

VENEZUELA IS ONE OF THE LEADERS OF OPEC: FACTORS AND TENDENCIES OF THE PURSUED POLICY

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We know Venezuela as a one of major exporter of oil and as the country which holds the world's largest oil reserves. The first oil was drilled only in 1912 and soon after that, Royal Dutch Shell and Rockefeller's Standard Oil became major producers of oil in Venezuela. By the end of the 20th, Venezuela was already the world's second largest oil producer and the largest oil exporter. Of course, this breakthrough allowed the country to reach a new level of development, but, at the same time, it provoked an immediate and dramatic impact on the economy. The country experienced tremendous decline in agricultural and manufactured goods production because of extremely profitable oil export.

In 1943, Venezuela passed the new legislation that tied the revenues of the state budget mostly to the taxes from extraction of oil. However, by the middle of century world's oil market was oversaturated and prices dropped sharply. Therefore, in 1960 Venezuela called for the creation of Organization of Petroleum Exporting Countries to overcome these problems.

Because of the Middle East oil embargo of 1973 world oil prices and Venezuelan government revenues quadrupled. It allowed the newly elected president, Carlos Andr  s Perez, to promise that Venezuela would become a developed country within a few years. His projects were based on price control and income increases, economic diversification and nationalization of oil industry. Nationalization was completed in 1976 with the creation of Petroleos de Venezuela (PDVSA). Unfortunately, these plans did not help Venezuela to solve the problems of chronic inflation and rising indebtedness. As a result, they only worsened when, in the mid-80's the price of oil began to plummet, due to OPEC members' breaking of their production quotas. This decline in oil prices had a significant impact on Venezuela's economy, particularly on per capita income, which had been in a steady decline since the mid-80's and to the present.

When Hugo Ch  vez first came to power, in February 1999, one of his major priorities was to strengthen OPEC and raise the international price of oil. Oil had dropped to less than \$10 per barrel, largely because Venezuela was ignoring its OPEC oil production quotas during the previous government of Rafael Caldera. Also, non-OPEC members such as Mexico and Russia, were increasing their production considerably, further driving down the price of oil. Ch  vez immediately put Al  odr  guez in charge of the Ministry of Energy and Mines (MEM), which oversees PDVSA and oil policy. Within the new government's first 100 days, Rodriguez visited most OPEC and non-OPEC oil producing countries and returned with a commitment from most these countries to reduce production or abide by their OPEC quotas. The price of oil immediately went up, from an average price of \$12.28/barrel for 1998 to \$17.47/barrel for 1999, one of the largest non-war related increases of the past decade. Later, Ch  vez and Rodriguez managed to convince OPEC to introduce a price band system, of \$22 to \$28 per barrel, which OPEC would try to maintain.

In September 2000, Ch  vez opened and hosted the second OPEC summit. For the Ch  vez government, this summit had some special objectives which were mostly aimed at the strengthening of OPEC, defending the oil prices, strengthening the position of Venezuela in OPEC and consolidation of the relations between Venezuela and the Arab/Islamic world. Given the strengthened position of OPEC in the world today, it is possible to say that the summit's objectives were largely achieved.

During 54-year history of OPEC Venezuela as one of the founding members has played a major role in settling agreements between its partners. But now, it seems that Venezuela has faded into the background as its partners ignore the lone voice calling for actions against further world's oil prices falling. Saudi Arabia, Kuwait and Iraq suggested that reducing output to raise prices would be ineffective and was out of the question. Meanwhile the drop in oil prices affects few countries as adversely as Venezuela. The country faces soaring budget deficits and increased scarcity. As the recent statistics shows, the budget deficit in 2014 reached a maximum level for the last six years and was -11.50 % of the GDP. (Graph 1)

Venezuela always tried to defend high oil prices since its populist policy is based on maximizing oil rents and distributing them among the population in exchange for political support. This shaped into lack of investment in oil production capacity. It turned out that though the country holds the world's largest oil reserves, it is only the world's 13th-largest oil producer. To make ends meet and to reduce budget deficit the country needs maintaining or even increasing oil prices because it has no spare capacity to expand oil sales.

This low production level also means that Venezuela is not interested in increasing oil production quotas inside OPEC, since it cannot take any advantage. At least for eight years Venezuela has consistently opposed raising official quotas, but only in June 2014, the cartel agreed to maintain quotas steady. And then prices began to fall. Venezuela called for an emergency meeting of OPEC but its partners rejected the request. Even Iran, the traditional Venezuelan ally in the request for higher prices, joined other OPEC members and hinted that this problem will not be solved during scheduled meeting in November.

President Nicol s Maduro and its government are blamed for numerous problems. And the first of them is the world's highest inflation rate. According to statistics, inflation continues to grow from month to month. The inflation rate in Venezuela was recorded at 63.42 percent in August of 2014. (Graph 2).

Another problem of Venezuela is that there is a constant increase in the Consumer Price Index. Consumer Price Index in Venezuela increased to 683.30 Index Points in August of 2014 from 658 Index Points in July of 2014. CPI averaged 58.71 Index Points from 1975 until 2014, reaching an all time high of 683.30 Index Points in August of 2014. (Graph 3).

Among all the difficulties, there is also a growing ratio of public debt to GDP that continues to grow since 2008 and amounts 49.80 percent of the country's Gross Domestic Product in 2013. (Graph 4).

Moreover, Venezuela's policy of rising public debt became the cause of loan agreements with China that were to be paid with shipments in oil barrels. As long as oil price is slumping, Venezuela has to send more barrels in China instead of selling them at market price.

Some weeks ago, Maduro said that oil prices will inevitably come back up, and that he was not worried. However Venezuela experiences economic downturn and is losing its position in OPEC. So many Venezuelans are probably wondering why the President does not use the Ch vez's policy of strict discipline in the cartel.

Источники и литература

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Иллюстрации

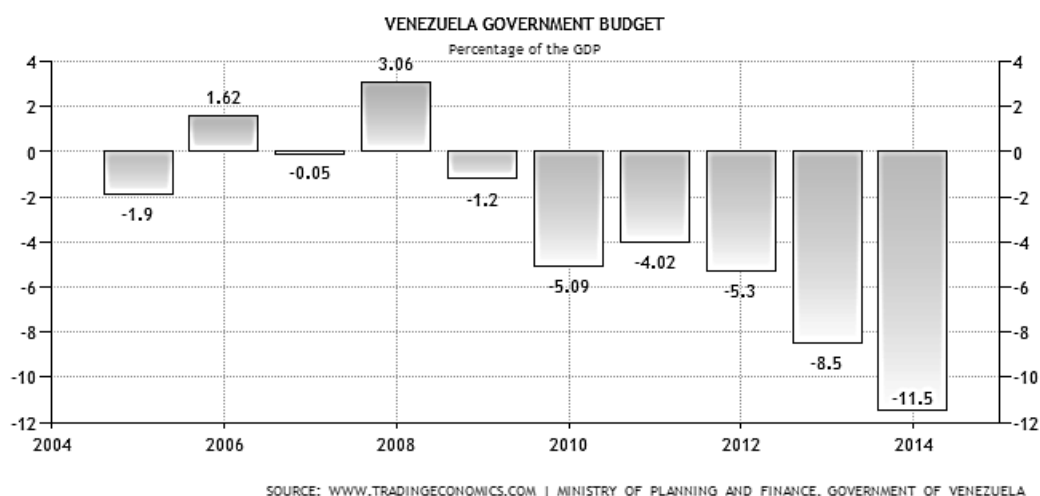


Рис. 1. Graph 1. Venezuela government budget, 2004-2014

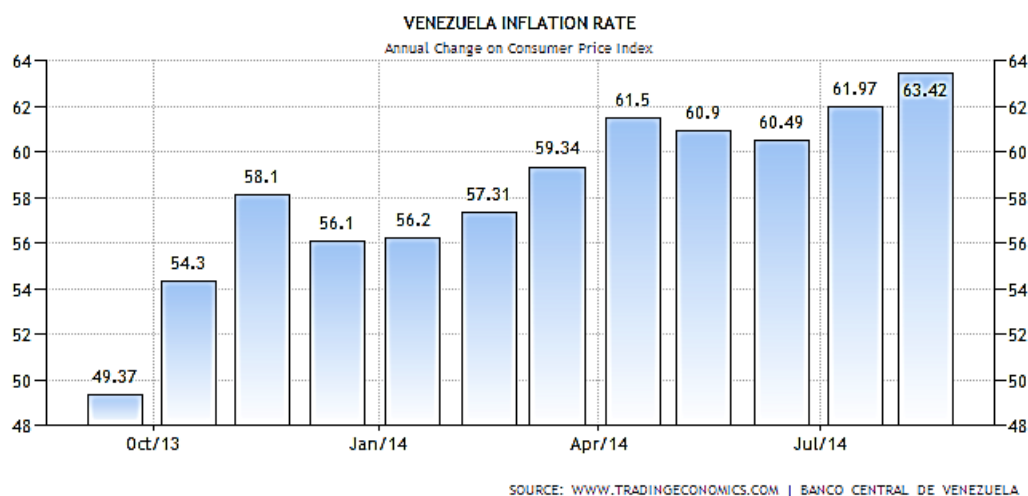


Рис. 2. Graph 2. Venezuela inflation rate, 2014 Monthly



Рис. 3. Graph 3. Venezuela consumer price index, 2011-2014

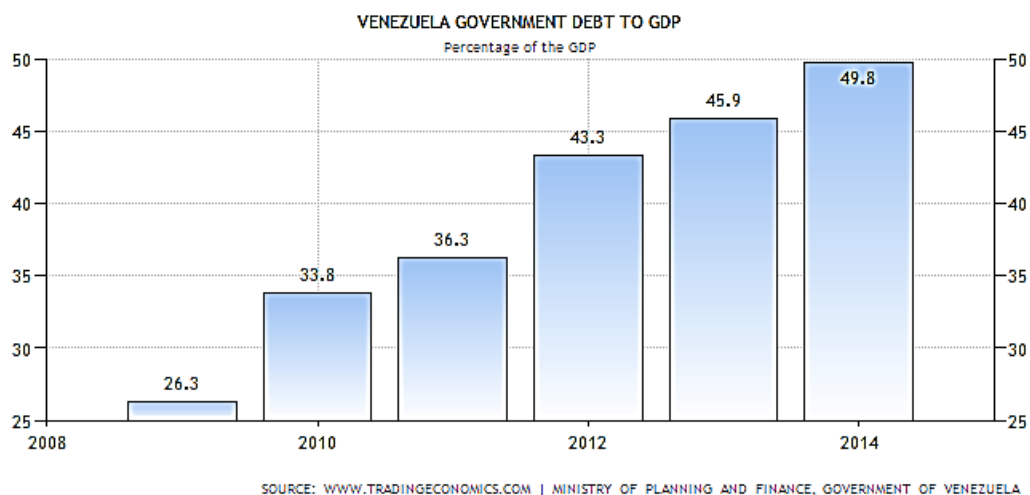


Рис. 4. Graph 4. Venezuela government debt to GDP, 2008-2013