

COOPERATION OF RUSSIA AND VENEZUELA. OPPORTUNITIES AND THREATS

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During the last year the world has changed. Evidently, under the present ambiguous circumstances it is crucial to build up new relations and develop the existing ones. Although it rings true for most of countries, the focus of the article is the Russian Federation. Lately efficient cooperation between different regions of the world was damaged due to political instability. However, there are still strong bounds that might not be highlighted. One of the strategic partners of the Russian Federation is Bolivarian Republic of Venezuela. The relations between our countries were established during the Soviet Union time on 14 March 1945. In 1991 the government of Venezuela officially recognized the Russian Federation as a successor of the USSR. The legal foundation of relations is the agreement of friendship and cooperation between the Russian Federation and the Bolivarian Republic of Venezuela which entered into force on 2 June 1997. The next memorable year is 1999 when Ugo Chaves won the election and became the President of Venezuela. Since that time constant diversification of contacts concerning various spheres has taken place and resulted into unprecedented development of economic and politic relations.

Nevertheless, in order to find out whether there is still potential for mutual benefit and room for improvement, analysis of countries' peculiarities is needed, which will be started with Russia. To begin with, one should bear in mind that the age of this country is only 20 years. For almost a century political, economic and social spheres had been functioning on completely different bases and it could not but influence whatever happened afterwards. Nowadays Russia is regarded as a country with transition economy. The main sector of economy is oil and gas industry. According to analysts from International Energy Agency, Russia is expected to keep its present position and stay the second-largest crude oil producer in the world.[1] Together export of mineral products and fuel and energy products constitute 84% of all export (Diagram 1 Structure of export from Russia to the world, January-August 2014) [2]. In 2013 the nominal GDP reached 2.097 trillion dollars[3]. Although currently we are facing a slowdown, forecast of the World Bank is positive (Graph 1 Economic Prospects of the Russian Federation) [4].

Taking into account a leading role of the energy sector in the Russian economy it is logical to assume that the slowdown might have been caused by both external and internal factors. Since the Russian internal market is large and there is hardly anything that cannot be found or produced on the territory of our country, diversification of economy could be an effective and feasible solution. However, it can be achieved provided that internal conditions are favorable and stable, but, unfortunately, business environment has not reached the highest standards yet. It is exemplified by the relatively low Economic Freedom score - 51.9 that makes Russia the 140th country in the world ranking. The main areas of concern are corruption, intellectual property rights protection and financial freedom[5].

While ideas of socialism were abandoned by authorities in Russia, they are still relevant for Venezuela, which is one of the reasons why analysis of its economic development promises to be interesting. The GDP in 2013 totaled 438.3 billion dollars[6], which is the third largest in South America after Brazil and Argentina. Despite negative trend of the previous years, the World Bank analysts expect the economy to recover (Graph 2 Economic Prospects of Venezuela) [7].

Venezuela offers for export a range of products: minerals, bauxite, aluminum, petroleum and petroleum products, chemicals, agricultural products. In 2013 the total export equaled

\$91.78 billion. The leading sector of Venezuelan economy is petroleum industry, which makes up 96% of total export and almost half of the budget revenues. The country is rich in natural resources, which is illustrated by 297.6 billion barrel of oil in proved reserves. In 2012 everyday about 1.645 million barrel were extracted[8]. Not surprisingly, likewise Russian economy, the Venezuelan is also very sensitive to the changes in the world oil market. Apart from issues related to market volatility, in order to achieve higher economic development the Bolivarian Republic has to overcome other various obstacles. Judged by its economic freedom score, it falls below the world average and is ranked 175th, what is even more alarming, that is in the list of South and Central America/Caribbean region, Venezuela is ranked 28th out of 29. Another sad observation is descending trend of the index over the last years (Graph 3 Index of Economic Freedom) [9].

A look into components of the index provides a bigger picture. Despite detailed regulation of activity, there are evident problems with enforcement. Property rights are poorly protected and corruption has almost become legendary. Bureaucracy slows down development and value creation, while aggressive nationalization policy scares away investors. As for monetary freedom, there are evident contradictions. The economy is widely regulated through exchange and price control which results into double-digit inflation rate, that reached 56.2% in 2013[10], and currency speculation due to overvalued official exchange rate. One cannot but mention the infrastructure, since it plays a crucial role for any kind of trade. In this sense, the position of Venezuela is improving. It is illustrated by the fact that country was ranked 83 based on average logistics performance index across 7 years, but in 2014 LPI of Venezuela was 2.81[11] which means 76th place in the world ranking.

Taking into account the structure of economy in the Russian Federation and the Bolivarian Republic of Venezuela, apart from many characteristics that unite us, resource-based development both secures welfare and suppresses other sectors of economy. Cooperation in this sphere could be beneficial for both countries. Even resource-based development can have different quality. There is certainly a significant difference between exporting crude oil or refined petroleum products. The latter means new technologies, new working places and, last but not the least, new level of profitability. At a glance, it comes to mind that in accordance with the economic theory two countries are considered competitors and should try to rival each other. It is not entirely true because the commodity itself is special and specific, so usual argumentation does not work. The best example of this statement would be the oil crisis of the 70th, when OPEC raised the price of oil and managed to influence the whole industry. Besides, Russia and Venezuela are interested in different markets; our main trade partner is Europe, while the USA is the major importer of Venezuelan oil. Both countries have already realized potential of such cooperation so several projects are already under way.

To fully exploit this opportunity, petroleum companies Gazprom Oil, LUKOIL, Rosneft, TNK-BP and Surgutneftegaz have created National Oil Consortium. Originally, it represented the interests of all members equally, but after some acquisitions the balance shifted towards Rosneft[12]. Nonetheless, it is functioning and involving projects in South American countries, one of them is Junin-6[13]. In 2010 National Oil Consortium and Petroleos de Venezuela S.A. created a joint venture Petromiranda. The shares are divided in the following way: 60% belongs to PDVSA, 40% belongs to NOC. The project includes exploration activities, extraction and selling of the product. The estimate volume is 450 thousand barrels per day. It is by no means worth mentioning that oil from Junin-6 belongs to heavy oils. This area has not received much attention so far, because it means implementation of new technologies. However, allowing for almost exhausted reserves of Russian light oil, there is no other option except to change the perception of oil industry. In the light of this, Junin-6 deserves closer attention. This project

implies construction of upgrader for heavy oil. It would be unfair to say that nothing is done in this direction on the territory of Russia, but having this experience in Venezuela may result into the development of industry here. From Venezuelan part, it is a unique opportunity to explore new possibilities in alliance with a long ago established partner. Participating companies are state-owned which enhances reliability.

Junin-6 is not the only project where Rosneft and PDVSA take part together. There are four more joint ventures: Petrovictoria, Petro Monagas, Boqueron and Petroperija. The total estimated oil reserves exceed 20.5 billion tons. The Russian share equals 40% of all joint ventures except Petro Monagas, of which only 16.7% belongs to the Russian company. Another consequence of cooperation in petroleum industry is development of financial relations. For example, Gazprom bank will finance JV Petrozamora S.A., created by Corporacion Venezolana del Petroleo S.A., owned by PDVSA, and Gazprombank Latin America Ventures B.V. So far, the total amount is 1 billion US dollars[14]. Fiscal breaks from the Government of Venezuela are another incentive to continue working in this country. Finally, political implication is important. Unlike Russia, Venezuela is a member of OPEC. During the last negotiations of Igor Sechin and Rafael Ramirez on 17 November 2014 the two parties agreed on the necessity to organize the international conference dedicated to the development of the world oil market. Later it was announced that the conference would take place in Vienna on 25 November 2014 followed by OPEC Summit on 27 November 2014[15]. We hope that this meeting will bring positive results for both parties and may have influence on other countries.

[1]IEA, Market Analysis and Forecast to 2019 URL: <http://www.iea.org/>

[2]Based on the data retrieved from the Federal Customs Service of the Russian Federation website

URL:<http://eng.customs.ru/>

[3]The World Bank Data The Russian Federation URL: <http://data.worldbank.org/country/russian-federation>

[4]Based on the statistics retrieved from the World Bank Database

URL: <http://databank.worldbank.org/data/home.aspx>

[5]2014 Index of Economic Freedom URL: <http://www.heritage.org/index/download>

[6]The World Bank DataVenezuela URL: <http://data.worldbank.org/country/venezuela-rb>

[7]Based on the statistics from the World Bank Database URL: <http://databank.worldbank.org/data/home.aspx>

[8]The CIA World Factbook URL: <https://www.cia.gov/library/publications/the-world-factbook/geos/ve.html>

[9]Based on 2014 Index of Economic Freedom URL: <http://www.heritage.org/index/explore?view=by-region-country-year>

[10]The CIA World FactbookURL: <https://www.cia.gov/library/publications/the-world-factbook/geos/ve.html>

[11]Connecting to Compete 2014 URL: <http://lpi.worldbank.org/>

[12]Agamalova, A.&Starinskaya, G. (2013)Rosneft is to buy LUKOIL share in Junin-6 Vedomosty

URL: <http://www.vedomosti.ru/companies/news/18504371/rosneft-namerena>

[13]National Oil Consortium website URL: <http://consorcio.ru/>

[14]Gazprom bank news URL: <http://www.gazprombank.ru/press/news/304938/>

[15]Sechin and The Head of Foreign Affairs Department of Venezuela discussed development of new projects (2014) RIA News URL: <http://ria.ru/economy/20141117/1033695208.html>

Источники и литература

- 1) 2014 Index of Economic Freedom URL: <http://www.heritage.org/index/download>
- 2) IEA, Market Analysis and Forecast to 2019 URL: <http://www.iea.org/>
- 3) The CIA World Factbook URL: <https://www.cia.gov/library/publications/the-world-factbook/geos/ve.html>
- 4) The National Oil Consortium URL: <http://consorcio.ru/>
- 5) The World Bank Database URL: <http://databank.worldbank.org/data/home.aspx>

Иллюстрации

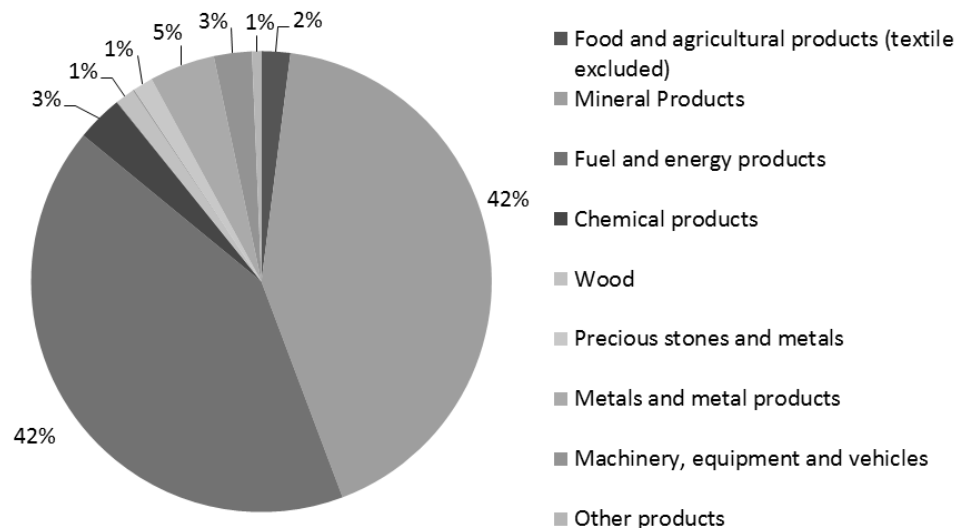


Рис. 1. Diagram 1 Structure of export from Russia to the world, January-August 2014

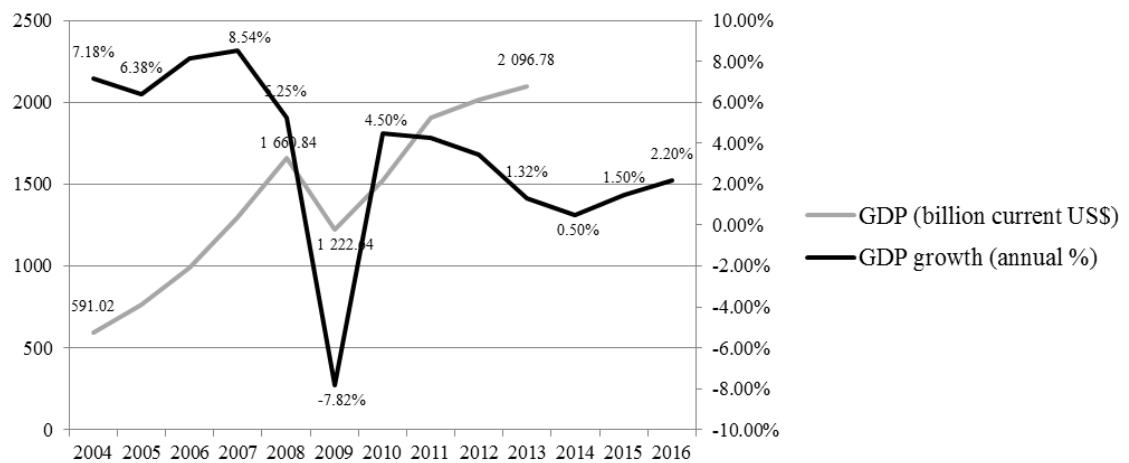


Рис. 2. Graph 1 Economic Prospects of the Russian Federation

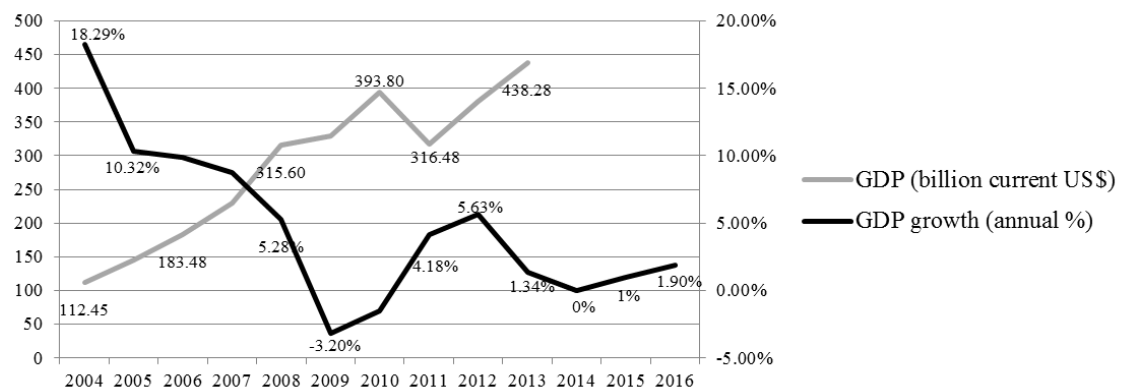


Рис. 3. Graph 2 Economic Prospects of Venezuela

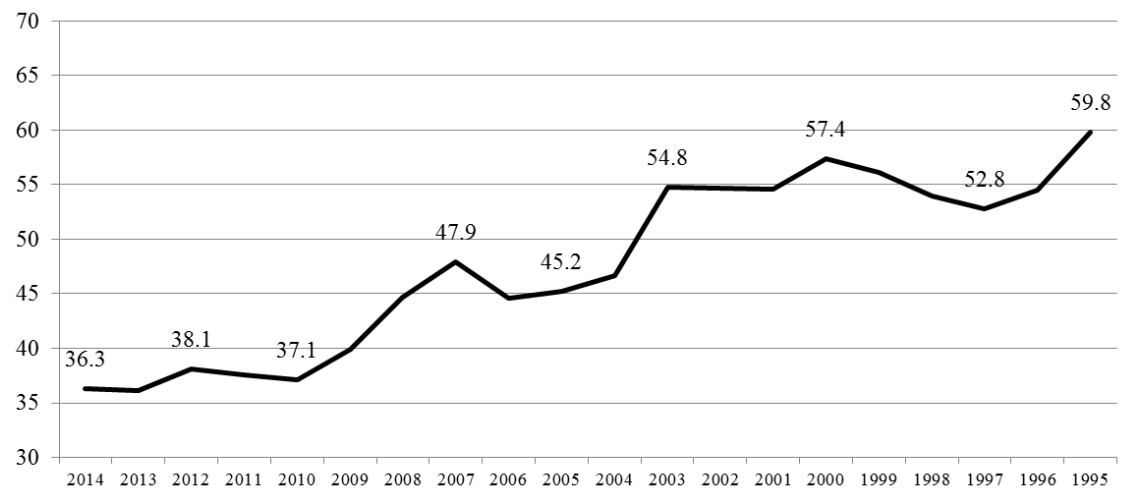


Рис. 4. Graph 3 Index of Economic Freedom