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Will Venezuela's petro-diplomacy survive?

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Q and A: Will Venezuela's Petro-Diplomacy Survive?

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Henrique Capriles, the Venezuelan opposition leader running for president against Hugo Chávez, said on Aug. 1 that he would scrap preferential oil deals with foreign allies including Argentina, Cuba and others, Reuters reported. Capriles said the country would save $6.7 billion annually under his plan, money that he would use for domestic social spending. Meanwhile, state-run oil company PDVSA reportedly will need to set aside between $4 billion and $7 billion annually for the next five years to make payments on its heavy debt burden, analysts have forecast. Has Venezuela's petro-diplomacy run the end of its course? Which countries would suffer the most from an end to PetroCaribe and Venezuela's other preferential oil deals? If re-elected, will Chávez be able to maintain the agreements? How serious of a problem has PDVSA's debt burden become?

A: Carlos Bellorin, senior petroleum analyst at IHS in London:

"Venezuela's 'petro-diplomacy' hasn't run its course, but under a hypothetical Capriles administration, it will certainly be reduced to the necessary minimum and won't have the same relevance it had for the incumbent administration. Although, Capriles' approach suggests a strong focus on domestic affairs, Venezuela will still be a player in the region and the country will need international allies in order to secure a smooth transition and international recognition. I think Capriles and his petroleum policy advisors are smart enough to play this card wisely, placing internal rather than external affairs at the top of the agenda without isolating the country. However, Capriles has stressed that resources being used in 'petro-diplomacy' will be destined to tackle internal needs. The closest allies will suffer the most. Cuba and Nicaragua are the most exposed; they receive significant amounts of oil under very attractive conditions, thus helping their weak economies. All 'energy cooperation agreements' (especially the one with Cuba) will be either broadly renegotiated or terminated. A total withdrawal of PetroCaribe won't be the right policy decision but a renegotiation of its conditions needs to be on the agenda. If Chávez is re-elected, I think he will be able to maintain the agreements since his administration gives a lot of weight to geopolitics and assuming a leadership role in the region. However, it is not and won't be sustainable to maintain all of them. PDVSA's debt burden is a serious issue because is increasing very fast. However, at this point, although the debt burden is significant, it is still manageable for a company the size of PDVSA under the current oil prices. The problem resides with channelling the majority of the debt generated to financing massive social spending instead of being used for oil industry investments. PDVSA's poor record of increasing production under this administration is well-known. Part of this problem comes from the lack of funding combined by sub-standard managerial capabilities, corruption and an erroneous operational lay-out. "

A: Dan Hellinger, professor of political science at Webster University in St. Louis:

"Capriles' figures are disingenuous. Most of the 'free' oil is sold to selected countries (and some poor communities in the United States) at discounted financing that kicks in when the price exceeds $40/barrel. In many cases, this involves barter arrangements, and both Chávez and Capriles can be creative in calculating the monetary value of discounts. In addition to approximately 70,000 barrels sold to Cuba under similar terms, about 98,000 barrels are sold at $27, mostly in exchange for services, which include thousands of Cuban medical personnel working in Barrio Adentro, the health care program. If elected, Capriles must choose between keeping his promise to maintain this program or ending the Cuban deal. Pedro Pérez, runner-up to Capriles in the opposition primary, said during his campaign that he would revise, not end the Cuban agreement. Capriles would face immense pressure on his right, but renegotiation would not surprise me. Cuba is clearly moving toward a mixed economy, and Venezuela might want a presence. Though he seemed to promise to end all oil discounts, Capriles did not explicitly promise to terminate agreements with Caricom nations. Oil discounts aimed at increasing Venezuelan influence in the Caribbean and Central America are not new; Carlos Andrés Pérez took a similar initiative during his first presidency, during the 1970s oil boom. Capriles surely would renegotiate and in some cases end oil discount programs, but his promise 'not to export one drop of free oil' is a populist ploy unlikely to be fully implemented, should he become president."

A: Risa Grais-Targow, Latin America associate at the Eurasia Group::

"Between heavy domestic subsidies, oil-for-loan deals with China and petro-diplomacy programs like PetroCaribe,Venezuela is currently giving away around one third of its oil production at below-market prices. Among these programs, PetroCaribe and other foreign aid would be the least politically costly to cut. In the likely event that Chávez is re-elected, he will likely maintain these agreements. If, however, Chávez's health forces him to step aside and appoint a successor or the opposition manages to eke out a win, PetroCaribe's future would be in question. Whether PetroCaribe outlives Chávez will depend on his successor, but given that the program has been driven mostly by Chávez's own foreign policy preferences, the growing problems facing Venezuela's economy and the lackluster performance of state oil company PDVSA reduce the incentives for a future PSUV government to maintain the program. Should Capriles win, he has already indicated that he would axe the program. The dismantling of PetroCaribe and other Venezuelan aid programs would significantly affect a number of recipient countries that depend on concessional financing and have avoided making politically unpalatable economic adjustments, with Nicaragua, the Dominican Republic and especially Cuba being the hardest hit. Venezuelan aid has helped enable the Castro regime gradually implement economic reforms while keeping a tight lid on any political opening. Without financing from Venezuela however, the Castro regime would likely be forced to speed up the pace of liberalization, which in turn could make it more challenging to contain demands for political reforms as well."

A: Asdrúbal Oliveros, director of Ecoanalítica in Caracas:

"The first thing to analyze is the credibility of PDVSA's oil production goals. In the company's 2006 report, it set a goal of producing 5.8 million barrels a day (mb/d) of crude oil and liquid natural gas by 2012. Well, 2012 is here, and the most recent official oil production figures (from 2011) put oil production at 3.1 mb/d. This falls short of the goal by 2.7 mb/d, and there is no way that the company can increase oil production by this amount in what's left of the year. As long as PDVSA has to continue dabbling in the activities of other sectors, thereby neglecting its oil industry operations, its ambitious oil production goals will become less and less realistic. The only way PDVSA will even get close to meeting these oil production levels, and be able to regain any sort of credibility among oil industry players, is to totally focus all its energies on oil industry operations, eliminating all other distractions. Another point that has to be analyzed is PDVSA's financing capacity. Does the company have enough resources available to cover the investments it says it is planning? Looking at PDVSA's financial balances between 2006 and 2011, we have calculated incoming revenue and subtracted costs and spending (not including investment) and transfers made to the executive office (formal as well as social contributions). The resulting figure is the amount of resources available to the company to cover its investment projects. PDVSA had available resources enough to finance up to 74 percent (on average) of its investment plans; these resources coming from its main activity, the oil industry. This leaves 26 percent that the company was unable to cover by itself. This forces PDVSA to look to the foreign capital markets for financing, or as a last option, associate itself with private capital and creating a mixed company."

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