

# The Venezuelan Oil Industry Collapse: Economic, Social and Political Implications

by Rafael D. Ramírez

Venezuela's hydrocarbons industry has completely collapsed. Seven years of mismanagement and political purges, the dismantling of Petróleos de Venezuela S.A.'s (PDVSA) managerial structures and deviations in longstanding company policy implemented by the government of Nicolás Maduro since 2014 have undermined the sector and destabilised the national economy.

The last report by the Organization of Petroleum Exporting Countries (OPEC) shows that Venezuela produced only 527 thousand barrels of oil per day in September 2021.<sup>1</sup> This is equivalent to a drop of 2.49 million barrels per day, or a 82.9 per cent decline in oil production capacity compared to 2013 levels.

This decline is unprecedented in the history of any oil-producing country that has not suffered a depletion of

<sup>1</sup> OPEC, *Monthly Oil Market Report October 2021*, 13 October 2021, p. 50, [https://www.opec.org/opec\\_web/en/publications/338.htm](https://www.opec.org/opec_web/en/publications/338.htm).

reservoirs, war or internal armed conflict. While the oil sector also suffered from the global collapse of oil prices starting in 2014, the policies implemented by the Maduro government have further accelerated the decline. With the economy in tatters and living standards collapsing, present conditions are made even more striking given that Venezuela was certified to have the world's largest proven oil reserves between 2007–2011, standing at 316 billion barrels.

## *A man-made political disaster*

Until 2013, PDVSA had a solid reputation as one of the stronger national oil companies in the world. According to PDVSA's audited financial report, at the end of 2013, Venezuela produced 3.02 million barrels per day of crude oil and 1.2 million barrels a day of fuel were processed in the national refinery system.<sup>2</sup> At the same

<sup>2</sup> PDVSA, *Estados Financieros Consolidados al 31 de diciembre de 2013*, May 2014.

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time, PDVSA maintained 231 billion US dollars in assets, plants and equipment, 84 billion in equity and yielded 12 billion in profits. It was classified by the Petroleum Weekly Report as the fifth most influential oil company in the world in 2013.

Between 2004–2013, oil revenue reached 700 billion US dollars, equivalent to 96 per cent of export income for the country.<sup>3</sup> This included 480 billion from the Fiscal Regime (taxes, royalties and special contributions) and 233.99 billion employed for social programmes called “Missions”. Out of the latter, 141.29 billion US dollars went to different government funds like the National Development Fund (FONDEN), the Chinese Fund (Fondo Chino) and the Infrastructure Fund, among others.<sup>4</sup>

Early in 2014, the new Maduro government, seeking to strengthen its grip on power, oversaw a violent campaign of internal political persecution against the ministry of petroleum and PDVSA, the core of Venezuela’s economic power. The objective was to remove the leadership inherited from the government of President Hugo Chávez and obtain total control of the company and its revenues.

The persecution drove hundreds of directors, managers and workers – including the author – into exile and/

or imprisonment.<sup>5</sup> In their place, the government appointed political operators, lacking knowledge and experience in the oil sector, who provided unconditional support to Maduro’s policies but damaged the company’s operational capacities, bypassing all control or accountability mechanisms. Indeed, as of 2016, the government no longer issues PDVSA’s Financial Audit Report, nor does it present the management results to the public or National Assembly.

The government’s need for money was insatiable, as it required funds to sustain its foreign exchange policy and skyrocketing external debt due to new loans approved between 2015–2017 especially from China. According to statements made by Maduro,<sup>6</sup> the government paid more than 70 billion dollars in debt service, sacrificing essential resources, both for PDVSA operations and for imports and necessary supplies for the Venezuelan economy and people.

Maduro’s government, already in control of PDVSA’s Board of Directors from mid-2014, diverted the budgetary

<sup>3</sup> PDVSA, *Informe de Gestión (2004-2013)*; and *Estados Financieros (2004-2013)*, [http://www.pdvsa.com/index.php?option=com\\_content&view=article&id=6538&Itemid=1186&lang=es](http://www.pdvsa.com/index.php?option=com_content&view=article&id=6538&Itemid=1186&lang=es).

<sup>4</sup> PDVSA, *Informe de Gestión Anual 2013*, January 2014.

<sup>5</sup> Venezuela’s Ministry of Economy and Finance, *MP anunció la detención de Eulogio del Pino y Nelson Martínez por corrupción en PDVSA*, 1 December 2017, <http://www.mpppef.gob.ve/mp-anuncio-la-detencion-de-eulogio-del-pino-y-nelson-martinez-por-corrupcion-en-pdvsa>; Steve Holland and Alexandra Ulmer, “Detained Venezuelan-U.S. Citgo Executives to Be Tried as ‘Traitors’: Maduro”, in *Reuters*, 22 November 2017, <https://reut.rs/2zYPHFY>.

<sup>6</sup> “Maduro: Venezuela paga hasta el último centavo de su deuda externa”, in *TeleSUR*, 2 November 2017, <https://www.telesurtv.net/news/Presidente-de-Venezuela-Hemos-pagado-nuestra-deuda-externa-hasta-el-ultimo-centavo-20171102-0067.html>.

resources necessary to maintain operations, ignoring the company's future and that of the broader country. It was a terrible mistake. The consequence of an incredible mix of mismanagement,<sup>7</sup> lack of knowledge and disinterest in protecting and cultivating PDVSA's key role in the Venezuelan economy.

### Social, political and economic implications

After grossly mismanaging the company, the government ceded control of PDVSA to the military, appointing the General of the National Guard, Manuel Quevedo, as President of the Corporation and Minister of Oil in 2017. The internal persecution increased thereafter, with more than 30,000 employees leaving the company, many of them highly specialised engineers and technicians.<sup>8</sup>

Between 2015–2018, oil production fell to 1.7 million barrels per day, a drop of 43.6 per cent from 2013 levels. Refining capabilities, meanwhile, declined by 90 per cent and what remained from oil revenue was diverted to repay loans from China with far-reaching implications for the economy.

<sup>7</sup> Matthew Smith, "Venezuela's Crumbling Oil Industry Is An Environmental Time Bomb", in *OilPrice.com*, 21 October 2021, <https://oilprice.com/Energy/Crude-Oil/Venezuelas-Crumbling-Oil-Industry-Is-An-Environmental-Time-Bomb.html>.

<sup>8</sup> Deisy Buitrago, Alexandra Ulmer and Mircely Guanipa, "Crisis provoca estampida de trabajadores en golpeada industria petrolera venezolana", in *Reuters*, 17 April 2018, <https://www.reuters.com/article/petroleo-venezuela-renuncias-idLTAKBN1HO214-OU5LB>.

Without oil income and lacking in forward looking economic policies, the government proclaimed "the end of the oil era" as a new flagship policy. Meanwhile, Venezuela suffered acute economic instability with the second-largest hyperinflation in history, reaching 180.9 per cent in 2015 and 9,598 per cent in 2019.<sup>9</sup> The national currency – the Bolívar – experienced a massive depreciation against the US dollar, losing 100 per cent of its value in 2019,<sup>10</sup> while GDP contracted by a whopping 74 per cent between 2015–2019.<sup>11</sup>

The ensuing economic crisis had devastating social consequences. Poverty levels increased exponentially, while the minimum wage fell from 480 US dollars per month in 2012 to 2.4 in 2021.<sup>12</sup> Today, 96 per cent of the population live below the poverty line and 5.4 million Venezuelans have fled the country since 2016, according to UN data.<sup>13</sup>

<sup>9</sup> "Venezuela's Inflation Tumbles to 9,586% in 2019: Central Bank", in *Reuters*, 5 February 2020, <https://reut.rs/3bcxNQo>.

<sup>10</sup> "El bolívar se depreció al 100% en 2019...", in *Infobae*, 8 November 2019, <https://www.infobae.com/america/venezuela/2019/11/08/el-bolivar-se-deprecio-casi-el-100-en-2019-y-el-salario-de-8-millones-de-venezolanos-ya-esta-por-debajo-de-la-pobreza-extrema>.

<sup>11</sup> "PIB per cápita acumulará un derrumbe de 74,2% entre 2015 y el cierre de 2019", in *Banca y Negocios*, 2 October 2019, <https://www.bancaynegocios.com/pib-per-capita-acumulara-un-derrumbe-de-742-entre-2015-y-el-cierre-de-2019>.

<sup>12</sup> Aurore Bayoud, "Venezuela aumenta el salario mínimo a 2,40 dólares, casi un 300%", in *France 24*, 2 May 2021, <https://www.france24.com/es/america-latina/20210502-salario-minimo-venezuela-maduro-dolares-crisis>.

<sup>13</sup> UNHCR website: *Venezuela Situation*, <https://www.unhcr.org/venezuela-emergency.html>.

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These economic and social challenges quickly translated into a severe political crisis. In 2015, after opposition parties won the parliamentary election and gained control of the National Assembly, the government – using the Supreme Court – refused to recognise the new body. The country then experienced a period of a massive demonstrations and political repression – more than 130 people died in the streets and many more were imprisoned –, all of which further delegitimised the government and its institutions.

In August 2018, the government imposed an economic “shock package” by deregulating the economy, increasing currency devaluation and removing labour benefits while initiating the privatisation of public assets, including the oil industry.<sup>14</sup> This clearly violates the Constitution and the Organic Hydrocarbons Law, changing Venezuela’s oil policy in the process.

The above was done by handing PDVSA’s operations to private companies through executive orders and court rulings, overturning current legal provisions. As a result, PDVSA’s participation in the most important productive areas located in the Orinoco Oil Belt was reduced in favour of Russia, China and others, conceding control of key oil resources to private companies that should be reserved to the Estate (through PDVSA) by law.

As a result, the Maduro Government violated President Chavez’s “Full

<sup>14</sup> Ronny Rodríguez, “Anuncios económicos de Maduro”, in *Efecto Cocuyo*, 17 August 2018, <https://efectococuyo.com/?p=180184>.

Sovereignty Oil Policy”, in force between 2004 and 2014, including overseeing an end to the social distribution of oil income in the country.

In December 2018, Maduro was re-elected president. The results were not recognised by the opposition or the international community. In January 2019, the president of the National Assembly Juan Guaidó unilaterally proclaimed himself Interim President, receiving recognition by the US among 50 other countries.

By January 2019, PDVSA’s production stood at 1 million barrels per day of oil, while the national refining circuit was still at minimum operating levels. The US then imposed financial sanctions on PDVSA and subsequently banned operations and equipment supply for US companies in Venezuela, restricting trading activities with PDVSA.

As of 9 October 2020, the Maduro dominated National Constituent Assembly approved what is known as the “Anti-Blockade Law”,<sup>15</sup> a highly questionable measure due to its unconstitutional character. Through it, the privatisation process takes place secretly and without oversight by the appropriate control bodies.<sup>16</sup> This provided free reign to the

<sup>15</sup> Venezuela, “Ley Constitucional Antibloqueo para el Desarrollo Nacional y la Garantía de los Derechos Humanos”, in *Gaceta Oficial de la Republica Bolivariana de Venezuela - Extraordinaria*, No. 6,583 (12 October 2020), [http://historico.tsj.gob.ve/gaceta\\_ext/octubre/12102020/E-12102020-5965.pdf](http://historico.tsj.gob.ve/gaceta_ext/octubre/12102020/E-12102020-5965.pdf).

<sup>16</sup> Rafael D. Ramírez, “Denuncio el plan del gobierno para la entrega de PDVSA”, in *RafaelRamirez.net*, 30 April 2020, <https://www.rafaelramirez.net/?p=4494>.





government to completely disregard decades of carefully crafted oil policies implemented by President Chávez.

Today the government is trying to sell off what remains of PDVSA's assets to local business people and small companies. Meanwhile, due to US sanctions and years of government mismanagement of the sector, major oil companies, such as Chevron, Rosneft, Total, Equinor and others, have left the country.<sup>17</sup>

### *Regional implications and impact on OPEC*

The collapse of the Venezuelan economy and oil sector has significant regional and international implications, ranging from unprecedented migratory flows and the collapse of commercial exchanges.

For the Caribbean Region, the Venezuelan crisis has led to the suspension of the Petrocaribe Cooperation Agreement, which allowed PDVSA to supply 43 per cent of the energy demand of 17 countries through flexible financial arrangements.<sup>18</sup>

Venezuela's oil collapse also holds political implications for OPEC, particularly regarding the internal balance among its members. Venezuela played a leading role within the organisation, not only as a founding

member but also as a key driver for the doctrinal development of international oil policy.

As a leader in international oil production – in 2008 Venezuela was the 3rd leading producer – its historical background and political positions were, until 2014, fundamental to achieve consensus among OPEC members. This helped achieve a balance between the interests of the Persian Gulf monarchies and the rest of the organisation's members.

Without Venezuela playing a relevant role – today, the country occupies 10th place in terms of world oil production –, and with the current problems in Iran, Algeria and Libya, OPEC is losing its international character, essentially becoming a regional organisation dominated by the monarchies of the Arabian Peninsula.

In terms of the international oil market, the Venezuelan crisis affects the development of the largest oil reserves and the 8th gas reserves on the planet. This situation compromises the possibilities of satisfying the oil and gas demands needed for the global economic recovery while making Europe and Asia more vulnerable to supply disruptions due to geopolitical tensions or conflict.

The current energy crisis in Europe demonstrates that the world economy will continue to depend on hydrocarbons for many years to come. In the broader context of the energy transition to a green economy, oil production will continue to be essential for the energy mix of multiple

<sup>17</sup> Fabiola Zerpa, "Total, Equinor Exit Venezuela Venture Amid Foreign Exodus", in *Bloomberg*, 28 July 2021, <https://www.bloomberg.com/news/articles/2021-07-28/total-and-equinor-exit-venezuela-oil-joint-venture>.

<sup>18</sup> Ernesto J. Tovar, "Pdvsas Supplies 43% of Energy to 17 Petrocaribe Member States", in *El Universal*, 17 March 2014, <https://www.jsg.utexas.edu/lacp/?p=6762>.

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states. Therefore, an essential supply of hydrocarbons will continue to be needed from traditional reservoirs, taking all measures for carbon capture, particularly when these produce low cost and low risk oil, compared to shale oil fracking, deep water production, tar sands and the new production at the Artic or other wild protected areas.

a restoration would also have positive regional and international implications, including in the energy supply domain and in balancing oil diplomacy within and beyond OPEC.

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The origin of the oil production collapse in Venezuela is political. There is no technical reason to justify this present situation. Venezuela has enough reserves to produce oil and gas with a low cost and minimum environmental damage for a long time.

Venezuela's current hydrocarbon (oil and gas) legal framework<sup>19</sup> was successfully tested between 2004 and 2014. It has proven to be capable of balancing the various interests of the Venezuelan population, the rightful owners of the country's natural resources, as well as being able to attract needed international investment to support the sector's development.

It is only by returning to the rule of law, gaining governance and legitimacy that the country can return to successfully govern its oil activity and national resources, working to initiate a national recovery plan for the economy. This would help relieve the unprecedented humanitarian and social crisis in the country.

Aside from being a source of sustenance and stability for Venezuela itself, such

<sup>19</sup> Venezuela, "Ley orgánica de hidrocarburos", in *Gaceta Oficial de la Republica Bolivariana de Venezuela*, No. 38,493 (4 August 2006), <http://virtual.urbe.edu/gacetitas/38493.pdf>.

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