Venezuela’s PDVSA

Lessons Learned:
Social Welfare Priorities and the NOC

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Efficient PDVSA & Venezuela

- GDP average annual growth rate of 1% 1985–2003
- 1998 real wages were less than 40% of 1980 level
- Purchasing power of the minimum wage 1994 is 1/3 that of 1978
- Percentage of the population below poverty line: 1984 36%, 1995 66%
- Percentage of the population in extreme poverty: 1984 11%, 1995 36%
- Per capita social spending in 1993 is 60% of 1980
The Temptation to Tap the NOC for Social Welfare/Infrastructure

- Revenue source
- Vulnerable Target
  - Diverse political interests can coalesce around promise of large infusion of money into government’s budget
- Symbolism
  - National Patrimony
  - National Security
Two Transferring Channels

PDVSA

Treasury

Government Agencies

National Assembly

People

Poor

Direct Access
“Advantages” of Direct Access

- Inefficiencies/Corruption of Government’s Social Welfare/Infrastructure Agencies
- Educated/Skilled Personnel Assigned New Tasks
- Targeted Recipients
  - Political & Financial Payoffs
- Executive dominates political competition for resources
<table>
<thead>
<tr>
<th>PDVSA Contributions 2005</th>
<th>Indirect</th>
<th>Direct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax</td>
<td>$ 5.1 b</td>
<td>Domestic Consumption</td>
</tr>
<tr>
<td></td>
<td>$11.3 b</td>
<td>$ 1.3 b</td>
</tr>
<tr>
<td>Production Tax</td>
<td>Dividends</td>
<td>Social Expenditure</td>
</tr>
<tr>
<td></td>
<td>$ 1.3 b</td>
<td>$ 6.9 b</td>
</tr>
<tr>
<td>Employment</td>
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<td>Employment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.7 m jobs by 2010</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$ 0.1 b</td>
</tr>
<tr>
<td>Domestic Consumption</td>
<td></td>
<td>$ 8.3 b</td>
</tr>
<tr>
<td></td>
<td></td>
<td>32 %</td>
</tr>
<tr>
<td>Domestic Consumption</td>
<td></td>
<td>$ 26 b</td>
</tr>
<tr>
<td></td>
<td></td>
<td>68 %</td>
</tr>
</tbody>
</table>

Investment: $5.8 b programmed!
Social Missions

- **Robinson Mission** – Literacy
- **Robinson Mission II** – Education; primary school
- **Ribas Mission** – Education; high school
- **Sucre Mission** – Education: college; UBV in former PDVSA building
- **Barrio Adentro Mission** – Health; low cost medical services
- **Mercal Mission** – Food; low cost purchases and production stimuli
- **Identity Mission** – Citizenship; identity cards
- **Vuelvan Caras Mission** – Employment; youth job training
- **Guaicaipuro Mission** – Indigenous rights
Firm Strategies and Social Role

**Economic Objective:**
Maximize value of oil&gas resources

**Instrument:** OPEC
‘quotas and reduced quantities ensure max value (R. Ramirez)’

**PDVSA ??**

**Political Role:** Firm’s strategy must be aligned with government’s development plan

➔ De facto strategy:
Max transfers to social programs
Trend of Indirect Contribution PDVSA with Respect to Revenue

Total Payment Government/Revenue, 1996-2005 (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>1996</td>
<td>32.9</td>
</tr>
<tr>
<td>1997</td>
<td>31.7</td>
</tr>
<tr>
<td>1998</td>
<td>24.3</td>
</tr>
<tr>
<td>1999</td>
<td>20.1</td>
</tr>
<tr>
<td>2000</td>
<td>21.7</td>
</tr>
<tr>
<td>2001</td>
<td>26.2</td>
</tr>
<tr>
<td>2002</td>
<td>22.2</td>
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<tr>
<td>2003</td>
<td>20.6</td>
</tr>
<tr>
<td>2004</td>
<td>22.6</td>
</tr>
<tr>
<td>2005</td>
<td>20.7</td>
</tr>
</tbody>
</table>

+ Direct
Production down, costs up and...

Figure A12: Prices, Costs and Production Rations, 1996-2005

No real interest on increasing production level

- **Objective:** 5.8 MMBD by 2012, including 1.2 MMBD from the Orinoco Belt

- **BUT**

- **Reality:** 13,500 operating wells in 2005 compared to 19,583 in 2001; 25% natural field decline rate

- **Investment plan 2006-12:** similar or lower to old PDVSA’s 2002-07.

- **Association contracts ==> nationalization** (2/27/07)
No real interest in reducing cost inefficiency

Figure A13: Ratios of Real Prices, Cost per Barrel and Cost per Worker, 1998-2005

The key variable is price.
The Down-Side of the Cycle

<table>
<thead>
<tr>
<th></th>
<th>1&lt;sup&gt;ST&lt;/sup&gt; SCENARIO</th>
<th>2&lt;sup&gt;ND&lt;/sup&gt; SCENARIO</th>
<th>3&lt;sup&gt;RD&lt;/sup&gt; SCENARIO</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Level of WTI Prices per Gallon</td>
<td>$53–$50</td>
<td>$46–$43</td>
<td>$40–$33</td>
</tr>
<tr>
<td>Price Drop respect to 2006</td>
<td>20%–25%</td>
<td>30%–35%</td>
<td>40%–50%</td>
</tr>
<tr>
<td>Necessary Increase in Venezuelan Production (MMBD)</td>
<td>0.52–0.65</td>
<td>0.78–0.91</td>
<td>1.04–1.3</td>
</tr>
<tr>
<td>New Venezuelan Production Level (MMBD)</td>
<td>3.12–3.25</td>
<td>3.38–3.51</td>
<td>3.64–3.9</td>
</tr>
</tbody>
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