for correction (Article 18).

Orinoco Heavy Oil Upgrading

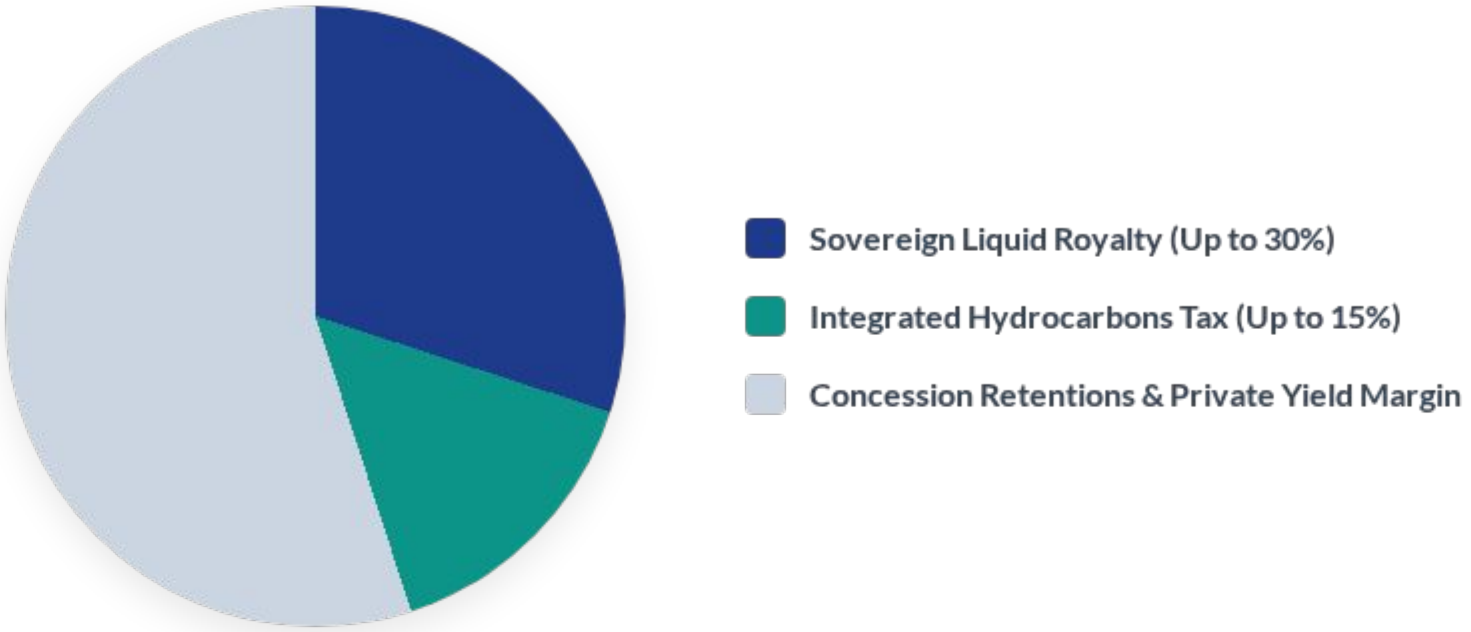
Industrial Midstream Rules

Heavy oil upgrading is legally classified as a **Primary Activity** under Article 39.

Operating consortia are authorized to recover capital investments through regulated processing tariff systems.

Plans must outline process diets, diluent ratios, catalyst cycles, and industrial coke/sulfur yields.

The Fiscal Capture Architecture



The fiscal model enforces maximum capturing of sovereign petroleum rent while providing a flexible mechanism under Articles 45–46 to decrease rates and sustain mature field economic viability.

Comprehensive Taxation Details

Tax Type / Levy	Statutory Ceiling	Base Assessment Method	Settlement Provisions (Article 47)
Sovereign Royalty	30.0%	Gross volumetric output at transfer point	Liquidated monthly; cash or direct in-kind crude allocations.
Integrated Tax	15.0%	Gross operating company revenues	Settled via monthly provisional advances; annual closeout.
Income Tax (ISLR)	Variable	Net taxable fiscal corporate profit	Allows Ministry of Finance offsets for marginal projects.

Supply Priority & Import Policies

National Hydrocarbons Balance

Under Article 77, all exports are subordinated to the annual domestic energy demand curve. Local supplies of motor fuel, gas, and power take absolute priority.

- **Import Substitution:** Mandates progressive elimination of light naphtha imports used for heavy crude diluent blending (Article 78).
- **Export Prioritization:** Encourages the export of refined derivatives and upgraded crudes over unrefined mixtures.

Advanced Digital Oversight

Digital Telemetry

Mandatory installation of real-time flow computers, ultrasonic levels, and pressure transducers linked directly to central server databases (Articles 94–95).

Aerial Inspections

Authorization of Unmanned Aerial Vehicles (UAVs) and infrared/thermal imagery systems to detect environmental leaks or unmapped emissions.

AI Procedures

Centralized AI analysis on flow computer data to detect volumetric deviations, preventing crude bypasses and optimizing digital permitting.

Environmental Exit Chronology

5 Years Prior

Operating Companies must commission an independent, certified environmental closeout audit (Article 105).

2 Years Prior

Mandatory presentation of the Asset Decommissioning and Abandonment Plan for safety (Article 106).

Contract Expiration

State-witnessed soil and water baseline restoration verification before final license release.

Graduated Penalties Index

50k

Times the Highest BCV Currency Index (T/C)

Strict Compliance Scaling

To insulate regulatory fines from inflation, all penalties are indexed to the highest-value official currency exchange rate (T/C) published by the Central Bank (Articles 108–113).

Leves (3k T/C): Minor administrative or reporting delays.
Graves (Up to 30k T/C): Uncertified measurement tool calibration.
Gravísimas (Up to 50k T/C): Measurement tampering, environmental damage, or fuel smuggling.