



# Venezuela's PDVSA

## *Lessons Learned: Social Welfare Priorities and the NOC*



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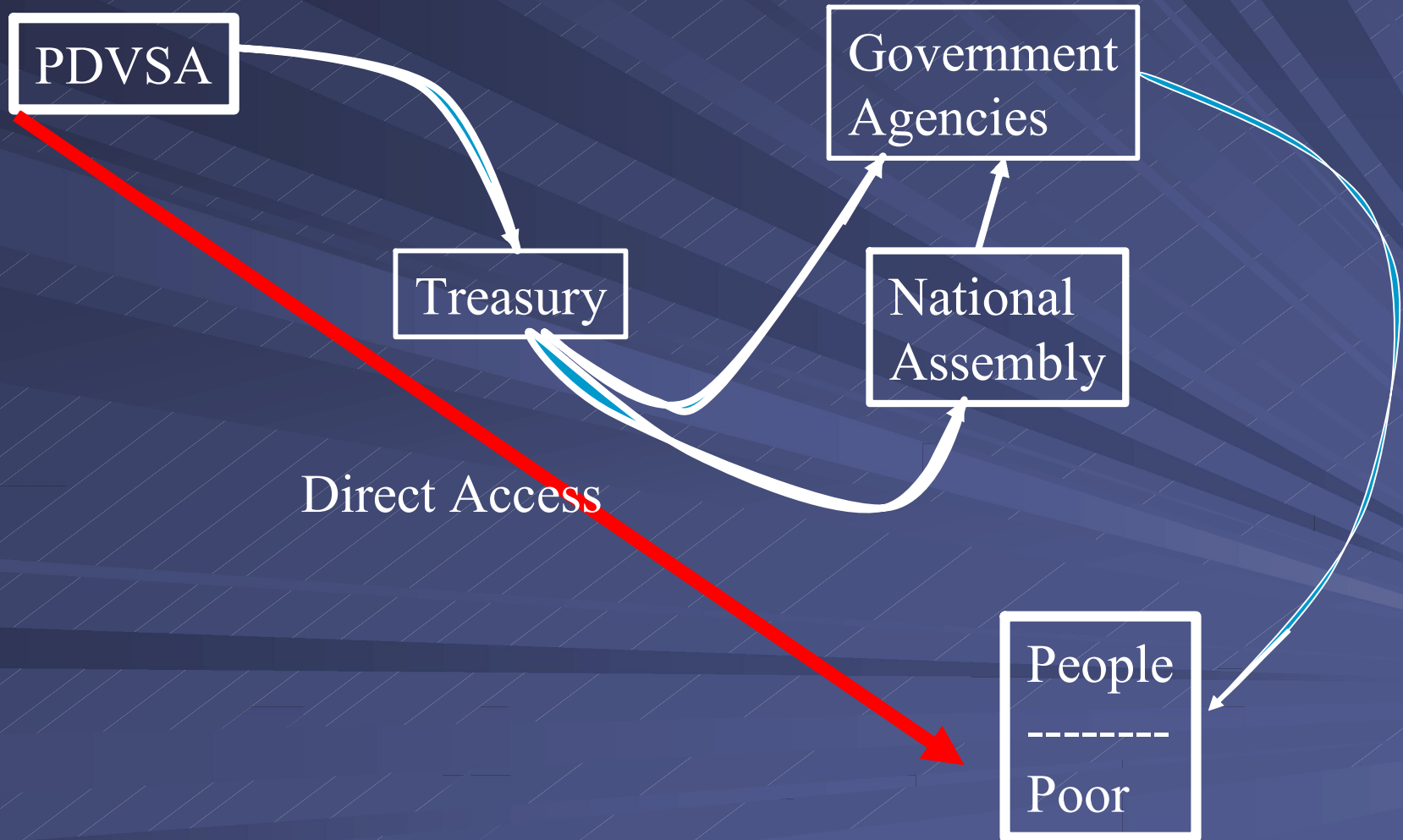
# Efficient PDVSA & Venezuela

- 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



# “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

# PDVSA Contributions 2005

Indirect

Direct

Income Tax \$ 5.1 b	Domestic Consumption \$ 1.3 b	
Production Tax \$11.3 b	Social Expenditure \$6.9 b	
Dividends \$ 1.3 b	Employment 1.7 m jobs by 2010 \$ 0.1 b	
\$ 17.7 b	\$ 8.3 b	
<b>68 %</b>	<b>\$ 26 b</b>	<b>32 %</b>

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

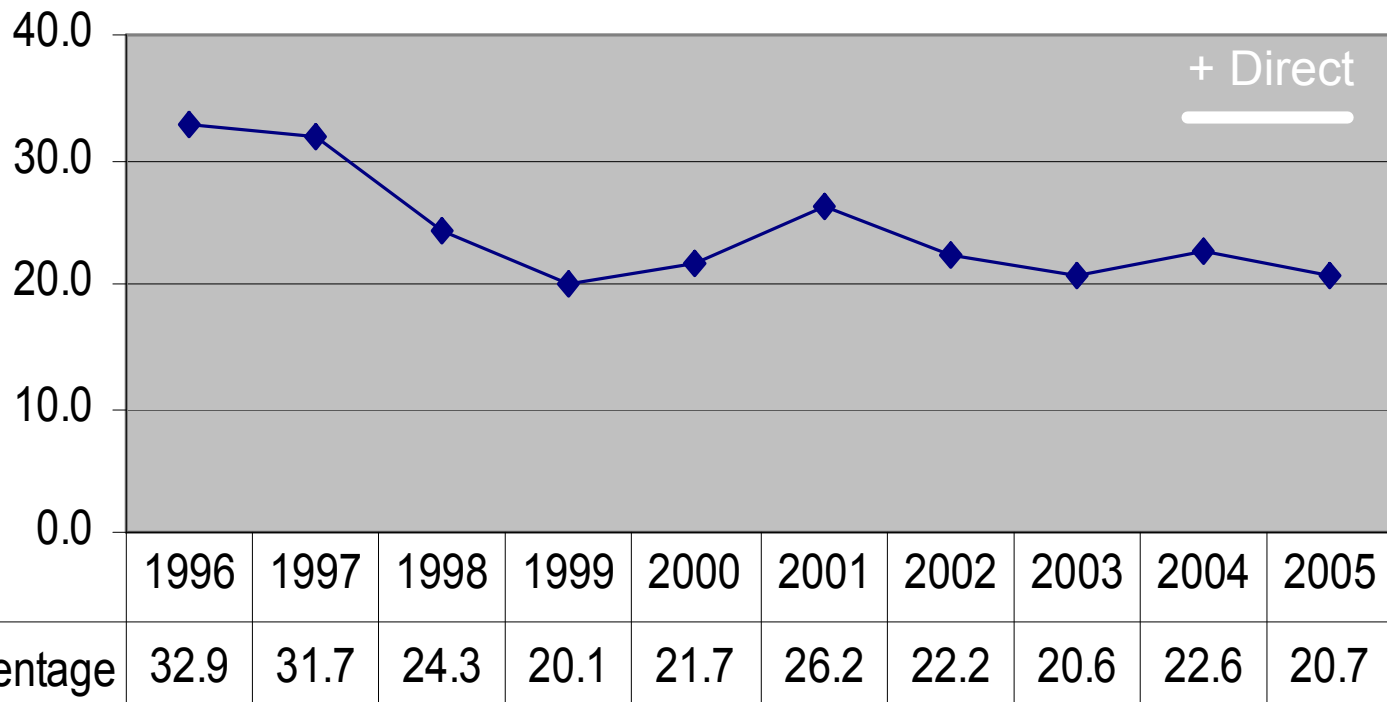
# Firm Strategies and Social Role

- 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

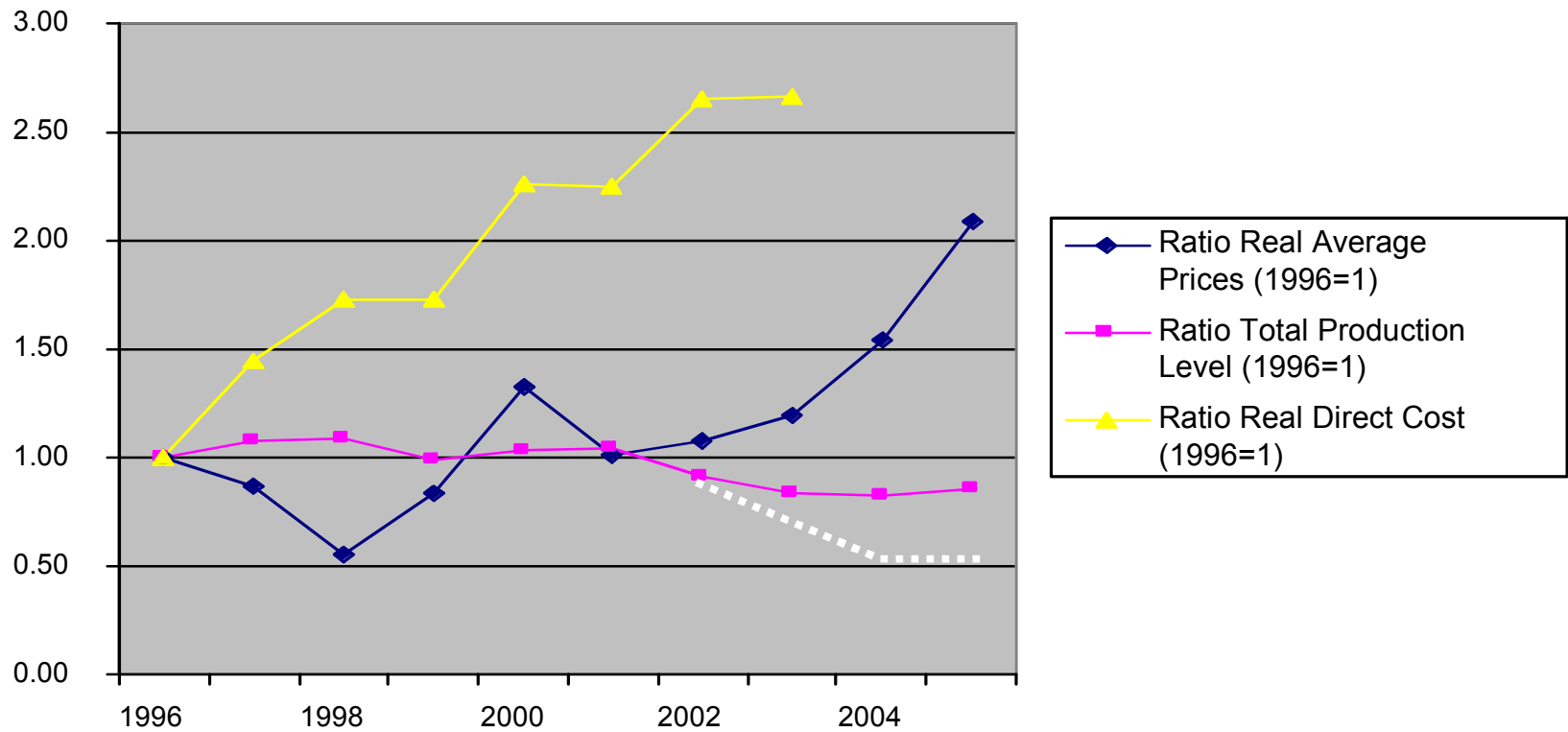
Total Payment Government/Revenue, 1996-2005 (%)



# Production down, costs up and

...

**Figure A12: Prices, Costs and Production Ratios,  
1996-2005**



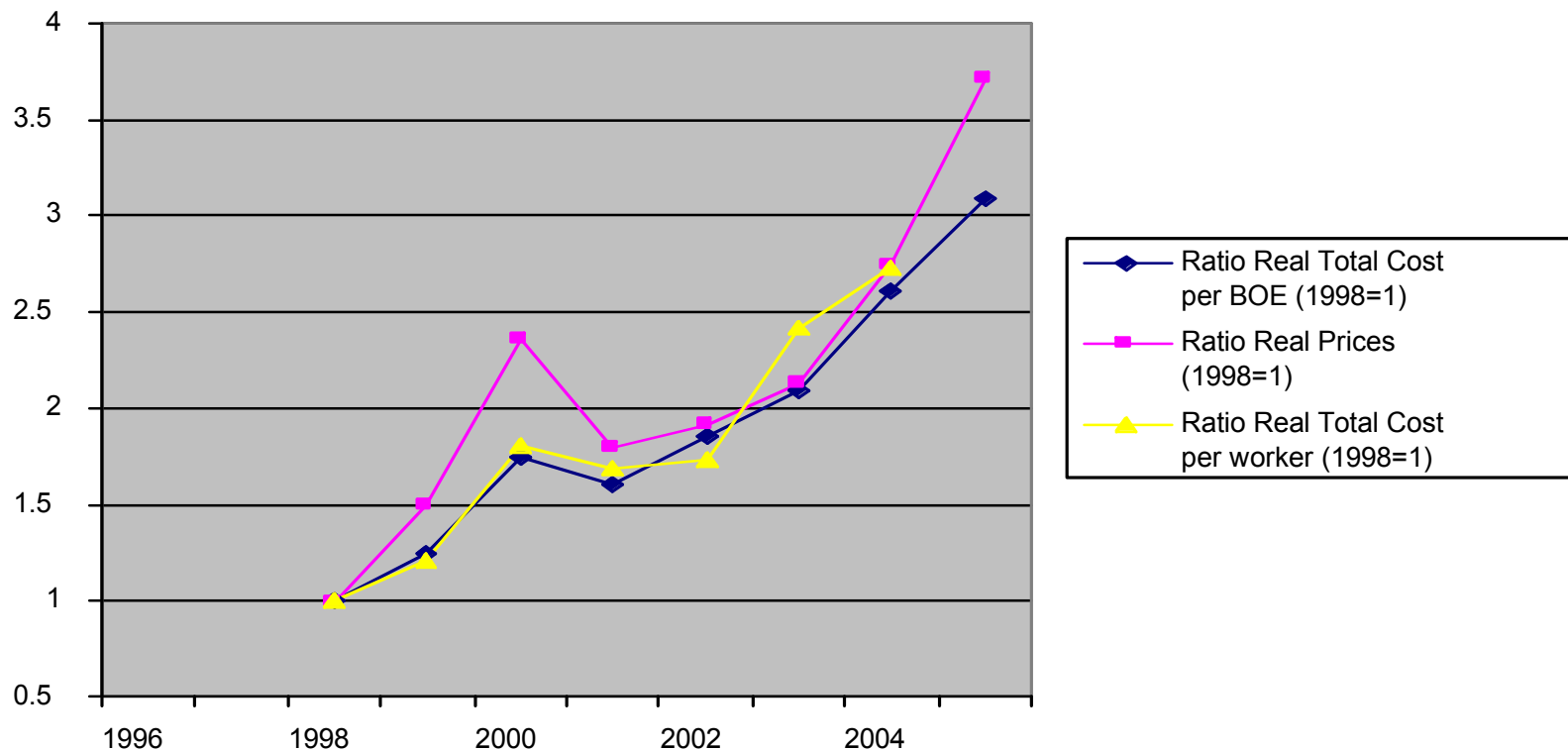
Source: Elaborated from PDVSA's Form 20-F, US and Exchange Commission, 2000, 2001, 2002, and 2003; PDVSA Gestión y Resultados 2005. Securities

# 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)

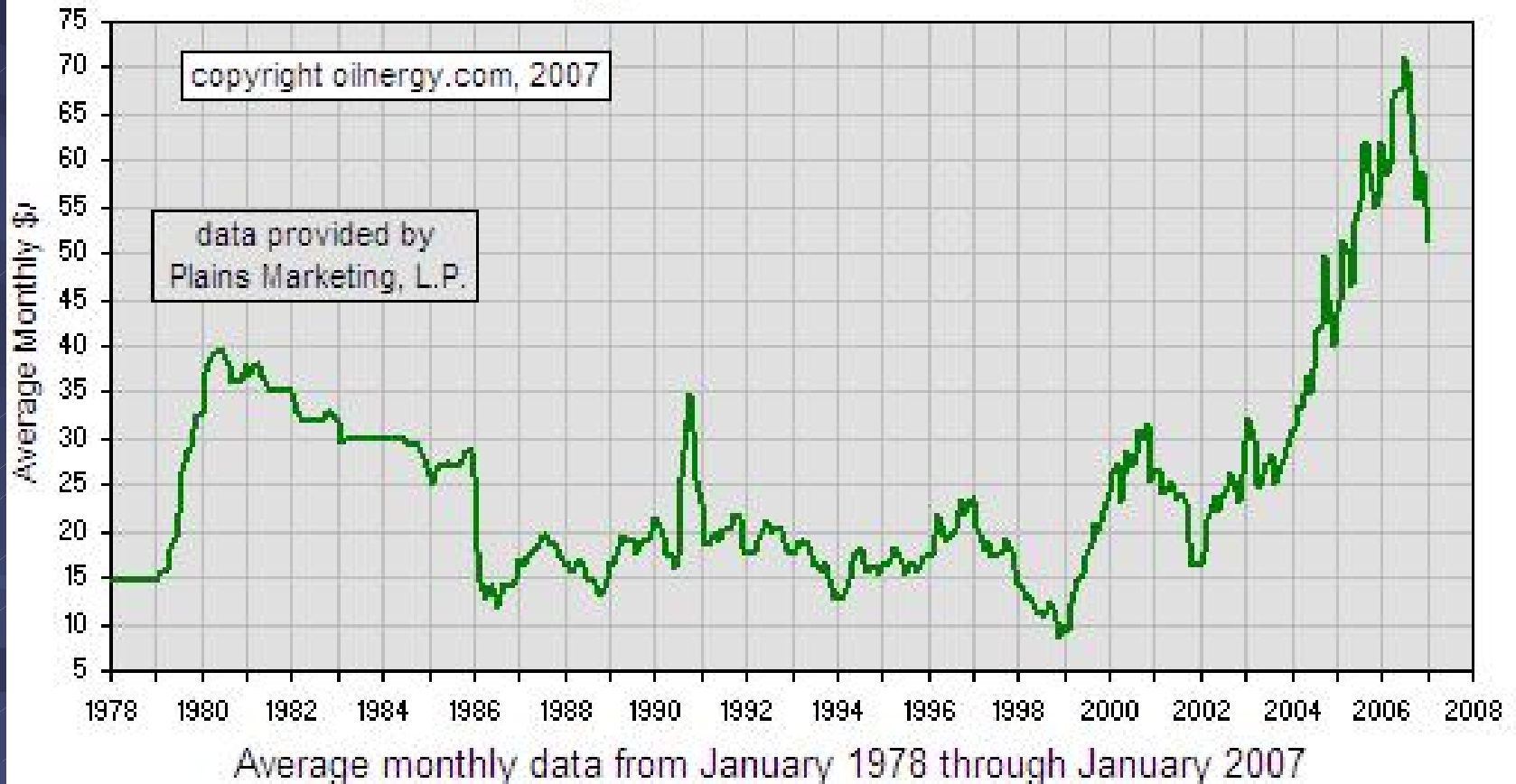
# No real interest in reducing cost inefficiency

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



# The key variable is price

## Plains Marketing, L.P.'s WTI Crude - Posted Price





# The Down-Side of the Cycle

	<b>1<sup>ST</sup> SCENARIO</b>	<b>2<sup>ND</sup> SCENARIO</b>	<b>3<sup>RD</sup> SCENARIO</b>
New Level of WTI Prices per Gallon	\$53- \$50	\$46- \$43	\$40- \$33
Price Drop respect to 2006	20%- 25%	30%- 35%	40%-50%
Necessary Increase in Venezuelan Production (MMBD)	0.52-0.65	0.78-0.91	1.04-1.3
New Venezuelan Production Level (MMBD)	3.12-3.25	3.38-3.51	3.64-3.9