

Oil Economies and Social Welfare

Venezuela

Janine Schall-Emden (MA)*
Independent Consultant, Italy

Part 7

March 2009

* The author wishes to thank Evelyn Parra for her excellent research support and assistance.

CONTENTS

ACRONYMS AND ABBREVIATIONS	3
EXECUTIVE SUMMARY	4
INTRODUCTION.....	7
1. DESCRIPTION OF THE OIL INDUSTRY IN VENEZUELA	8
1.1 Overview	8
1.2 Ownership Structure.....	12
2. REGULATION OF THE OIL INDUSTRY	15
3. DISTRIBUTION OF OIL REVENUES.....	19
3.1 Revenues from Oil	19
3.2 Costs and spending.....	20
4. GOVERNMENT EXPENDITURE ON POVERTY REDUCTION.....	22
4.1 General Welfare and Poverty Levels	22
4.2 Social Spending.....	27
4.3 General Oil-revenue related policies.....	28
5. SOCIAL INITIATIVES ON THE PART OF OIL FIRMS	30
5.1 Social spending from the part of Oil Companies	30
5.2 The Bolivarian Missions	32
6. ANALYSIS OF RELATIONSHIP BETWEEN OIL AND WELFARE IN VENEZUELA.....	37
6.1 Welfare levels in health and education	37
6.2 Overall Assessment of Social Spending.....	39
6.3 Impact on Social Welfare Indicators	40
7. POLICY RECOMMENDATIONS	43
7.1 Stability and Sustainability of Income	43
7.2 ‘Loosening’ the Link between Oil and Welfare	44
SELECTED REFERENCES	46
ANNEX 1 – GLOSSARY OF TECHNICAL TERMS (OIL SECTOR).....	47
ANNEX 2 – REFORMS AND AMENDMENTS CONCERNING FISCAL OBLIGATIONS.....	48
ANNEX 3 – EXCERPT: LAWS AND REGULATIONS RELEVANT TO THE PETROLEUM INDUSTRY (IN SPANISH)	52
ANNEX 4 – LIST OF BOLIVARIAN/SOCIAL MISSIONS	55
ANNEX 5 – INTERVIEW TRANSCRIPT AND COMPLETED QUESTIONNAIRES	58
ANNEX 6 – GRAPHIC SUMMARY OF OIL REVENUE DISTRIBUTION.....	62

ACRONYMS AND ABBREVIATIONS

BCV	Venezuelan Central Bank (Banco Central de Venezuela)
CERTS	Tax Reimbursement Certificates
CET	Corporate Extraction Tax
CIT	Corporate Income Tax
CTV	Venezuelan Federation of Workers - Trade Union (Confederación de Trabajadores de Venezuela)
CVP	Venezuelan Petroleum Corporation
EHCO	Extra Heavy Crude Oil
EHOA	Extra Heavy Oil Associations
EHOP	Extra Heavy Oil Production
FEM	Macroeconomic Stabilization Fund (Fondo de Esabilización Macroeconómica)
FONDEN	National Development Fund (Fondo de Desarrollo Nacional)
GVT	Government Take
IEA	International Energy Annual
INE	National Institute of Statistics (Instituto Nacional de Estadísticas)
IOC	International Oil Company
JVA	Joint Venture Agreements
Mb/d	Millions of barrels per day
MENPET	Ministry of Popular Power for Energy and Petroleum (Ministerio de Poder Popular para la Energía y el Petróleo)
OAA	Operating and Agency Agreement
OPEC	Organization of the Petroleum Exporting Countries
PDVSA	Venezuela's State-Owned Oil Company (Petróleos de Venezuela)
SENIAT	National Integrated Service of Customs and Tax Administration (Servicio Nacional Integrado de Administración Aduanera y Tributaria)
SISOV	Integrated Social Indicator System for Venezuela (Sistema Integrado de Indicadores Sociales de Venezuela)
Tb/d	Thousands of barrels per day
VAT	Value Added Tax
NOC	National Oil Company

For glossary of selected terms, see Annex 1

EXECUTIVE SUMMARY

As an oil producing nation with one of the largest proven reserves of oil and natural gas, Venezuela has become increasingly crucial player in the current global economic and geo-political arena. Due to soaring levels of the price of oil until mid 2008, Venezuela had been benefiting from its largest 'oil bonanza' ever, even compared in real terms to that of the 1970's. Coinciding with a deeply polarized national political context, the impact of oil revenues has been highly scrutinized and the question of the link between oil revenue and social welfare in particular set at the core of intense debates.

Venezuela is well-known on the international arena for primarily two factors: its oil and natural gas endowment and a government that uses these resources to challenge current geo-political power structures. Both factors have become increasingly interlinked as oil prices reach historic peaks by the day and president Hugo Chávez furthers his socialist agenda in the Latin American region and on the global level. At home, oil revenues have made it possible to establish a network of 'misiones' (*Bolivarian missions*), which are probably the most well-known social policies introduced by the Bolivarian government. Since their introduction in 2003, the 'Bolivarian missions' have become the hallmark and backbone of the government's policies to address social injustices and fight poverty (D'Elia and Cabezas, 2008:15). This paper explores the effectiveness of these and other social policies on the general welfare levels.

Venezuela is the world's sixth largest exporter of oil.¹ For the Venezuelan economy, the oil sector brings in around to 90% of Venezuelan export revenues and around half of its GDP.² With over 87 billion barrels of proven oil reserves in 2007, Venezuela can boast some of the largest oil and natural gas reserves in the world.³

In 1975-1976, the Venezuelan government nationalized its oil industry and created 'Petróleos de Venezuela S.A.' (PDVSA), the state-run oil and natural gas company. Since then, the laws regulating the hydrocarbon extractive sector have been modified several times, restricting the sector to international investment.

According to PDVSA official data, oil production levels have been quite unstable since 1998, ranging from 2,500 to 3,300 thousands of barrels per day (tb/d).⁴ The most significant downturn in oil production occurred in 2001-2003 and was mainly caused by three factors: 1) international oil prices dropped and the Organization of the Petroleum Exporting Countries (OPEC), of which Venezuela is a founding member, agreed to reduce quotas of oil production to up the value of oil and related products; 2) in 2002 and 2003 investment faltered in the country; 3) at the end of 2002 a crippling nationwide strike at PDVSA shrank the economy sharply (by about 10%).⁵ Despite some inconsistencies between data sources - official (governmental) figures published by PDVSA exceed by close to 100 tb/d those produced by the International Energy Agency - on average production levels are recorded between 2,5 and 3,1 million barrels for 2006.

In the 2007 annual report PDVSA is described as "the engine of [Venezuela's] socio-economic development".⁶ Indeed PDVSA export revenues (as reported by OPEC) make up more than half the Venezuelan GDP and have closely paralleled the Venezuelan economic growth, providing enough statistical evidence to argue that Venezuelan economy is fully dependent on its oil exports.

The proportion of oil exports as a percentage of all Venezuelan exports (public and private commodities). If in 1997, oil accounted for about 77% of all Venezuelan exports, in 2006 this percentage has gone up to 90%.

¹ OPEC Venezuela Facts and Figures 2006, [www.opec.org/aboutus/member%20countries/venezuela.htm] (accessed on 7 September 2008).

² Banco Central de Venezuela, Export and Gross National Product figures [<http://www.bcv.org.ve/c2/indicadores.asp>] (accessed on 7 September 2008).

³ OPEC Venezuela Facts and Figures [www.opec.org/aboutus/member%20countries/venezuela.htm] (accessed on 7 September 2008).

⁴ 'PDVSA en 2000: El camino de la recuperación' (2001), *Veneconomía Hemeroteca*, Vol. 18 (No. 10) and the consolidated financial and operational information, PDVSA (2001-2006).

⁵ Banco Central de Venezuela, Gross National Product figures [<http://www.bcv.org.ve/c2/indicadores.asp>] (accessed on 7 September 2008).

⁶ PDVSA, Management and Results 2006, available at: [<http://www.petroleumworldve.com/pdf/PDVSA%20Resultados%20Financieros%202006.pdf>] (accessed on 7 September 2008).

Export of non-petroleum commodities increased by 22% from but remains a small portion of the economy if compared against the export of petroleum and related products.

Regarding social spending models and welfare initiatives promoted by the Venezuelan government, most observers, irrespective of their opinion of government, concur that since the late 90s and in particular after 2003, oil money has enabled Chávez to vastly increase spending on social programmes. Furthermore, it is not disputed that Chávez's personal power is largely based on the significant support he elicits within the most marginalized groups in the Venezuelan society. Although his uncontested leadership has received a blow with the failure of the 2007 referendum to reform the constitution, it seems fair to maintain that Chávez's government has channelled its efforts (although there are disagreements on its success) on improving the living conditions of the poor throughout its mandate.

In general, the overall social spending of the Venezuelan government has grown since 1998, amounting to almost 14% of GDP in 2006. The preferred vehicle for most of the social spending have been broad-scale social programmes, coined '*Bolivarian Missions*' (henceforth referred to as *missions*), which focus on delivering basic services to the urban and rural poor. The *missions* were introduced in 2003 as a way to prioritize social spending on the most vulnerable and poor segments of the population nationwide. Since then, over 20 different *missions* have been launched.

As explained by D'Elia et al., the *missions* echo government's strategic axes that include social inclusion and equality, popular and participatory social democracy, endogenous development and 'popularized' administration. According to D'Elia and Cabezas, the *missions* followed a specific pattern over time, in line with the priorities and focus of the ruling elite. At first, the *missions* were described as instruments of political 'pragmatism' as they were meant to reinforce government's credibility vis-à-vis the poorest classes, while also contributing to social development at the grassroots. Then, the *missions* became an instrument of 'ideological pragmatism', while the 'new generation' missions are generally described as an emanation of the Bolivarian revolution and, more properly, what the government calls the socialism of the 21st century (D'Elia and Cabezas 2008).

The first phase of the missions corresponded to 2003-2004. At that time, government was facing fiscal and economic challenges and the opposition was organising for a recall referendum against Chávez to be held in 2004. The initial list of missions included 13 types of initiatives focusing on the most pressing social needs. They mainly targeted the urban poor, establishing a full-fledged parallel system to official social institutions. The second phase began roughly after 2004, following Chávez's confirmation in the recall referendum. At this stage, the function and objective of the missions became fourfold: a) to provide a direct (non-bureaucratic) relationship to the local level in order to enforce a direct relationship between government and the people; b) to incorporate the armed forces into public programmes; c) to organize the community along a collective framework inspired by the Bolivarian revolution; d) to gain control over oil revenues.

Within such a parallel institutional approach, the then president of PDVSA announced that the missions are 'the seeds of the new institutionalism (...) that will be able to operationalize the principles of the Constitution'.⁷

The potential correlation between governmental policies and welfare levels needs to be assessed by analyzing trends of selected social indicators. While it is important to underscore the difficulty to find clear data on social spending, we can now attempt to provide a general evaluation of the potential impact that oil-driven social spending might have had on the selected welfare indicators of health, education and housing. According to official documents, most indicators of welfare (with the exception of maternal mortality) have generally improved. Overall poverty levels have decreased by 16%, inequality levels as measured by the Gini coefficient have also decreased from 0,49 to 0,45. Neonatal and child mortality has gone down, although the former more significantly than the latter. Unexpectedly, though, this positive trend has occurred notwithstanding a general worsening of the situation regarding maternal mortality.

As for education, a marginal increase of years of schooling for the poorest quintile and a reduction by 2,5% in illiteracy figures show moderate levels of improvement. Unemployment levels have also decreased by close to 4%. Levels of crime were not taken into account for two reasons; first, they do not pertain directly to social welfare and, secondly, official data has been embargoed since 2003, although anecdotal evidence and

⁷ Speech by Ali Rodríguez, Opening of the seminar *National Social Policy: A New Paradigm?* May 2004.

all media point a dramatic increase in levels of violent crime.⁸ Estimates range around 550 murders in the first three months of 2008. According to ECLAC, the consumer price index has also increased dramatically for the metropolitan area of Caracas, especially for food products. In trying to buffer the negative impact of inflation, the administration announced in May 2008 that the minimum wage would be increased by one third, raising it to the equivalent of US\$ 372.⁹

Within an economy that has seen their revenues from oil tripled since 2003, a resource that accounts for most of the country's GDP, the improvements on the welfare indicators selected for this analysis point to a minor generalized improvement. Surely it takes years before social policies can show a direct impact, but also indicators that should show an almost immediate increase (schooling levels, mortality levels) only display rather modest improvements with respect to the time-span observed.

A potential risk is also associated with the direct dependency of most social welfare policies (especially the Bolivarian *missions*) from income generated by oil. As volatility of oil is again being confirmed by the steep plunge the price of oil had suffered between mid-2008, the risk associated with a growing reliance upon direct oil-generated revenues for the funding of social programmes is generally recognized. In early 2009, PDVSA's spending on the social missions was indeed cut by over 70%.

Furthermore, an overvalued exchange rate and dangerous inflation levels, unless addressed, are likely to exert a significant impact on the sustainability of social policies in the country. Although some efforts have been made to diversify the income from exports (showing a minor increase over recent years), extremely high levels of oil dependency of the country's economy are still undeniable and potentially dangerous. Against this back drop, the country's internal polarization between productive industries and government officials continues to translate into scarcity of basic foodstuff (including milk, beef and sugar), due to the country's dependence on private producers who oppose the fixed prices established by government, especially on foodstuff as required by new laws (including taxation).

In conclusion, although, it is undeniable that welfare levels have increased marginally in the past few years, it seems fair to argue that current policies are far from translating into efficient and robust efforts to address the levels of poverty and inequality, which have long exasperated Venezuela's poor. The Bolivarian missions have certainly had an important role to play, though it seems they have proved much more successful in terms of participation, political affiliation and first-hand assistance than as long-term measures to eradicate poverty and social exclusion.

⁸ [<http://www-rohan.sdsu.edu/faculty/rwinslow/samerica/venezuela.html>],

[<http://www.terra.com/noticias/articulo/html/act1258887.htm>], [www.talcualdigital.com/Avances/Viewer.aspx?id=8444-40k] (all accessed on July 5, 2008).

⁹ [<http://uk.reuters.com/article/marketsNewsUS/idUKN3056309120080501>] (accessed on 7 September, 2008).

INTRODUCTION

Since early 2007, public debate about oil and the ‘oil crisis’ has become a daily occurrence. Its strategic importance as the primary source of energy for industrialized countries and its interconnection with phenomena such as climate change, geo-political instability and even food prices rendered ‘petroleum’ the central topic of heated debates from the halls of the United Nations to TV talk shows all over the world. At the citizenry level, the impact of the price of oil is causing turmoil and unrest in possibly all economic sectors, from producers to workers, from intermediaries to individual consumers.

Whereas by the time this report was finalized the price of Brent Crude Oil had plummeted to around US\$ 40 due to the international financial crisis, it had reached a record high in July 2008 to over tenfold its levels in 1998. The volatility of the price of oil is a clear reason for concern for most of the world though it clearly impacts net exporters and net importers differently.

This report attempts to provide an in-depth analysis of Venezuela, an increasingly crucial oil-producing country. The report specifically focuses on the link between income generated by oil and social welfare expenditure over a period of eight years (1998-2006), which coincides with major windfall gains related to skyrocketing oil prices. Data and information prior to this period will also be considered whenever relevant. It is important to note however that it is not until a few years after Chávez’s takeover that the regulatory framework and macroeconomic policies register a clear break with respect to previous administrations. Arguably, the adoption of the new constitution (1999) was the most relevant ‘turning point’ for the overall legislative framework concerning the oil industry as well as the other sectors of the country. This report will try to explore these changes with particular attention and greater detail.

The report is structured as follows. Chapters 1-3 provide an overall description of the oil industry in Venezuela, including its regulatory framework and distribution mechanisms. The main governmental social policies on poverty reduction (including specific expenditure trends) are discussed in Chapter 4. Chapter 5 analyzes corporate social responsibility programmes and other social initiatives undertaken by the national oil firm, PDVSA. The final two chapters (Chapters 6 and 7) analyze the relationship between oil and welfare in Venezuela and, on the basis of an overall assessment of its strengths and weaknesses, the report puts forward selected economic and social policy recommendations.

It must be mentioned from the outset that Venezuela (not dissimilarly from other oil producing countries) experiences a significant polarization around what one might call ‘the politics of oil’, which means that data concerning oil revenues and its management structure are also targeted by political contestation. Precise and coherent information about the oil sector and its impact on social welfare is hard to find in Venezuela. In order to try and bridge such a ‘consistency gap’, this report utilizes a variety of data sources, including the National Statistic Office and SISOV, Venezuela Central Bank (BCV), Venezuela’s state-owned oil company (PDVSA), OPEC’s official data as well as some referenced international publications, with a view to triangulating information whenever possible.

1. DESCRIPTION OF THE OIL INDUSTRY IN VENEZUELA

The first chapter provides an overall presentation of the oil industry, its background and tendencies as well as major trends regarding the ownership structure of the sector.

1.1 Overview

Venezuela is well-known on the international arena for primarily two factors: its oil and natural gas endowment and a government that uses these resources to challenge current geo-political power structures. Both factors have become increasingly interlinked as oil prices reach historic peaks by the day and president Hugo Chávez furthers his socialist agenda in the Latin American region and on the global level. At home, oil revenues have made it possible to establish a network of ‘misiones’ (Bolivarian missions), which are probably the most well-known social policies introduced by the Bolivarian government. Since their introduction in 2003, the ‘Bolivarian missions’ have become the hallmark and backbone of the government’s policies to address social injustices and fight poverty (D’Elia and Cabezas, 2008:15) as will be discussed in the final sections of this report.

Venezuela is the world’s sixth largest exporter of oil.¹⁰ For the Venezuelan economy, the oil sector brings in around to 90% of Venezuelan export revenues and around half of its GDP.¹¹ With over 87 billion barrels of proven oil reserves in 2007, Venezuela can boast some of the largest oil and natural gas reserves in the world.¹²

In 1975-1976, the Venezuelan government nationalized its oil industry and created ‘Petróleos de Venezuela S.A.’ (PDVSA), the state-run oil and natural gas company. Since then, the laws regulating the hydrocarbon extractive sector have been modified several times, restricting the sector to international investment (see section 1.2: Ownership Structure).

According to PDVSA official data (see Figure 1), oil production levels have been quite unstable since 1998, ranging from 2,500 to 3,300 thousands of barrels per day (tb/d).¹³ The most significant downturn in oil production occurred in 2001-2003 and was mainly caused by three factors: 1) international oil prices dropped and the Organization of the Petroleum Exporting Countries (OPEC), of which Venezuela is a founding member, agreed to reduce quotas of oil production to up the value of oil and related products; 2) in 2002 and 2003 investment faltered in the country; 3) at the end of 2002 a crippling nationwide strike at PDVSA shrank the economy sharply (by about 10%).¹⁴

Since the 2002 strike, the way in which Venezuela’s national oil industry is managed has changed remarkably. Motivated by the main national trade union (Confederación de Trabajadores de Venezuela) with the objective of putting pressure on president Chávez to call early elections, the national strike had a severe impact on PDVSA’s production. The company estimates that the financial losses caused by the strike amounted to US\$ 14,430 millions. In response to the strike, the government requested the dismissal of about 19,000 PDVSA employees and demanded loyalty by all PDVSA managers and employees.¹⁵ Since then, the oil company’s management approach has become more clearly aligned with government policies and priorities and the close affinity between PDVSA leadership and the Bolivarian government has also been reflected in political rhetoric: in 2006, Venezuela’s energy minister Rafael Ramírez proudly proclaimed that now PDVSA is ‘red, very red’ (red is the colour of the Bolivarian revolution), while the website of the

¹⁰ OPEC Venezuela Facts and Figures 2006, [www.opec.org/aboutus/member%20countries/venezuela.htm] (accessed on 7 September 2008)

¹¹ Banco Central de Venezuela, Export and Gross National Product figures [<http://www.bcv.org.ve/c2/indicadores.asp>] (accessed on 7 September 2008)

¹² OPEC Venezuela Facts and Figures [www.opec.org/aboutus/member%20countries/venezuela.htm] (accessed on 7 September 2008)

¹³ ‘PDVSA en 2000: El camino de la recuperación’ (2001), *Veneconomía Hemeroteca*, Vol. 18 (No. 10) and the consolidated financial and operational information, PDVSA (2001-2006)

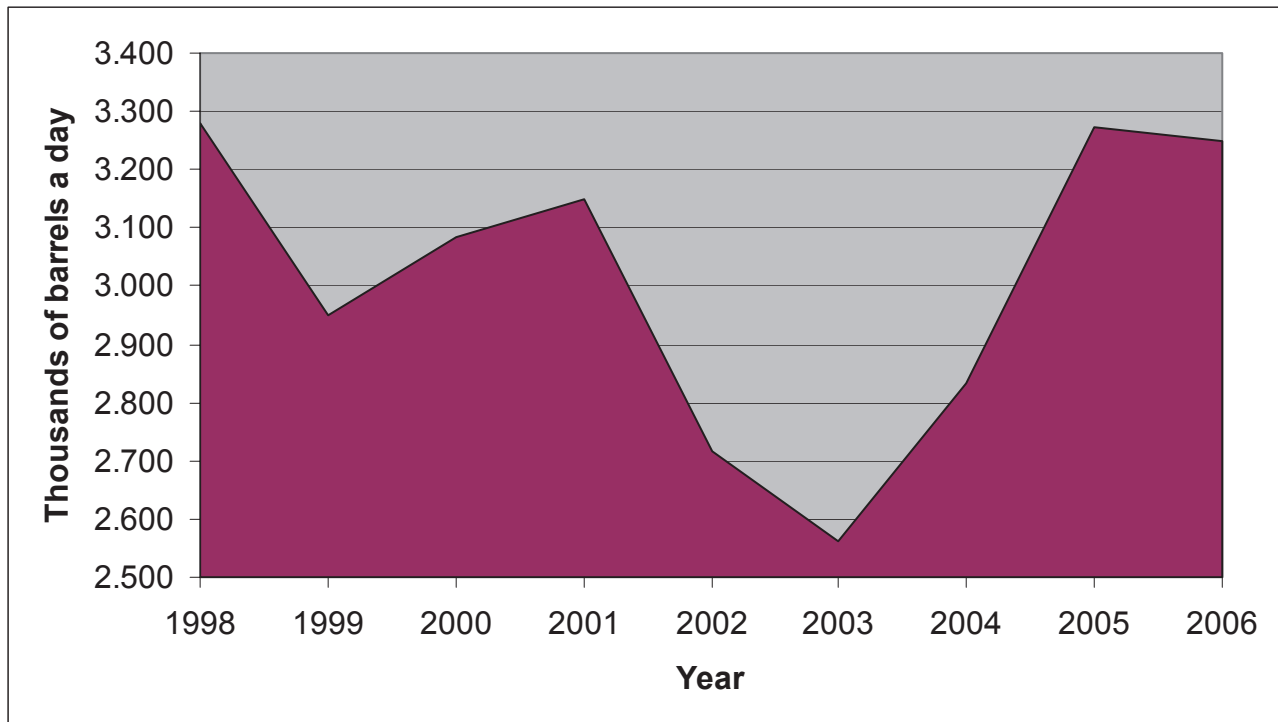
¹⁴ Banco Central de Venezuela, Gross National Product figures [<http://www.bcv.org.ve/c2/indicadores.asp>] (accessed on 7 September 2008)

¹⁵ *Venezuelanálisis*, July 24, 2004 [<http://www.venezuelanalysis.com/analysis/599>] (accessed on 7 September 2008)

Ministry of Popular Power for Energy and Petroleum states that “now PDVSA is aligned and subordinate to the state with an immense conscience of national sovereignty”.¹⁶

As far as production levels are concerned, a slight fall was registered from 2005 to 2006, which has been justified by some observers as “due to natural decline at existing oil fields”.¹⁷ In this regard, some analysts estimate that production capacities have diminished substantially in the past few years¹⁸. Again figures are not consistent, with OPEC reporting Venezuela only produced 1,6 millions of barrels per day in 2006 as opposed to the government’s official figure of 3,107 tb/d.¹⁹ Critical analysts argue that production capacities have been limited since the dismissal of highly skilled staff and managers in 2002, who were “difficult to replace”.²⁰

Figure 1 –Total Production Levels (tb/d)



Source: PDVSA

Figure 2 reports OPEC data concerning Venezuela’s refining capacity, which shows how much oil is refined in the country, mostly for internal consumption. In this case, too, it appears as if PDSVA internal refining capacity has not been able to recover from the 2002-2003 turnover. Consistently with the total production levels, the refining capacity has begun to decrease again between 2005 and 2006 from 1054 to 1039 tb/d.

¹⁶ Ministry of Energy, [<http://www.menpet.gob.ve/entesadsc/pdvsa/index.php>] (accessed on 7 September 2008).

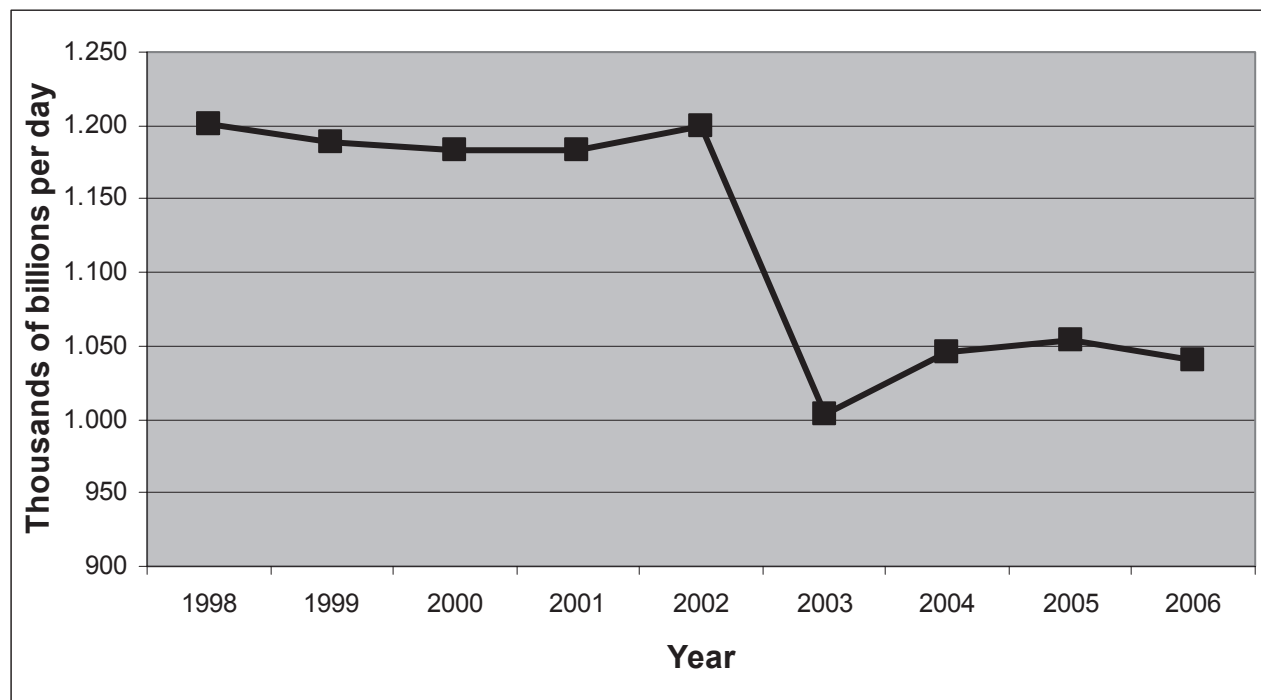
¹⁷ Energy Information Administration, [www.eia.doe.gov/cabs/Venezuela/Oil.html] (accessed on 7 September 2008).

¹⁸ Energy Information Administration, *International Energy Annual*, available at

[<http://www.eia.doe.gov/emeu/cabs/Venezuela/Oil.html>] (accessed on 7 September 2008).

¹⁹ *Venezuela Analítica*, [<http://www.analitica.com/va/economia/opinion/2059461.asp>] (accessed on 7 September 2008), See also OPEC Venezuela Facts and Figures, [www.opec.org/aboutus/member%20countries/venezuela.htm] (accessed on 7 September 2008).

²⁰ *Venezuelanálisis*, July 24, 2004 [<http://www.venezuelanalysis.com/analysis/599>] (accessed on 7 September 2008)

Figure 2 – Refinery Capacity (tb/d)

Source: OPEC

As indicated in the introduction, there are some comparative inconsistencies across different data sources for oil production indicators. In Table 1, the most significant data sources are compared and various differences emerge.

On average, official (governmental) figures published by PDVSA exceed by close to 100 tb/d those produced by the International Energy Agency. Some analysts argue this difference could at least in part be due to the inclusion of residual products and refinery additives, which are normally not considered in the calculation of production values (Barcia Arufe, 2008). In Table 1, the calculations from the different sources are corrected by taking into account aspects of treatment of condensed products as well as the discrepancies of apparent national consumption. Whereas this helps narrowing the gap across the various figures, some discrepancies remain.

Table 1 – Oil Production Indicators By Source (tb/d)

Year	Reports from PDVSA to OPEC 1		OPEC's Secondary Sources 2		International Energy Agency 3		Apparent Production (MetroEconómica Estimates) 4	
	Total Crude	Var. %	Total Crude	Var. %	Total Crude	Var. %	Total Crude	Var. %
2003	2722	-7,9%	2280	-10,9%	2336	-14,4%	2441	-13,9%
2004	3017	10,8%	2562	12,4%	2589	10,9%	2744	12,4%
2005	3129	3,7%	2634	2,8%	2688	3,8%	2863	4,3%
2006	3107	-0,7%	2535	-3,8%	2546	-5,3%	2751	3,9%

Legend

1 Reports from PDVSA to OPEC refers to a production concept focusing on extraction. It includes residuals (production, condensation and crude) used in the Orimulsion process

2 Reports from OPEC are based on secondary sources from the OPEC and exclude condensed forms and other residuals

3 The International Energy Agency produces a monthly report that includes production of conventional crude and synthetic ones that need to be refined. It includes condensed and other residuals required for the Orimulsion process

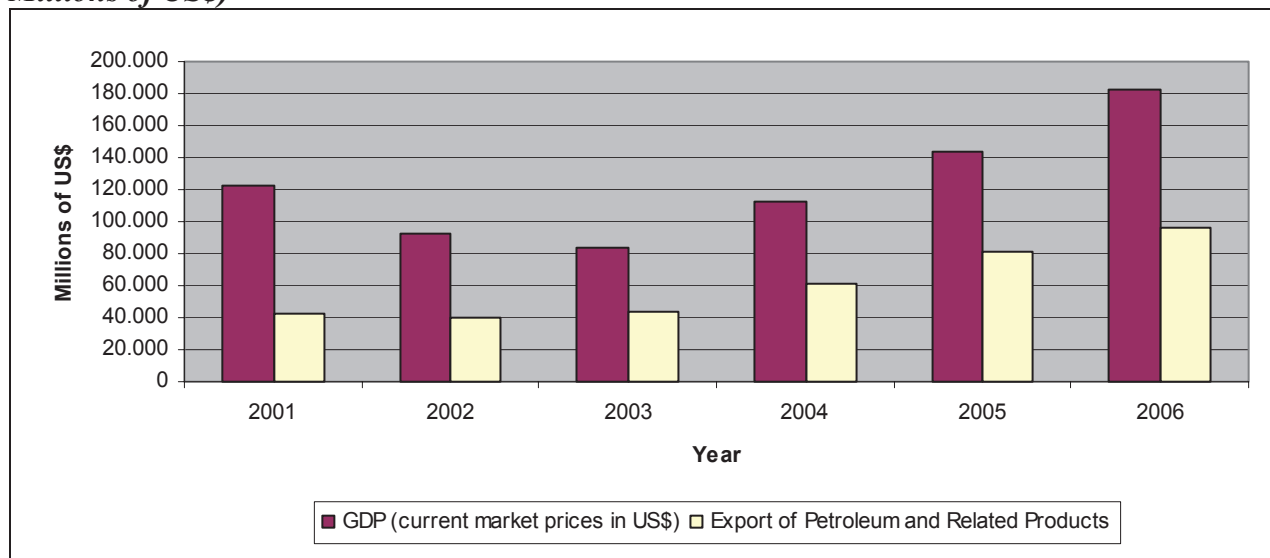
4 MetroEconómica estimates are based on incorporating its own estimates of Orimulsion products (condensed) into the IEA data while adding the difference between official consumption data and national secondary sources (from 2004 onwards) in order to obtain total apparent crude production

Note: Various measures of oil production levels and annual growth in %. None of the sources include liquids and natural gas.

Source: MetroEconómica (Barcia Arufe 2008)

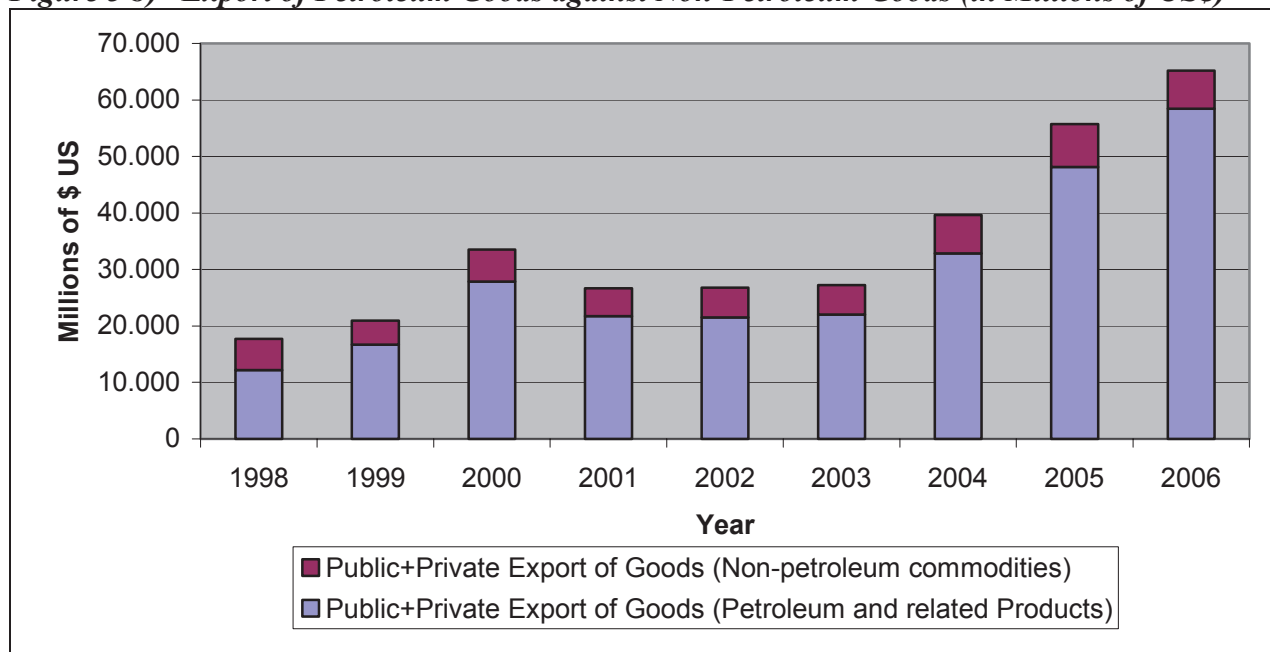
What all data sources confirm is that oil revenues in Venezuela make up the bulk of the national income. In the 2007 annual report PDVSA is described as “the engine of [Venezuela’s] socio-economic development”.²¹ Indeed, as shown in figure 3, PDVSA export revenues (as reported by OPEC) make up more than half the Venezuelan GDP and have closely paralleled the Venezuelan economic growth, providing enough statistical evidence to argue that Venezuelan economy is fully dependent on its oil exports. In order to better assess the magnitude of PDVSA contribution to the national economy, it must be underscored that these figures do not include the amount of oil that PDVSA supplies to the Venezuelan state for the daily running of its activities, nor does it include the amount of oil marketed within the country.

Figure 3 a)– GDP at current market prices against values of Venezuelan petroleum exports (in Millions of US\$)



Source: PDVSA and OPEC

Figure 3 b)– Export of Petroleum Goods against Non-Petroleum Goods (in Millions of US\$)



Source: Venezuelan Central Banc (BCV)

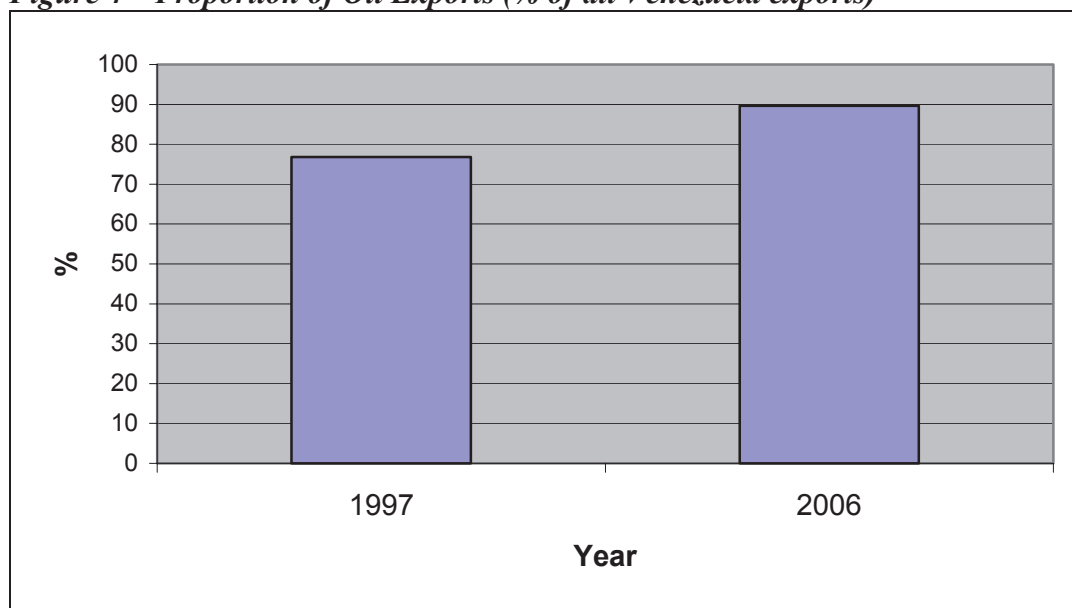
²¹ PDVSA, Management and Results 2006, available at:

[<http://www.petroleumworldve.com/pdf/PDVSA%20Resultados%20Financieros%202006.pdf>] (accessed on 7 September 2008)

The key role played by oil and PDVSA is also confirmed by Figure 4, which reports the proportion of oil exports as a percentage of all Venezuelan exports (public and private commodities). If in 1997, oil accounted for about 77% of all Venezuelan exports, in 2006 this percentage has gone up to 90%. Export of non-petroleum commodities increased by 22% from but remains a small portion of the economy if compared against the export of petroleum and related products.

Such a strong impact of oil revenues on the national economy has grown although the exports of all other sectors, including export by private companies, has grown in the same period from about US\$ 5,5 billion in 1997 to US\$ 6,8 billion in 2006. Against this backdrop, it is fair to maintain that the Venezuelan economy is largely dependent on its oil export revenues.

Figure 4 – Proportion of Oil Exports (% of all Venezuela exports)



Source: Venezuelan Central Bank (BCV)

1.2 Ownership Structure

The nationalization of Venezuela's oil sector through the establishment of PDVSA marked the beginning of a new phase in the country's oil industry. At that time, in the 1970s, a new political orientation was adopted, mainly due to the energy crisis but also specific geopolitical factors of the time, that prompted the need to sustain economic growth in a relatively unstable region.

Interestingly, though, a window of opportunity was left open for foreign partnership agreements with the Venezuelan government, including an amendment to the new legislation. This amendment provided that "under special instances and when it serves the public interest, the national executive could [...] form associational partnerships with private entities with a participation that would still ensure the State's control".²² While opening the country's oil fields to foreign capitals and joint ventures, the law still ensured that private companies (most of which were foreign oil multinationals) would not be able to exert unwarranted influence on the governmental priorities concerning PDVSA and its management structure. .

Progressively though, a set of specific policies adopted the 1980s and 1990s and dubbed '*apertura petrolera*' facilitated the granting of concessions to foreign companies oil companies as well as the mushrooming of partnerships between foreign groups and PDVSA.

Ironically, private investors got exempted from production tax royalty that they used to pay prior to the nationalization process, which provided an additional incentive for in-flow of foreign capital in the extractive sector and contributed to creating a more extremely favourable climate for international investment than before 1976 (Mommer, 2001).

²² Organizational Law of 29 of August, 1975, Article 5, [<http://www.leyesvenezolanas.com/loh.htm>] (accessed on 7 September 2008).

During this period of time, 32 operating service agreements were signed with 22 foreign oil companies. These companies operated in the oil fields and received a fee from PDVSA for the crude produced (pegged to market rates). In addition, between 1993 and 1997 four “strategic associations” were formed between PDVSA and international oil companies with the approval of congress for the extraction of extra-heavy crude oil:

1. Petrozuata (1993): formerly owned by ConocoPhillips 50.1% and PDVSA 49.9%. With an initial investment of US\$ 2.0 billion.
2. Ameriven (1997): formerly owned by ConocoPhillips 40%, Texaco 30% and PDVSA 30%. With an initial investment of US\$ 3.2 billion.
3. Cerro Negro (1997): formerly owned by ExxonMobil 41.67%, PDVSA 41.67% and Veba Oel 16.66%. With an initial investment of US\$ 3.0 billion.
4. Sincor (1993 and 1997): formerly owned by Total 47%, PDVSA 38% and Statoil 15%. With an initial investment of US\$ 5.0 billion.

While PDVSA’s percentage take is included in the calculations on net profits, the different taxes IOCs are liable to pay, are directly absorbed by the national budget.

Each company owned a percentage of interest which included the extra heavy crude oil produced at wellhead and the offtake products²³ as joint investors. These new association arrangements also included the possibility to reach the so-called ‘marginalized’ fields located in the Orinoco Belt, which was considered to be home to untapped oil reserves ranging from 100 to 270 billion barrels²⁴.

Besides these various partnership agreements, PDVSA also developed an *internationalization* approach in order to extend its operations outside of Venezuela, which turned the state-controlled company into a multinational corporation (Baena, 1999). This process also included the creation of independent downstream outlets through the acquisition of refinery assets. In its partnership agreements, PDVSA usually maintained about 50% of the shares.

This policy also allowed the company to decide over corporate strategies and gain further independence from governmental control. According to some, the growth of external partnerships turned PDVSA into a “state within a state”, largely independent of government, with growing operating autonomy that would have never been possible before the nationalization process (Tinker-Salas, 2005).

In recent years significant reforms have taken place, which have contributed to fundamentally reversing the *apertura* strategy by re-establishing PDVSA as true state-owned company with almost-exclusively national targets. The Hydrocarbons law of 2001 (which will be discussed in greater detail in Chapter 2) allows for greater state control over the national oil and gas industry. Some of the means through which this new control is guaranteed include the increase of CIT for oil companies and much higher the rates for the state royalties (from between 1% and 16 2/3% to up to 30%) (Parra, 2007). Needless to say this had a significant positive impact on fiscal revenues (see Chapter 3 for details). A final shift regarded association agreements with foreign companies: PDVSA would have to retain at least 50% of the ownership.

It is important to keep in mind the important paradigm shift that occurred in 2002 and 2003, which was initially prompted by an attempted coup on April, 11 2002 and followed by the general strike resulting in the dismissal of close to 19,000 employees in PDVSA (see Chapter 1). In the first quarter of 2003 the GDP had contracted by about 29% and, as mentioned earlier, PDVSA reformed its management style and proclaimed full subordination and loyalty to government. It is essential to regard these as interconnected events, which have exerted a significant bearing on Venezuela’s policies regarding foreign oil companies.

In line with Chávez’s anti-US discourse, the Venezuelan government announced in 2006 that PDVSA would no longer be respecting the requisites of the Securities and Exchange Commission (SEC) after clearing its debt with the United States through the purchase of US\$83 million in US-traded bonds.

In 2007, PDVSA completed the transition of the above-mentioned strategic associations to new structures in alignment with the 2001 law.

In May 2007, Chávez ordered the nationalization of pumping and refining facilities in *La Faja* in the Orinoco Belt, which had been previously owned by foreign oil companies. Up from 39,9%, PDVSA

²³ Refers to the upgraded crude oil, diluted crude oil, coke, sulphur and any other products produced by the extra heavy oil production.

²⁴ Energy Information Administration [<http://www.eia.doe.gov/cabs/Venezuela/Oil.html>] (accessed on 7 September 2008).

increased its holdings within joint ventures to 78,3%. The move was one of a series of measures that Chávez's government adopted to increase Venezuela's share of oil revenues, including further increases in royalty payments.

Out of the six companies involved in joint ventures, two corporations (Total and Statoil) reduced their shares in order to allow for a growing control by PDVSA, two maintained their previous stakes (Chevron and BP), while the remaining two (ConocoPhillips and ExxonMobil) left the consortium.²⁵ On the 26th of June 2007, the Venezuelan government signed four Memorandums of Understanding between each of the four extra-heavy oil (EHOA) agreements.

The overall changes for the four strategic associations are as follows (bolded and bolded/italicized percentages correspond to PDVSAs previous and *current* holdings):

1. Petrozuata (joint venture initiated in 1993):

EHOA: ConocoPhillips 50.1% and PDVSA **49.9%**

After new law: Mixed company, PDVSA 100%

2. Ameriven (joint venture initiated in 1997):

EHOA: ConocoPhillips 40%, Texaco 30% and PDVSA **30%**

After new law: Mixed company, PDVSA 70%, and Chevron 30%

3. Cerro Negro (joint venture initiated in 1997):

EHOA: ExxonMobil 41.67%, PDVSA **41.67%** and Veba Oel 16.66%

After new law: Mixed company, PDVSA **83,37%**, British Petroleum 16,67%

4. Sincor (joint ventures initiated in 1993 and 1997):

EHOA: Total 47%, PDVSA **38%** and Statoil 15%

After new law: Mixed company, PDVSA 60%, Total 30,3% and Statoil 9,7%

Under the new Organic Law for Hydrocarbons, control over decision-making processes concerning the oil sector is effectively devolved to the Venezuelan state. Besides receiving rental fees and tax, the Venezuelan state is also charge of strategic decisions and operations.²⁶

ExxonMobil – which was previously pumping as many as 120 tb/d out of the Orinoco region – sought compensation and managed to secure a court order to freeze 12 billion US\$ of PDVSA's international assets. Needless to say, this event further exacerbated the rhetorical 'warfare' between United States and the Bolivarian government, with Chávez threatening to cut off all oil sales to the United States. In March 2008, ExxonMobil's complaint was dismissed by a London-based court.

As part of its new strategic plan by the name of 'Sowing Oil' (*Siembra Petróleo*), PDVSA is currently carrying out a program entitled 'Magna Reserva' with a view to assessing the potential and possibly exploiting proven reserves in the Orinoco Belt. As indicated by the Energy Information Administration, for this endeavour PDVSA has engaged in partnerships with mostly foreign national oil companies for the program, including Petrobras (Brazil), Petropars (Iran), CNPC (China), ONGC (India) and ENI (Italy).

Divided in 27 'blocks' the program is estimated to certify over 260 billion barrels and possibly place Venezuela at the top of the list of world's proven reserves. In 2006, the first block (Carabobo) was announced in partnership with Petrobras (40%) and the commencement is planned for 2009. Block five, purportedly holding one of the largest reserves of all blocks (over 2,5 billion barrels), will be developed jointly by PDVSA (60%) and ENI (40%), the Italian Energy conglomerate. According to the official announcement, the aim is to achieve early production of 30 tb/d and a long term production plateau of 300 tb/d²⁷.

²⁵ Energy Information Administration [<http://www.eia.doe.gov/cabs/Venezuela/Oil.html>] (accessed on 7 September 2008).

²⁶ Motives for modifying the Organic Hydrocarbon Law published in the Official Gazette number 37.323 dated November 13, 2001.

²⁷ ENI furthermore owns a 26% stake in the Petrosucre mixed enterprise (PDVSA/CVP 74%, ENI 26%) and a 19.5% stake in Petrolera Guiria mixed enterprise (PDVSA/CVP 64.25%, ENI 19.5%, Ineparia 16.25%) as well as a 50% stake in the Cardon IV gas exploration licence, located offshore in the Gulf of Venezuela.

2. REGULATION OF THE OIL INDUSTRY

Following on the analysis of the previous section, this chapter presents a general picture of the legislation of the regulatory systems governing the oil industry. This chapter will also analyse the social funds (FONDESPA and FONDEN) created for the purpose of spending oil revenues.

There are several legal frames that inform the policies of the Venezuelan oil and gas sector. The 1999 Constitution includes several articles enshrining the right of the state over 'strategic' sectors. Article 12, states that the 'mineral and hydrocarbon deposits of any nature that exist within the territory of the nation, beneath the territorial sea bed, within the exclusive economic zone and on the continental shelf are the property of the Republic, are of public domain, and therefore inalienable and not transferable. The seacoasts are public domain property'.

Article 303. Based on the principle of economic, national and strategic sovereignty, the State is to be the sole owner of 'Petróleos de Venezuela, S.A.' which is the entity created to manage the petroleum industry.
Venezuelan Constitution (1999)

Article 302 underscores the right of the Venezuelan state to dictate by organic law how it intends to regulate the oil sector and other industries that are 'in the public interest and of strategic nature'. It is further foreseen that local industries shall be promoted or subsidized. In particular 'domestic manufacture of raw materials deriving from the exploitation of non-renewable natural resources, with a view to assimilating, creating and inventing technologies, generating employment and economic growth and creating wealth and well-being for the people.' (Article 302). More directly, Article 303 (see box above) makes explicit reference to PDVSA and its role as a state-owned monopoly. What is furthermore remarkable about the 1999 constitution is that it obliges '[a]ny revenues generated by exploiting underground wealth and minerals, in general to be used to finance real productive investment, education and health.' (Article 311)

Besides the Constitution, the main legal framework under which the hydrocarbon industry in Venezuela is currently functioning is the *Organic Hydrocarbons Law* ('Hydrocarbons Law') adopted in 2001 and amended in 2007, which replaced two previous laws: the 1943 Hydrocarbons Law and the 1975 Nationalization Law. This law establishes that oil-related activities must be managed by the state, with the only exception of post-extractive activities such as refining processes, which are usually implemented by PDVSA-controlled joint ventures.²⁸

Furthermore, the Hydrocarbons law provides for a royalty rate of 30% of value of production to government (Article 40), allowing reductions to a minimum of 20% for mature or extra-heavy crude fields and 16,7 % for bitumen fields whereas royalties for the gas sector receive a general flat rate of 20%. In addition to the royalty, the Hydrocarbons Law sets forth special revenues for the state such as surface tax, fuel consumption tax and a general consumption tax. Annex 2 shows all details of the numerous changes regarding taxation for the oil industry following the entry into force of the new Hydrocarbons Law and other amendments.

Aside from these general trends, there has been a long series of small amendments and changes since 1999 (see Annex 3), with most of them being directly supported by the Venezuelan government.

Using Daniel Johnston & Co. (2008) methodology²⁹ to illustrate the combined Royalty/Tax systems for the *apertura* and the current new fiscal policy, one can develop a useful calculation to assess the shift in government take³⁰. In this case, for the sake of illustration, we consider a generic cost of 35% (Table 3).

²⁸ Hydrocarbons and gas laws available at: [<http://www.leydehidrocarburos.gov.ve>] (accessed on 7 September 2008).

²⁹ As a caveat however Johnston warns that this fiscal analysis has several weaknesses as it does not take into account 1) the effect of signature bonuses 2) the time value of money 3) contract stability 4) at what stage and to what extent royalties and other fees are charged (e.g. whether they are front-loaded or end-loaded) 5) whether ring fencing is considered 6) Crypto taxes 7) effects of work program dynamics.

Nevertheless it can be considered as a 'proxy analysis' to approximate a calculation of the financial impact of increases and decreases in royalty and CIT rates in the case of Venezuela.

³⁰ Government take is the total amount of revenue that a host government receives from production. It can include taxes, royalties and government participation-

(See [www.glossary.oilfield.slb.com/Display.cfm?Term=government%20take] accessed on 7 September 2008). For the purpose of this exercise, government take is derived from the cash flow of an entity. It takes in consideration the net cash flow after payment of Royalty and CIT divided by the gross income (100%) less estimated costs (35%).

Table 3 – Royalties and Other Government Take

	Apertura policy	New fiscal policy
	Take % calculation	
With IOC participation		
Gross revenue	100%	100%
Less: Royalty gross revenue (Government take)	1%	33%
Subtotal 1	99%	67%
Less: Estimated costs	35%	35%
Subtotal 2	64%	32%
Less: CIT (apertura =34%, new policy=50% of subtotal 2)	22%	16%
Subtotal 3(Company cash flow)	42%	16%
Total Government take	35%	75%
With NOC participation	38%	60%
Calculation of NOC participation	16%	10%
Company cash flow after participation	26%	6%
Company take	40%	9%
Government take	60%	91%

Source: Johnston et al., 2008

When it comes to analysing government take, currently Venezuela registers 75% without considering PDVSA's interest in the business. If we are to include also the new NOC participation of 60%, then it is fair to argue that government's revenues amount to approximately 91% as opposed to 60%, which was the average at the time of the *apertura* policy.

It is important to recall that the extra heavy oil agreement contemplated the increase of the royalty rate from one percent (1%) to over sixteen percent (16,66 %) once the gross income reached three times the net value of the original investments or 9 years counted from the date of the first commercial lift. In such case, the government take including national oil company participation would have resulted in sixty-nine percent (69%). With the recently approved Windfall Tax³¹, the percentage of government take increases however within the context of Brent crude oil prices that exceed US\$ 130 per barrel. Within the bracket of US\$ 70 to US\$ 100, an additional 50% of original contribution is added. Within the remaining US\$ 100 to US\$ 130 bracket, an extra 60% of contribution to the Ministry of Energy is also charged.

As shown in Figure 5, due to a number of legislative and fiscal factors, Venezuela's current government take is among the highest on the international level.

In contrast, other taxation rates in Venezuela range between 15%-34% for corporate tax, between 6% to 23% individual personal tax, between 8%-10% for VAT and 9% for sales taxes.³²

Regulations pertinent to local-level administration have also seen several amendments over the years. The most recent amendment was adopted by presidential decree in August 2008 and incorporated into the Organic Law of Public Administration. It specifies that "[t]he president of the Republic will designate regional authorities, who will have as a function the planning, execution, follow-up, and control of the policies, plans, and approved projects of the ordering and development of the territory in conformity with the centralized planning."³³ These officials would steer the administration of 'Special Use Areas' defined by the 2005 Organic Law on Territorial Ordering and Planning as key strategic areas to be placed under "special management to fulfill specific objectives of general interest" such as the sustainable use of natural resources, the protection and recuperation of degraded areas, and national defence³⁴.

More recently Chávez announced that the southern section of Venezuela's Orinoco Oil Belt region will become a "Special Use Area" administered by an appointed federal authority. With a projected budget of US

³¹ Special contribution on extraordinary prices of Hydrocarbon published in the Official Gazette N° 38.910 dated April 15, 2008.

³² [<http://www.fita.org/countries/venezuela.html>] (accessed on 7 September 2008).

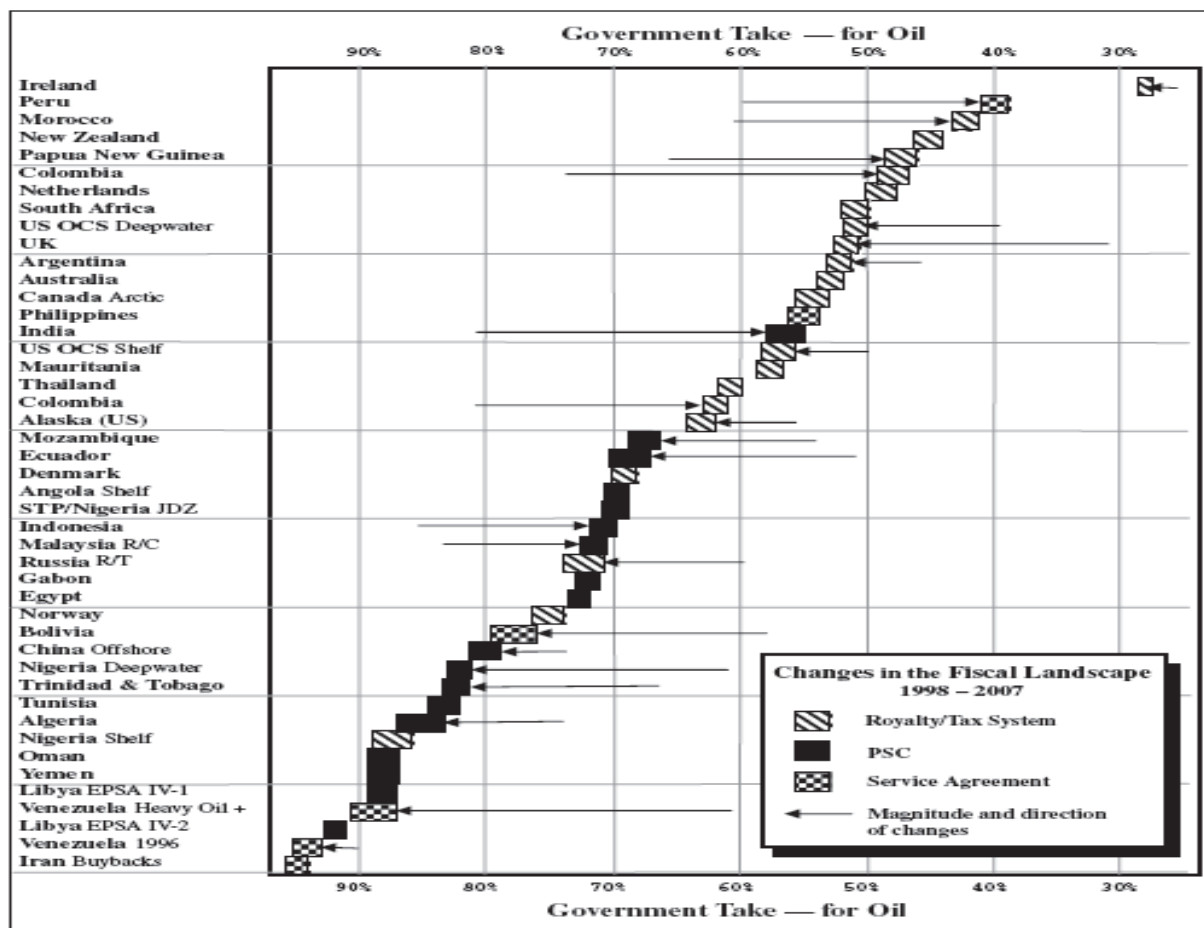
³³ [<http://www.venezuelanalysis.com/news/3741>] (accessed on 7 September, 2008).

³⁴ [www.leyesvenezolanas.com] (accessed on 7 September, 2008).

\$408.4 million as initial investment to be provided largely by PDVSA, the region is meant to foster agricultural and livestock projects³⁵. Fundamentally, the use of oil revenues is strongly centralized and producing states only receive oil revenues through government redistribution mechanisms.

The selected authorities will be in charge of administering the necessary resources for the implementation of the planned development projects directly. In the past, these authorities were only appointed in exceptional cases, such as regarding reconstruction after the 1999-2000 landslides that devastated the state of Vargas.³⁶

Figure 5 – Comparative Government Take



Source: Johnston et al., 2008

Social funds

In addition to the above-discussed expenses, the Venezuelan government has also established two separate funds, namely National Development Fund (FONDEN) and the Fund for Social and Economic Development (FONDESPA). The funds transferred to FONDEN and FONDESPA can be ascribed to the government take that IOCs are subject to. As part of their remit, these funds are supposed to use oil resources to support initiatives aimed at economic and social development.

FONDEN was created by government in 2005 in order to support social projects with productive investments. The main fields of FONDEN's activity are education and health, while special attention is also paid to specific situations involving marginalized groups. Part of this funding is also targeted at reversing the country's foreign debt. As a result of the reform of the Central Bank of Venezuela (BCV) enacted in 2005, a new process for foreign currency transactions for PDVSA was established. This provision affirms PDVSA's obligation to channel its income in foreign currency directly to the Central Bank, while excess dividends

³⁵ [<http://www.venezuelanalysis.com/news/3741>] (accessed on 7 September, 2008)

³⁶ [http://www.eluniversal.com/2008/08/22/eco_art_autoridad-regional-a_1010344.shtml] (accessed on 7 September, 2008).

from oil must be transferred from PDVSA to FONDEN³⁷. Since 2005 PDVSA has transferred US\$ 15,141 million to the fund; US\$ 1,525 million in 2005, US\$ 6,855 million in 2006 and US\$ 6,761 million in 2007 – marking a slight decrease compared to the previous year.

On the other hand, FONDESPA’s mission is to ‘build a new economic model eliminating situations of disparity’ and it has received a cumulative amount of US\$ 4,229 million over the years since its inception (see Table 6).

Table 4 – FONDESPA use of resources (millions of US\$)

These resources have been allocated to projects in the following areas:			
Project Area	Allocated Nat. Gov.	Performed 2004 - 2007	% Completed
Roads and Infrastructure	763	644	84
Public Transportation	1,107	1,027	93
Electric Energy	806	793	98
Endogenous Development, Agro industry and Medium-Sized Companies	586	559	95
Communications, Studies and Environmental	104	92	88
Domestic Agricultural Development	304	303	99
Basic Industries	32	7	22
Public Banking	50	50	100
National Defense	231	-	-
Regional Integration & Unity	50	50	100
Fondo de Inversión y Desarrollo Garantía Nacional	196	196	100
	4,229	3,721	88

Source: PDVSA

A third existing fund, whose functions are however not focused on social development, is the Macroeconomic Stabilization Fund (FEM). This fund has de facto however overlapped to a great extent with FONDEN in actual function and funding structure. In Chapter 7 the need to clarify the roles of said funds will be explained in further detail.

³⁷ [http://www.fonden.gob.ve/todo_sobre/] (accessed on 11 December 2008).

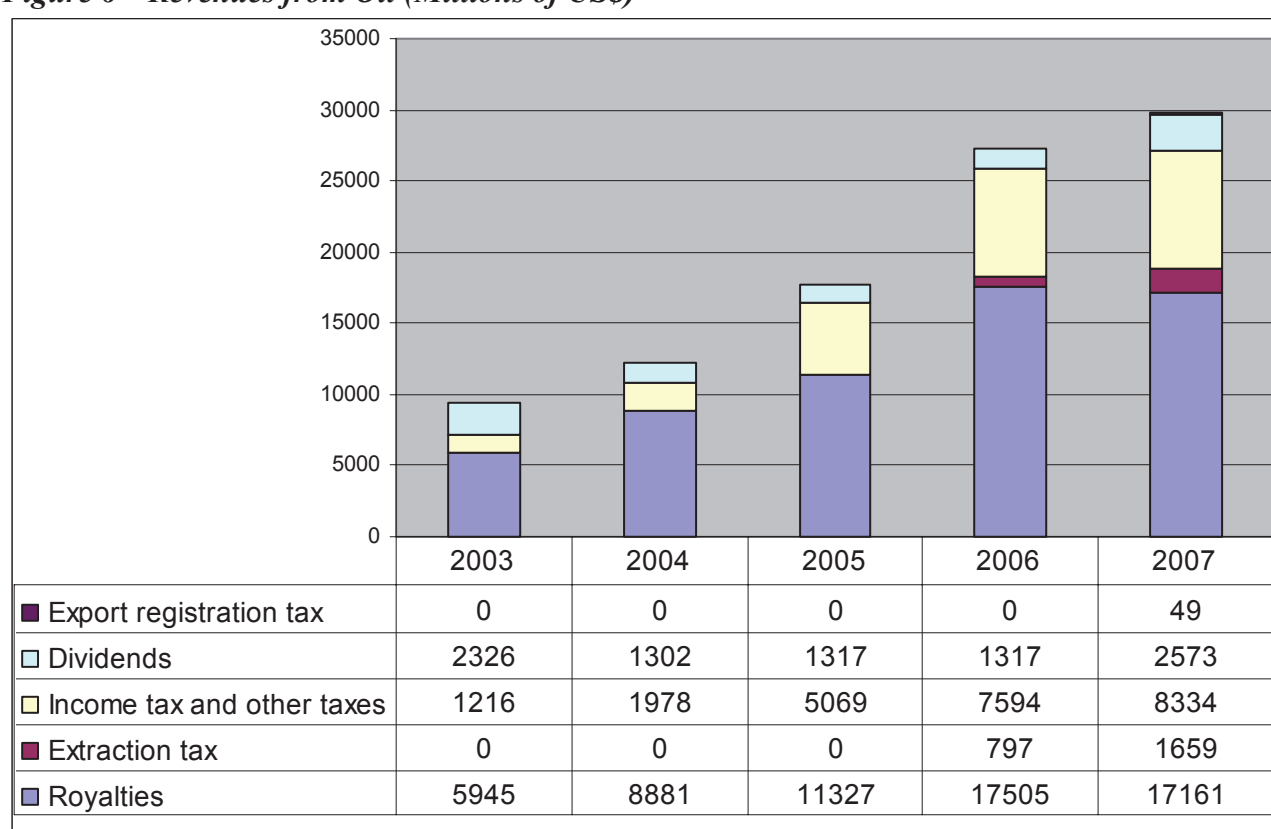
3. DISTRIBUTION OF OIL REVENUES

This chapter attempts to assess the amount of revenues the Venezuelan government receives through oil, particularly through PDVSA as more details exist on their accounts than the income generated through the taxation of IOCs. It also aims at describing how much of these revenues are spent and in what way.

3.1 Revenues from Oil

PDVSA declares to have contributed to the government's coffers an amount of US\$ 29,776 million in 2007, which constitutes an increase of 9% from 2006 (US\$ 27,213 million). This includes the revenues from the strategic association with IOCs. Figure 6 shows the increase in revenues since 2003, as it is quite difficult to provide conclusive figures for the period 1998-2002 as the accounting procedures and line item names have since changed.

Figure 6 – Revenues from Oil (Millions of US\$)



	2003	2004	2005	2006	2007
Total	9,487	12,161	17,713	27,213	29,776

Source: PDVSA

The income tax line item reflects the change in legislation and increase in windfall income tax, which explains that the figures increased almost sevenfold.

The financial results of PDVSA are of course very much contingent upon export volumes and, above all, the international price of oil. Since 2003, PDVSA's national revenues have more than tripled, although the net revenue from royalties seems to have decreased from 2006 to 2007. That said, the increase of income and other (such as windfall) taxes and marginal increases in extraction tax and dividends mean that despite lower revenues from royalties, the overall amount of profit has increased substantially when compared to previous years.

3.2 Costs and spending

Total liabilities and stockholders equity have also increased from US\$ 56,431 million in 2003 to US\$ 107,672 million in 2007, whereas the total debt of the company now amounts to US\$ 16,006 million (up from US\$ 7,061 million in 2003). At present, PDVSA's total debt is valued at 29% of stockholders equity.

The operating expenses of the company closed with a balance of US\$ 14,779 millions while in 2006 it was slightly lower (US\$14,646 million). This can be attributed to the combined effect of lower costs in the domestic sector (mainly generated by the elimination of payments from services of joint ventures, as discussed in Chapter 2) and increase in refining costs as PDVSA absorbed the expenses of new collective ventures under the 'mixed' enterprise agreements³⁸.

The purchase of crude oil and related-products decreased to US\$ 28,137 million in 2007 from a spike of US\$ 38,778 million in 2006: that is, a 28 % decrease (e.g. US\$10,641 million), which however is less dramatic is considered that it was of US\$ 32,979 in 2006. This should be mainly attributed to a decrease in gasoline purchases by CITGO (US\$ 9,968 million in 2007 against US\$ 22,204 million in 2006) due to a downturn in its operations.

Exploration expenses on the other hand amounted to US\$154 million in 2007, US\$ 54 million more than in 2006 (US\$100 million), amounting to an increase of over 50%; in 2005 the expenditure had been of US\$ 118 million. According to PDVSA's management, this is due to an increase in seismic measurement equipment investments and increased contracting of man-hours of local and foreign specialists for advisory.

Most crucially, all social expenses carried out by PDVSA in 2007 increased to US\$ 14,102 million, up from \$13,784 million in 2006 (highlighted in Table 5). This topic is discussed in further depth in Chapters 4, 5 and 6. Table 5 breaks up the PDVSA income and expenses by year.

In Table 5 the detailed information on the company cash flow is presented up until 2006³⁹.

Table 5 – Financial Information PDVSA

PDVSA audited Financial Statements									
	1998	1999	2000	2001	2002	2003	2004	2005	2006
Sales of crude oil and products:									
<i>Exports and international markets</i>	23,289	30,369	49,780	42,682	39,875	44,178	60,972	81,105	96,764
<i>In Venezuela</i>	1,315	1,450	2,230	1,701	1,236	961	1,227	1,408	2,233
Other sales and petrochemicals	922	781	1,224	1,403	1,201	1,071	1,517	2,040	255
Total revenues	25,526	32,600	53,234	45,786	42,312	46,210	63,716	84,553	99,252
Purchase of crude oil and its products	8,978	10,959	19,759	18,228	17,956	21,016	24,649	32,979	38,778
Operation expenses	7,561	8,532	10,010	10,882	9,181	9,373	13,432	14,645	14,779
Exploration expenses	123	118	169	174	133	27	60	118	100
Depreciation and amortization	2,849	2,821	3,001	2,624	3,227	3,042	3,082	3,334	3,640
Sales, administration and general expenses	1,255	1,192	1,256	1,616	1,380	898	1,195	1,376	2,184
Royalties, extraction tax and other taxes	3,680	5,529	10,734	3,760	5,748	6,428	9,247	13,318	18,435
Financing expenses	365	662	672	509	763	684	456	190	267
Other incomes (expenses), net	185	17	863	456	-456	271	569	561	374
Total costs and expenses	24,996	29,830	46,464	38,249	37,932	41,739	52,690	66,521	78,557
Equity participation in net profits from affiliates	133	48	446	464	268	379	1,041	1,177	1,120

³⁸ Petróleos de Venezuela S.A. and Subsidiaries (PDVSA) Wholly-Owned by the Bolivarian Republic of Venezuela Financial and Operational Information, December 31, 2007 available at www.pdvsa.com (accessed on 7 September 2008)

³⁹ 2007 financial information had still not been audited at the time this report was drafted, and therefore was not included in the table

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gains in sales of affiliate investments	0	0	0	0	0	0	0	0	1,432
Gains before social development and CIT expenses	663	2,818	7,216	8,001	4,648	4,850	12,067	19,209	23,247
Social development expenses	0	0	0	0	0	249	1,242	6,909	13,784
Gains before CIT	663	2,818	7,216	8,001	4,648	4,601	10,825	12,300	9,463
CIT (Corporate income tax)				3,669	1,102	1,318	5,419	5,817	4,031
Net profits from continuous operations	663	2,818	7,216	4,332	3,546	3,283	5,406	6,483	5,432
Discontinuous operations:									
Gains from discontinuous operations, net from tax	0	0	0	0	0	0	0	0	20
Net gains	663	2,818	7,216	4,332	3,546	3,283	5,406	6,483	5,452

Source: PDVSA

Table 6 – Future Projections of Capital Expenditures (millions of US\$)

Capital Expenditures (in MMUS\$)							
	2007 ⁽¹⁾	2008	2009	2010	2011	2012	Total
Exploration	199	323	505	413	284	24	1,748
Production	4,610	4,102	2,387	2,400	2,485	998	16,982
"Empresas Mixtas" (former Operation Agreements)	462	1,154	527	467	361	253	3,224
"Empresas Mixtas" (former joint ventures)	219	1,253	309	388	320	695	3,184
New "Empresas Mixtas" of the Oil Belt	-	68	1,576	4,533	3,542	6,493	16,212
"Empresas Mixtas" (Shared Profits)	198	336	174	369	380	133	1,590
Gas	263	3,910	2,197	2,534	2,201	2,176	13,281
Refining	1,122	2,276	3,733	3,834	3,290	1,094	15,349
Trade and Supply	-	-	73	117	126	48	364
Support and Management (Includes PDVSA Agricola)	3,933 (2)	2,249 (3)	-	-	-	-	6,182
Total	11,006	15,671	11,481	15,055	12,989	11,914	78,116

(1) Actual figures as of December 31, 2007.

(2) Includes purchase of Electricity Companies and investments in Electricity Projects and PDV Marina, and other.

(3) Includes investments in PDVSA América, PDV Naval, and other.

Source: PDVSA

4. GOVERNMENT EXPENDITURE ON POVERTY REDUCTION

Following the analysis of the oil sector, including the overall income and the legislative framework, the present chapter explores the main governmental policies in the welfare sector, with a particular emphasis on poverty reduction initiatives. For this purpose selected poverty and welfare indicators are considered firstly. In the second instance, social spending models and approaches are reviewed. Unless stated otherwise, the social spending figures refer to funding coming from government coffers or FONDEN/FONDESPA. This is also explained in further detail in Table 13. Finally, this chapter also analyses how oil revenues allow for a series of subsidies on certain wide-consumption products and services as an additional layer to the multi-faceted welfare initiatives promoted by the Venezuelan government.

A disclaimer is necessary before analysing the official figures. A review of the current literature and debate on social spending in Venezuela pointed to a general agreement by most analysts that Venezuelan statistics are often questionable. For instance, data on social spending is not easily accessible or transparent (some analysts even argue that spending on military defence is included in the figures). As far as poverty is concerned, a debate on the reliability of official statistics has been raging since 2003. With respect to official data on social spending, we attested to the difficulty of finding straightforward data on broad-based social programmes (i.e. the Bolivarian *missions*) and/or impact evaluations to assess their effectiveness in terms of poverty reduction. Furthermore, raw data is rarely available, which makes it impossible to understand what certain indexes are made up of and renders an overall interpretation of social trends quite complicated. As was exemplified by an article published by Inter Press Service in 2006: “The debate on poverty statistics in Venezuela has not escaped the political polarisation that continues to reign in this country.”⁴⁰

4.1 General Welfare and Poverty Levels

As mentioned above, since Chávez took power, poverty reduction and social inclusion have become key priorities for the Venezuelan government. If, on the one hand, this has meant a significant emphasis on social policies by government, on the other hand, it has also contributed to polarizing the debate among different social forces. While some – including critics of the Venezuelan government – argue that poverty and inequality have seen dramatic declines since Chávez won the elections in 1998, others dispute the overall improvement of general welfare and contest the government’s official figures⁴¹. Against such a backdrop, this section presents a range of statistics on poverty and welfare in the country, triangulating between national and international data whenever possible.

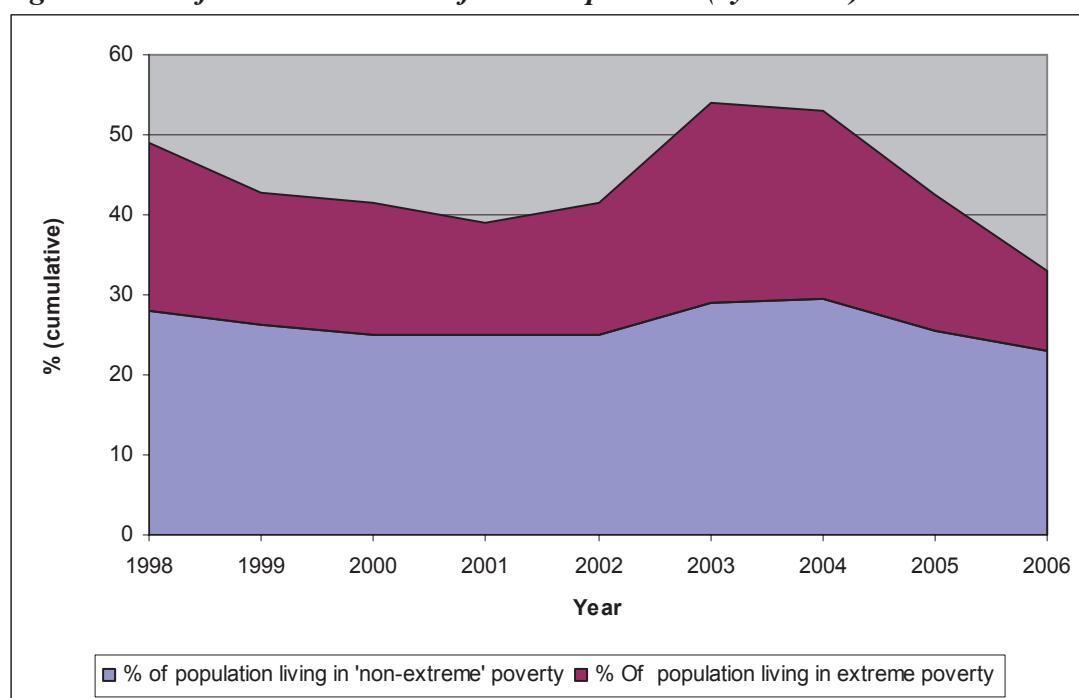
In general, it can be argued that nationally-developed statistics support the argument of a general improvement in social development, at least for selected indicators.

As can be gleaned from Figure 7, poverty rates have dropped remarkably from 1998 to 2006. Overall poverty rates have fallen from 49% of households to 33,1%, while extreme poverty has declined from 25,5% of households to 10,2%. On the contrary, non-extreme poverty has been more stable (as indicated by the ‘blue’ area).

Nonetheless, as the graphic also shows, the decline has been all but linear. From 2001 to 2005 a remarkable jump in poverty figures was registered with a peak of 54% in 2003, which managed to exceed 1998 poverty levels. During this period the extremely poor also increased to 28,9% of the population. Since these figures indicate income-related poverty (e.g. % of population earning less than the value of the basic goods basket for the general poverty rate and % of people earning less than the basic food basket for extreme poverty), the upward trend can be explained by the economic downturn hitting the country from 2001 to 2004, further exacerbated by the 2002-2003 general strike that contracted the economy.

⁴⁰ Inter Press Service <http://ipsnews.net/news.asp?idnews=35952> (accessed on 7 September 2008).

⁴¹ Since 2007 Francisco Rodriguez (Assistant Professor of Economics and Latin American Studies at Wesleyan University and Chief Economist of the Venezuelan National Assembly between 2000-2004) and Marc Weisbrot (co-Director of the Center for Economic and Policy Research, Washington) have been at the forefront of this debate in academic and analyst circles internationally. While Rodriguez is generally critical of the Venezuelan government’s policies and its achievement, questioning the soundness and veracity of official Venezuelan statistics, Weisbrot argues that social spending and levels of Welfare have increased dramatically under the Chávez government.

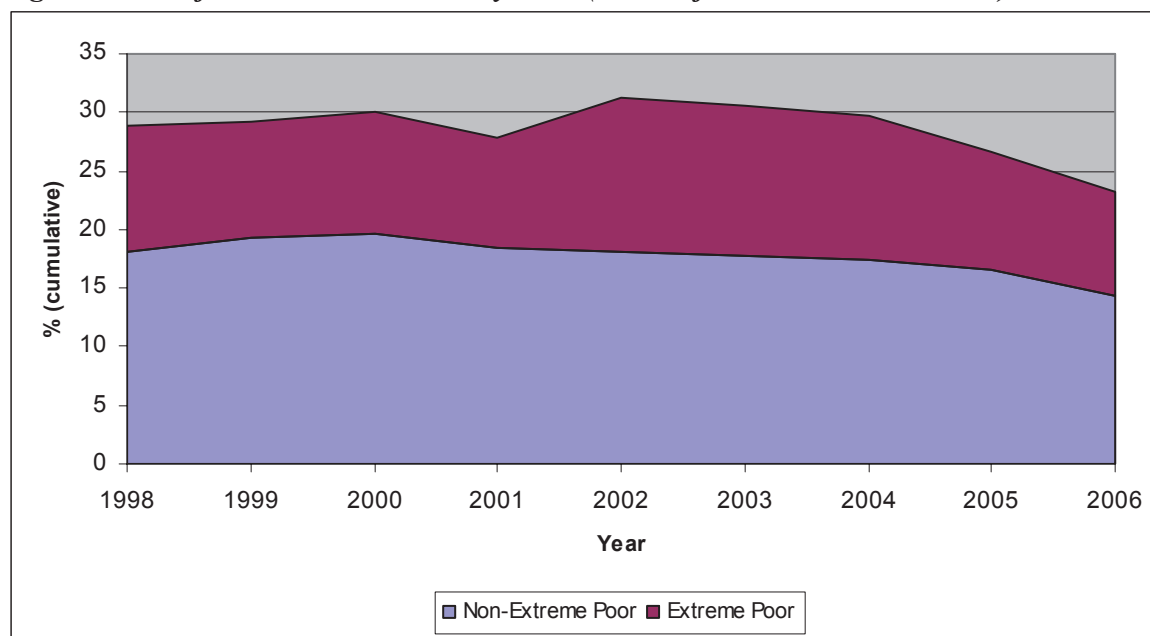
Figure 7 – Welfare indicators: % of Poor Population (by income)

	1998	1999	2000	2001	2002	2003	2004	2005	2006
poor population as % of total	49,0	42,8	41,6	39,1	41,5	54,0	53,1	42,4	33,1
'non-extreme' poor as % of total population	28,0	26,2	24,9	24,9	24,9	28,9	29,6	25,5	22,9
extreme poor as % of total population	21,0	16,6	16,7	14,2	16,6	25,1	23,5	17,0	10,2

Source: National Institute of Statistics (INE)

If this is the picture described by simple poverty measures, the trend is slightly different when we adopt a more multi-faceted measurement of poverty such as the Unsatisfied Basic Needs (UBN) Index (Figure 8). The UBN Index was developed by the Economic Commission for Latin American and the Caribbean and compounds several indicators in order to gauge the (im)possibility of a household to cover its basic needs. The indicators include school enrolment, household structure (type of physical housing), education of the household's head and resistance to economic shocks. As a complex of different social indicators, the UBN Index is a multi-level measurement of poverty that allows for a more nuanced and differentiated assessment of the social conditions in Venezuela. While this contributes to lowering the overall poverty rate (if compared with the official poverty rate), it also permits us to disaggregate the different indicators in order to develop a deeper analysis of certain key social trends.

In the case of Venezuela, except for a dip between 2000 and 2001 and subsequent rise in the number of the extremely poor, a fairly uniform downward trend is registered. Since 2002, the numbers show a gradual downward trend. Non-income-related poverty measures are more stable than income related ones. That is, the registered fall in poverty is more gradual as unsatisfied basic needs are more gradual to adapt to changes in income. Extreme poverty is nonetheless more affected by economic peaks and crises as families in living in extreme poverty conditions are not able to adapt to external shocks as families that have some means of cushioning external and income-related shocks.

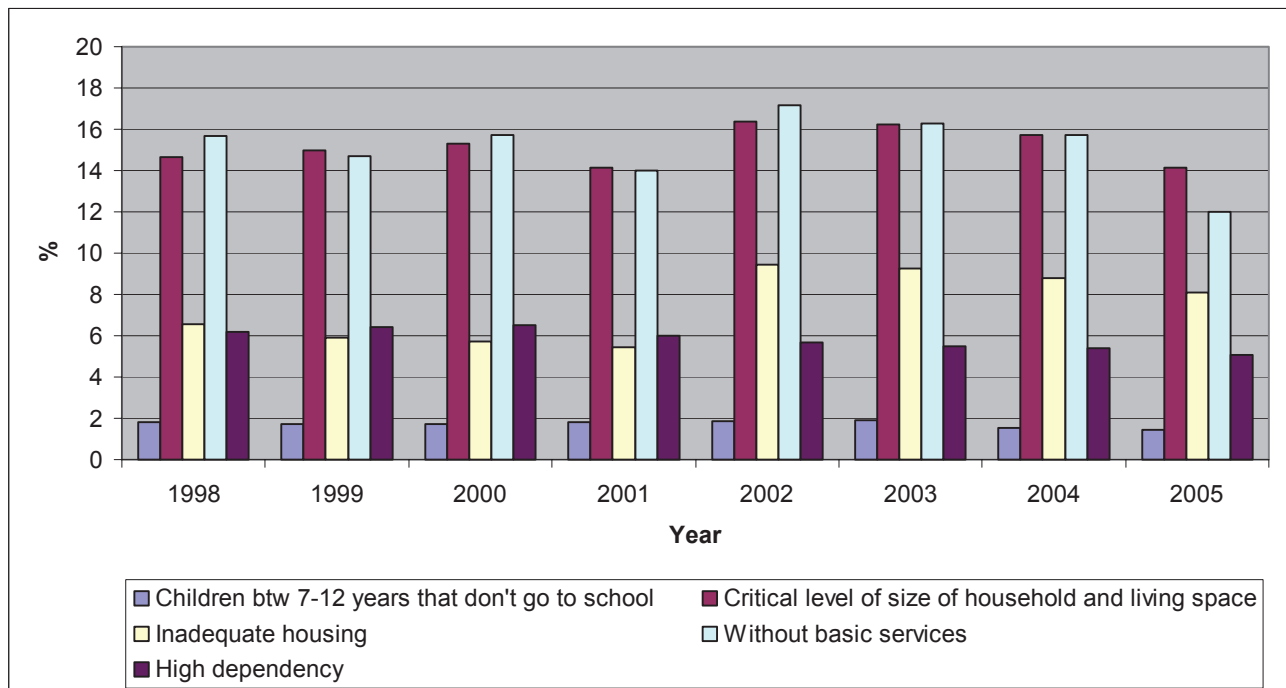
Figure 8 – Welfare indicators: Poverty Line (Unsatisfied Basic Needs Index)

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Non-Extreme Poor	18,1	19,3	19,6	18,5	18,2	17,8	17,5	16,6	14,3
Extreme Poor	10,8	9,9	10,5	9,3	13,0	12,7	12,2	10,1	9,0

Source: National Institute of Statistics (INE) (Note: % correspond to the first semester of each year)

When disaggregated by specific unsatisfied needs as opposed to income-based poverty statistics (Figure 9), those profiled most strongly are the percentage of families without basic services, referring in particular to safe drinking water and sewage disposal systems as well as the critical level of size of household and living space. The latter measures the number of people that are living in the same space and considers those households where the ratio of total number of rooms to members of household exceeds three (3). Whereas the percentage of children between the ages 7 to 12 that do not attend school has declined slightly, consistently at less than 2%, it has also been the least worrisome of unsatisfied basic needs. Inadequate housing has curiously seen a gradual decline, then a sharp spike from 2001 to 2002 and again a gradual decline thereafter. However, it was still higher in 2006 than in 1998. Dependency levels (e.g. heads of household whose education level is less than three years of formal education and where there are three or more dependants per employed person) have remained relatively stable, declining by about one (1) percentage point.

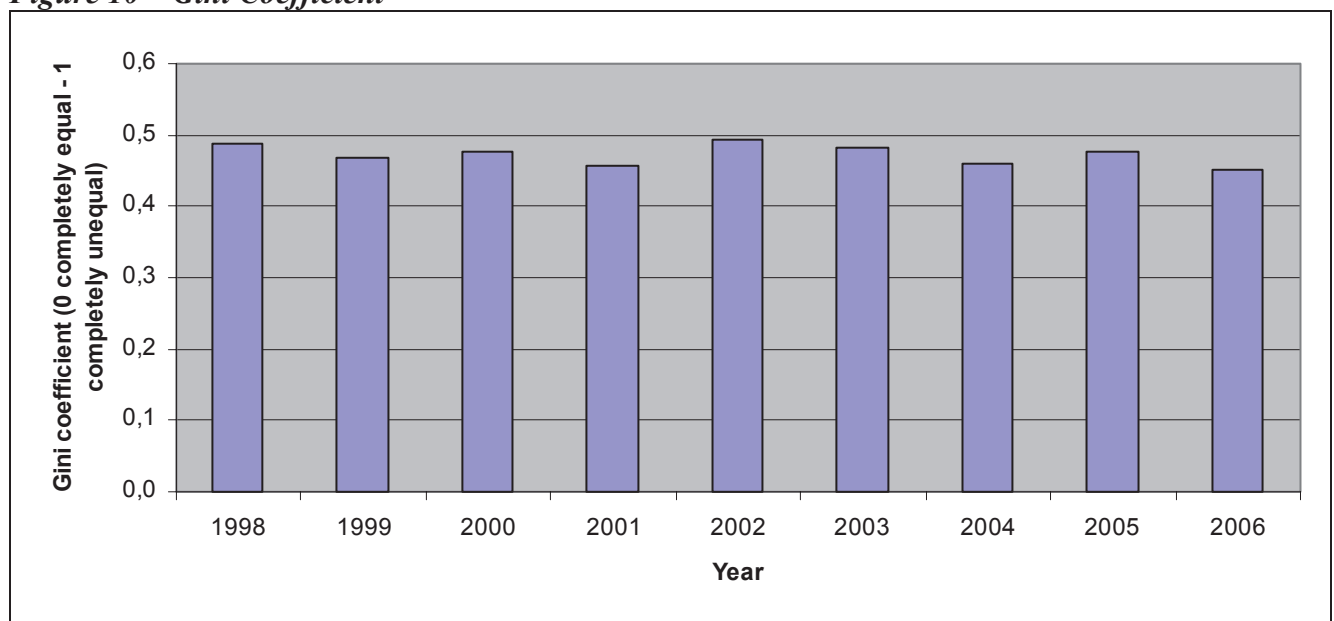
This analysis reveals that social indicators pertaining to overall ‘poverty conditions’ have changed according to different patterns during the period under examination (1998-2006). While, for instance, educational development has experienced a gradual improvement over time (as is exemplified by children’s school attendance and ‘dependency’ levels), at the same time basic services have registered a rather unstable trend, although a significant improvement was recorded in 2005. Similarly, housing inadequacy has remained comparatively high in the past few years. Such a disaggregated analysis allows us to point out the fact that while in certain sectors (e.g. education and employment), government’s policies seem to have exerted some positive impact, in other areas (e.g. basic services and housing), the overall condition has not changed considerably since 1998.

Figure 9 – Disaggregated social trends (Unsatisfied Basic Needs)

Source: National Institute of Statistics (INE)

Comparative stability is also confirmed by an analysis of income distribution, which shows that numbers have not changed so significantly since 1998. According to the National Institute of Statistics, in 1998 the poorest 20% of the population received 4,1% of the total income whereas the wealth accrued by the richest quintile amounted to 53,4%. In 2006, the poorest quintile levels increased by 0,7% whereas those by the richest reduced to just under half of the wealth (49,8%).

In order to corroborate this finding, Figure 10 reports the Gini coefficient (complete equality =0, complete inequality=1) for the period under examination: inequality seems to have declined slightly over time, from 0,49 in 1998 to 0,45 in 2006.

Figure 10 – Gini Coefficient

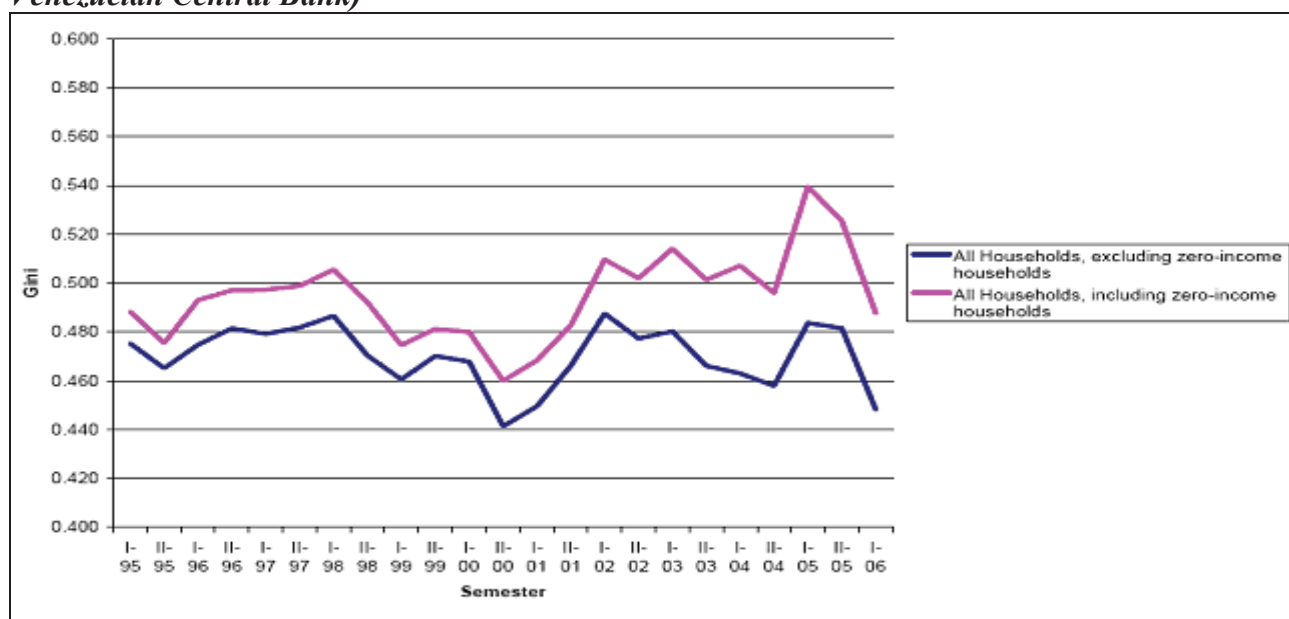
Source: National Institute of Statistics (INE)

It is interesting to note that all these figures have been disputed also by the Venezuelan government. In March 2005, President Chávez rejected the poverty figures provided by the National Institute of Statistics and demanded a rectification during his weekly TV and radio show, ‘Aló Presidente’. This request came in response to a report by the National Institute of Statistics published in December 2004, in which the official poverty rate was put at 53,1% for the first half of 2004, whereas the percentage of households unable to afford the basic food basket was assessed at approximately 25%.

Some analysts argue that the data concerning the first quarter of 2004 was unduly influenced by the impact of the oil strike and economic recession of 2002-2003 (see, for instance, Weisbrot, Sandoval and Rosnick 2006) and does therefore not provide a valid measure of the overall trend. In general, though, analysts disagree with regard to the real causes of the downturn of poverty rates after 2005. For some, the decline of overall poverty is a consequence of the sustained economic growth coupled with massive spending on social programmes (for further details, see section 4.2).⁴² Others argue that the shift is a consequence of the fact that the official methodology to measure poverty has changed since 2005, although we could not find evidence of such a revision in the INE’s methodology.⁴³ Furthermore it is maintained that poverty statistics measuring income alone are not sufficient to indicate if welfare levels have actually improved (Rodriguez 2008).

Inequality measures have also undergone criticisms. Among others, Rodriguez (2008) has provided an alternative measure based on official data provided by the Venezuelan Central Bank, in which he also computes households where income is ‘zero’ (Figure 11). It is not explained why including zero-income households in the calculation is not a standard procedure. This calculation pushes up inequality levels to a maximum of 0,54 in 2005 (first semester).

Figure 11 – Two Measures of Gini Coefficient Compared (National Institute of Statistics and Venezuelan Central Bank)



Source: Rodriguez 2008

In moving from social to economic indicators, the magnitude of the gap is quite substantial. Since 2003, GDP has expanded more than twofold (see Figure 3 in Chapter 1). Unemployment figures (available only for some years) have also improved over time and are now comparable to the 1995 levels (see Table 7), although they remain higher than the Latin American average. The percentage of labour force working in the informal sector has been close to half the active population between 1996 to 2006, decreasing only by 2,4% (from 47,8% in 1996 to 45,4% in 2006).

⁴² [<http://www.rethinkvenezuela.com/downloads/ceprpov.htm>].

(accessed on 7 September 2008); [<http://www.venezuelanalysis.com/news/556>] (accessed on 7 September 2008).

⁴³ [<http://vcrisis.com/index.php?content=letters/200510200708>] (accessed on 7 September 2008). See also Webb-Vidal cited in Weisbrot, Sandoval, Rosnick (2006).

Table 7 – Unemployment in Venezuela and Latin America (%)

	1995	2000	2003	2004	2005	2006
Venezuela, B.R	10,3	13,9	18,0	15,3	12,4	10,0
Latin America	9,3	10,4	11,0	10,3	9,1	8,6

Source: ECLAC (available years)

Once again, in order to triangulate official data as much as possible, it is useful to place these figures into perspective. In this regard, it makes sense to also include the UNDP's Human Development Index, which combines normalized measures of life expectancy, literacy, educational attainment and GDP per capita (0 least developed to 1 most developed). Also according to the HDI, Venezuelan overall social conditions have improved since 2000 (see Table 8). At the same time, though, the country has declined in the overall ranking from being the 69th country in the list in 2000 to the 74th in 2007.

Table 8 - Human Development Index for Venezuela

	2000	2001	2002	2003	2004	2007
Score	0,77	0,775	0,778	0,772	0,784	0,792
Rank	69	69	68	75	72	74

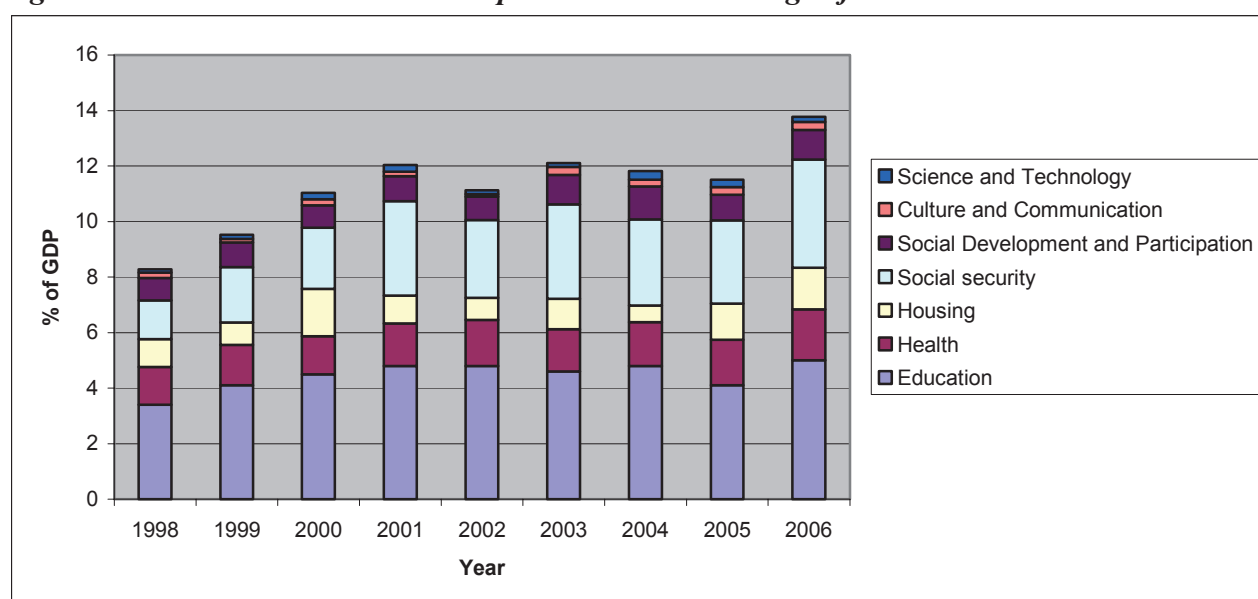
Source: UNDP HDI (available years)

4.2 Social Spending

The following section presents a description of governmental expenditure in the social sectors as well as its specific approach to poverty reduction.

Although oversimplified it is not disputed that Chávez's personal power is largely based on the significant support he elicits within the most marginalized groups in the Venezuelan society. Although his uncontested leadership has received a blow with the failure of the 2007 referendum to reform the constitution, it seems fair to maintain that Chávez's government has channelled its efforts (although there are disagreements on its success) on improving the living conditions of the poor throughout its mandate.

Most observers, irrespective of their opinion of government, concur that since the late 90s and in particular after 2003, oil money has enabled Chávez to vastly increase spending on social programmes. This argument is corroborated by Figure 12, which uses data from the Integrated Social Indicator System for Venezuela (SISOV).

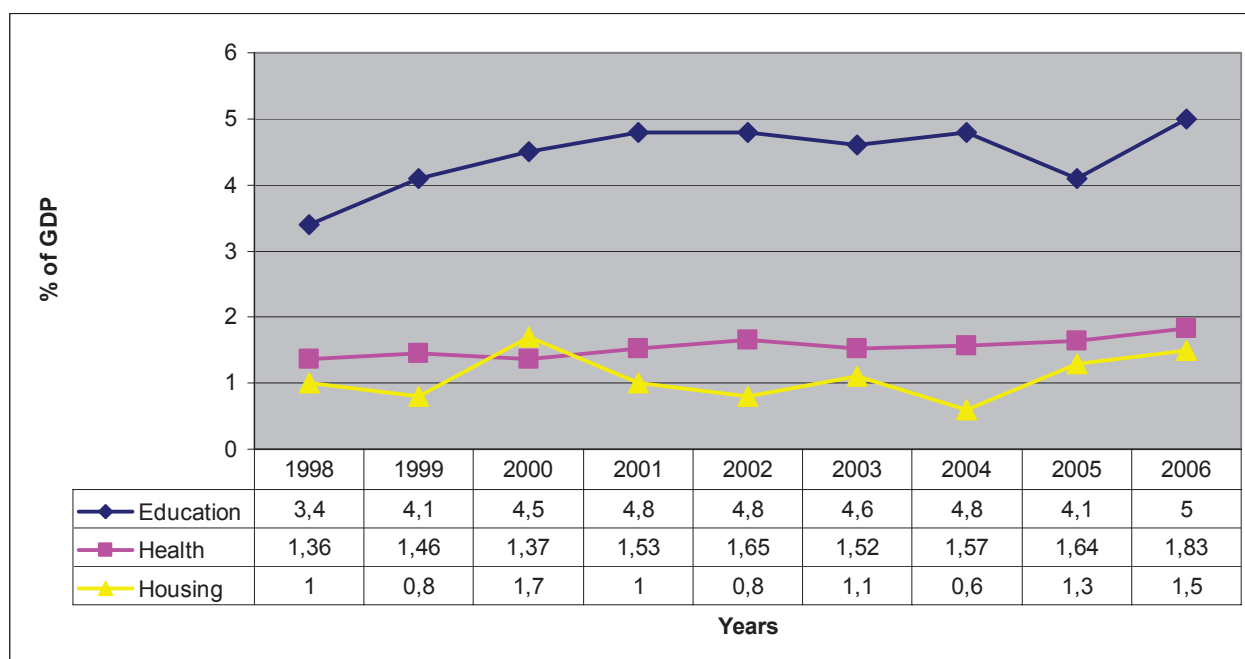
Figure 12 – Public Sector's Social Expenditure as Percentage of GDP

Source: SISOV

In general, the overall social spending of the Venezuelan government has grown since 1998, amounting to almost 14% of GDP in 2006.

Education is the sector in which government's expenditure has been more preponderant, absorbing between 3% and 5% of GDP between 1998 and 2006 (see also Figure 13 for details). Social spending on health has also increased, although at a moderate level. Housing has seen government's support growing and shrinking over time, with the most significant peaks being registered in 2000, 2005 and 2006. Social security has been probably the sector in which government's expenditure has registered the most significant growth, jumping from approximately 1,5% of GDP in 1998 to almost 4% in 2006. Participation and social development has also seen a growing trend, which is also confirmed by the governmental interest in promoting different forms of grassroots engagement in marginalized communities (the so-called 'barrios').

Figure 13 – Public Sector's Expenditure on Education, Health and Housing as Percentage of GDP



Some observers point out that, in spite of a generalized growth, not all sectors of government's social spending have a direct bearing on the poorest segments of the populations. For instance, sectors such as 'culture and communication' and 'science and technology' (which amount to about 0,5% of GDP) do not target the poor directly. Also, some have observed that the bulk of spending on social security is absorbed by the payment of pensions, which in fact mostly benefit the non-poor, as "only 13% of individuals in the lowest quintile participate in the social security system" (Rodriguez 2008).

4.3 General Oil-revenue related policies

As widely reported by the media, Chávez social policies have gone beyond the borders of Venezuela. Increased oil revenues have also allowed the current Venezuelan government to sell oil at reduced prices not only to Cuba (as mentioned above), but also to Bolivia, Jamaica and Uruguay (to name a few).

Widely publicized was also the discounted heating oil with which the Venezuelan government provided poor neighbourhoods in the Bronx (New York) and other U.S. states in 2005.⁴⁴ According to *The New Yorker*, Venezuela outspends the U.S. in foreign aid to the rest of Latin America by about five times. "Last year, U.S. aid amounted to US\$ 1.6 billion, a third of which went to Colombia, mainly to fund Plan Colombia, a

⁴⁴ <http://www.washingtonpost.com/wp-dyn/content/article/2005/12/07/AR2005120702245.html#> (accessed on 7 September 2008).

drug-eradication program administered by the U.S. security contractor DynCorp. Chávez, meanwhile, pledged US\$ 8.8 billion for the region.”⁴⁵

Defense has also been a central part of government spending financed by oil revenues. Around 3 billion US\$ is estimated to have been channelled to efforts to modernize Venezuela’s military sector⁴⁶.

Lastly, local gasoline prices are also largely subsidized by the Venezuelan government (see Table 9). Whereas gasoline prices have skyrocketed all over the world, in Venezuela the cost of gasoline per litre has in fact been brought down significantly from 1999 to 2006, with an estimated cost for government of about 9 billion US\$ a year⁴⁷.

Table 9 – Price of Super Gasoline (US\$ cents/litre)

1999	2000	2002	2004	2006
14	12	5	4	3

Source: Gesellschaft für Technische Zusammenarbeit (GTZ)⁴⁸

The motivation for subsidizing gasoline prices are manifold. Some, of course, are cultural and relate to the fact that cars are a powerful status symbol in the country, common to rich and poor classes. In the past couple of years only, the number of cars in Venezuela has more than doubled. Due to cheap gas prices, consumption has further increased since Chávez came to power: whereas most of the world is switching to small cars, Venezuela has been importing thousands of more than 3,000 highly fuel-consuming sports utility vehicles in 2008 due to rising demand.⁴⁹ Also, public transport is rather ineffective and antiquated, so the procurement of personal transport becomes a priority for all social groups and allows for the conduction of the most disparate professional activities.

The significant reliance on oil for the conduction of most daily activities also explains why the most violent riots in Venezuela’s recent history occurred in 1989, when the liberalization of oil prices led to the infamous *Caracazo*, a generalised series of riots that left several thousands of people dead and signalled the end of a political era, paving the way to Chávez taking power.

⁴⁵ [http://www.newyorker.com/reporting/2008/06/23/080623fa_fact_anderson?currentPage=2] (accessed on 7 September 2008).

⁴⁶ [<http://www.cfr.org/publication/12089/>] (accessed on 7 September 2008).

⁴⁷ [<http://www.nytimes.com/2007/10/30/world/americas/30venezuela.html>] (accessed on 7 September 2008).

⁴⁸ [<http://www.gtz.de/de/dokumente/en-international-fuelprices-part1-2007.pdf>] (accessed on 7 September 2008).

⁴⁹ [<http://www.latinbusinesschronicle.com/app/article.aspx?id=2183>] (accessed on 7 September 2008). See also [<http://www.nytimes.com/2007/10/30/world/americas/30venezuela.html>] (accessed on 7 September 2008).

5. SOCIAL INITIATIVES ON THE PART OF OIL FIRMS

In this Chapter, the main social initiatives and overall spending by oil firms will be explored. Social spending, in particular for PDVSA but also for IOCs is compulsory and can therefore not be described as voluntary. It is not clear however what the actual percentage of income of IOCs is required to be invested in social spending as available information on this is often contradictory. PDVSA's policies as regards social spending are inextricably linked with government policies as a whole, and fit in with the overall strategy of the current Venezuelan government.

This chapter will first focus on the contribution of 'mixed' enterprises (partially owned by the state as described in Chapter 2) and then it will focus on initiatives by PDVSA. It is worth mentioning that, since PDVSA is a state-owned enterprise and the main income of the Venezuelan economy is reaped either directly from oil export revenues or other related income, this chapter is to be regarded largely as a complement to the chapter on the distribution of oil revenues (Chapter 3).

As was discussed in Chapter 2, 'mixed' enterprises were an outcome of a series of policy reforms affecting the oil sector in the 1990s, following the so-called *apertura* phase. The new 'mixed' arrangements are different from previous operating agreements also with respect to social obligations, which in this case become mandatory for oil companies. The responsibility of the 'mixed' enterprises includes investing in the core areas to drive endogenous development in the locations near the oil fields, as well as to support the social *missions*. In their social responsibility programmes, PDVSA and the 'mixed' enterprises work together with the national government, communities, mayor's offices and state governments.

5.1 Social spending from the part of Oil Companies

From 2003 to 2005, 'mixed' operating agreements made contributions to social development for a total of US\$ 29 million. In 2007, 'mixed' enterprises are alleged to have disbursed in excess of US\$ 93 million dollars for social expenses⁵⁰.

PDVSA's social responsibility is established by articles 211 and 302 of the Venezuelan Constitution (see Chapter 2). A further indication is also given by article 5 of the 2001 Organic Hydrocarbons Law, which refers to the involvement of PDVSA in the social and integral development of the country. The Law makes specific reference to PDVSA's responsibility to support work or services aimed at the development of infrastructure and roads, agriculture, health and education, and any other productive investment in Venezuela. PDVSA's social responsibility is therefore closely related to the social policies of the national government

Regarding the records of social spending for PDVSA, data is available only as of 2003, which marked a clear shift in PDVSA's management after long tensions with government (see Chapter 1 and 2). As can be gleaned from Table 10, social spending effected by the company has increased massively since 2003, reaching up to about 7% of the GDP in 2006 (or US\$ 13,784 million).

Table 10 – Social Development Expenses (in millions of \$US)

2003	2004	2005	2006
249	1 242	6 909	13 784

Source: PDVSA⁵¹

This spending is divided into expenses incurred in missions, contributions to communities and other contributions to Venezuela's relevant funds, including the Fund for Social and Economic Development (FONDESPA) and National Development Fund (FONDEN). Contributions to FONDESPA are recognized as 'restricted cash, long-term accounts' receivable from performing entities or as expenses for social development in accordance with conditions set forth in the respective agreements.

⁵⁰ *Petróleos de Venezuela S.A. and Subsidiaries (PDVSA) Wholly-Owned by the Bolivarian Republic of Venezuela Financial and Operational Information*, December 31, 2007 available at [www.pdvsa.com] (accessed on 7 September 2008).

⁵¹ [http://www.pdvsa.com/interface.sp/database/fichero/publicacion/1792/76.PDF] (accessed on 7 September 2008).

Table 11 – PDVSA Contribution to Social Development⁵²

	2001	2002	2003	2004	2005	2006	2007	Total
Mision Ribas	--	--	32	320	371	280	133	1.136
Mision Mercal	--	--	--	146	303	325	916	1.690
Mision Barrio Adentro I,II and III	--	--	34	275	309	1.693	3.258	5.569
Mision Vuelvan Caras	--	--	--	172	220	240	29	661
Mision Milagro	--	--	--	--	125	--	25	150
Mision Guaicaipuro	--	--	--	--	11	--	--	11
Mision Sucre	--	--	3	113	668	--	--	784
Mision Identidad	--	--	--	44	1	--	--	45
Mision Ciencia	--	--	--	--	--	291	28	319
Mision Vivienda	--	--	--	--	--	62	135	197
Mision Robinson I and II	--	--	72	--	--	--	--	72
Mision Revolucion Energetica	--	--	--	--	--	210	219	429
Mision Arbol	--	--	--	--	--	--	12	12
Mision Musica	--	--	--	--	--	--	43	43
Endogenous Development Centers	--	--	--	--	55	47	130	232
Ethanol Project	--	--	--	--	153	7	--	160
Hydraulic Works	--	--	--	--	--	27	23	50
Expansion of Roads Plan	--	--	--	--	113	28	77	218
Contribution to Communities	34	14	12	133	5	677	418	1.293
Alba Caribe Fund	--	--	--	--	--	40	72	112
Sustainable Development	--	--	--	--	--	63	--	63
Other	--	--	96	13	228	82	175	594
Contribution to Missions and Social Programs	34	14	249	1.216	2.562	4.072	5.693	13.840
FONDEN	--	--	--	--	1.525	6.855	6.761	15.141
Contributions to Social Programs and FONDEN	34	14	249	1.216	4.087	10.927	12.454	28.981
Social Investment Plans: Trusts (CVP)								
Housing and Infrastructure Trust	--	--	300	500	500	414	524	2.238
Africultural trust	--	--	--	600	600	423	919	2.542
FONDESPA	--	--	--	2.000	2.000	229	--	4.229
Social Production Companies Trust	--	--	--	--	100	--	--	100
Contributions to Social Investment Plans	--	--	300	3.100	3.200	1.066	1.443	9.109
TOTAL Contributions of PDVSA to Social Development plus FONDEN	34	14	549	4.316	7.287	11.993	13.897	38.090

Source: PDVSA

There are also other social initiatives on the part of PDVSA, which include the Food Production and Distribution Program (PDVAL) programme, a nationwide food supply network producing and distributing subsidized foodstuff that works in conjunction with the *Mercal Mission*. The goal for the present year (2008) is to distribute through PDVAL up to 908,562 tons of basic foodstuff. PDVSA also supports the National

⁵² Accrued disbursement of US\$ 38,090 million, contributed by PDVSA for the seven years from 2001 to 2007 correspond to sums actually paid each year. These amounts slightly differ from those shown in the Consolidated Financial Statements of PDVSA and its Subsidiaries, since in accordance with generally accepted accounting principles, certain disbursements are recognized as expenses in years different from those in which payments were made.

Food Security Plan through a separate foundation called the ‘Program for Strategic Foodsuff’ (Fundación Programa de Alimentos Estratégicos, FUNDAPROA).

In 2007, PDVSA made contributions for social development amounting to US\$13,897 million as summarized below. Table 12 illustrates all sectors of involvement and also specifies the contributions made by PDSVA to the most relevant Bolivarian missions. Annex 6 illustrates how social spending for both missions and overall social spending is structured.

Other bodies of social development funded directly by PDVSA are the Centres for Endogenous Development and social production companies. The former are aimed at organizing communities to develop their agricultural, industrial, tourism and other potentials through sustainable projects. From 2005 to 2007, PDVSA has allocated US\$232 million to create and consolidate these centres. Social production companies are funded and administered directly by PDVSA under the plan ‘Sowing Oil’. In this regard, PDVSA is obliged to register small production companies (which, in most cases are nothing else than local cooperatives) according to certain standards before they can participate in open calls to provide small services to the state company.

Through a specific registration process, PDVSA collects, organizes and centralizes information on companies that ascribe to the ‘social production company programme’, which includes a clear commitment to social responsibility in line with PDVSA’s requirements. Only through this agreement, small companies can become suppliers of services to PDVSA.

Until 2006, a total of 2,073 productive companies were registered by PDSVA according to the current selection criteria. By the end of 2007, 4,593 small productive companies were reported and formally registered to take part in the bidding processes of PDVSA. Contributions to the companies are made by PDVSA in direct proportion of to need and size of the bid a given company has secured. They are furthermore able to apply for loans to a PDVSA Financing Fund to support its economic activity through the purchase of infrastructure, goods, technological support, working capital and training of human resources. A capacity development approach to these social production companies has also been implemented through specialized *Ribas Mission* offshoots (*Misión Ribas Productiva* and *Misión Ribas Técnica*).

5.2 The Bolivarian Missions

The preferred vehicle for most of the social spending have been broad-scale social programmes, coined ‘*Bolivarian Missions*’ (henceforth referred to as *missions*), which focus on delivering basic services to the urban and rural poor. The *missions* were introduced in 2003 as a way to prioritize social spending on the most vulnerable and poor segments of the population nationwide. Since then, over 20 different *missions* have been launched.

As explained by D’Elia et al., the *missions* echo government’s strategic axes that include social inclusion and equality, popular and participatory social democracy, endogenous development and ‘popularized’ administration. For the purpose of this analysis, we will focus on the relevant *missions* for primary health care (*Barrio Adentro Mission*), education (*Robinson, Ribas and Sucre missions*) and food security, which will be developed through a brief analysis the social programme concerning access to subsidized goods and foodstuff (*Mercal Mission*).⁵³

According to D’Elía and Cabezas, the *missions* followed a specific pattern over time, in line with the priorities and focus of the ruling elite. At first, the *missions* were described as instruments of political ‘pragmatism’ as they were meant to reinforce government’s credibility vis-à-vis the poorest classes, while also contributing to social development at the grassroots. Then, the *missions* became an instrument of ‘ideological pragmatism’, while the ‘new generation’ missions are generally described as an emanation of the Bolivarian revolution and, more properly, what the government calls the socialism of the 21st century (D’Elía and Cabezas 2008).

The first phase of the missions corresponded to 2003-2004. At that time, government was facing fiscal and economic challenges and the opposition was organising for a recall referendum against Chávez to be held in 2004. As revealed by President Chávez, the idea of establishing the *Bolivarian missions* came in response to plummeting popular approval certified by various opinion pollsters close to government. Through a series of meetings with Cuban authorities (including face-to-face meetings between the Venezuelan president and

⁵³ For a full list of the Bolivarian Missions, see Annex 3.

Fidel Castro), it was decided to institute a number of nation-wide initiatives for endogenous, bottom-up development. Subsequently, polls started showing growing support for the government, leading Chávez to conclude that “this is politics...not magic...”.⁵⁴

The initial list of missions included 13 types of initiatives focusing on the most pressing social needs. They mainly targeted the urban poor, establishing a full-fledged parallel system to official social institutions. Generally, ‘parallelism’ has been a strategy adopted by Venezuela’s current administration. Since the institutional structures preceding Chávez’s takeover have often been regarded as unfit to adopt and promote the approach of the new government, a brand-new parallel apparatus in the social field as well as in the key economic sectors have been created by the Bolivarian government. As explained by D’Elía and Cabezas:

“The ministries and public officials had little input in the design and in operating these missions. They were implemented in popular sectors of the country’s main cities and by the military, doctors of Cuban nationality (some Cuban nationals were also educators and technical staff), PDVSA personnel, some local-level government representatives, and community volunteers” (D’Elía and Cabezas 2008, own translation).

The second phase began roughly after 2004, following Chávez’s confirmation in the recall referendum. At this stage, the function and objective of the missions became fourfold: a) to provide a direct (non-bureaucratic) relationship to the local level in order to enforce a direct relationship between government and the people; b) to incorporate the armed forces into public programmes; c) to organize the community along a collective framework inspired by the Bolivarian revolution; d) to gain control over oil revenues.

Within such a parallel institutional approach, the then president of PDVSA announced that the missions are ‘the seeds of the new institutionalism (...) that will be able to operationalize the principles of the Constitution’.⁵⁵ A separate administrative system also allowed for the missions to develop and expand in scope, with an increasing professionalization regarding some of them (specific examples will be discussed in the sections below).

The expansion of the missions however presupposed an enabling institutional framework. Such a need inevitably contributed to the establishment of the main government’s *funds* (FONDESPA and FONDEN), which received core-funding directly from PDVSA (see Chapter 3 and Table 12).

Table 12 – Source of Funding Missions

	2003	2004	2005
PDVSA	72%	21%	40%
PDVSA through the National Urban Development Fund	0	22%	0
Social Program National Budget (FONDEN)	0	0	21%
FONDESPA	0	0	6%
Sincor (mixed oil company) interests	0	0	4%
Executive	24%	8%	17%
Direct Signature from Executive (extraordinary)	0	23%	10%
CANTV (Nationalized Telephone Company) Dividends	0	1%	0
Additional Credit	4%	25%	2%

Source: National Treasury Department

The current phase, starting in 2005, established the missions as social drivers outside the institutional system, which makes them ‘officially’ independent of institutional controls, with negative consequences as regards the transparency of funding and the undertaking of their various tasks.

Since re-election in 2006, the executive has established a plan based on five key drivers or ‘engines’ for the social revolution. From 2006 onwards a ‘new generation’ of missions has been given birth to, with a stronger link between their social function and political role.

Following is a synopsis of the main social-function missions, particularly those focusing on health, education and food security.

⁵⁴ Speech by Hugo Chávez, High-level meeting on 12 November, 2004.

⁵⁵ Speech by Alí Rodríguez, Opening of the seminar *National Social Policy: A New Paradigm?* May 2004

Health

As probably the most important and first *mission* in Venezuela, *Barrio Adentro*'s conception can be traced back to the late 1999/early 2000, when the country was hit by mudslides and floods, killing and displacing thousands of people.⁵⁶ By far the worst hit was the coastal state of Vargas, incidentally also the host of country's main port and airport. Cuba, closely aligned to the Venezuelan government, promptly assisted by sending several medical teams, servicing the worst affected parts of the country alongside Venezuelan doctors.

Once the emergency was averted some medical teams returned to Cuba, yet others remained and started delivering general healthcare in the least serviced peri-urban zones of the country. In late 2000, amidst resistance from the medical federation in the country and accusations from the political opposition that the Cuban doctors were in fact assisting to 'indoctrinate' the Venezuelan population, the Venezuelan and Cuban governments signed an agreement under which Venezuela would sell up to 53,000 barrels of oil per year at a preferential cost, whereas Cuba would provide technical assistance, principally on health-care (D'Elia 2006).

In 2003, the *Barrio Adentro* mission was launched with around 15,000 Cuban doctors constituting its backbone and main staff.

Adopting a phased approach, *Barrio Adentro* consisted of the inception of health modules in the poorest and least serviced parts of the country, both in urban and rural areas. The first phase's objective was to ensure access to health services through primary care. In 2004, the second and third phases of the mission were launched, consisting in the construction of more and better equipped diagnostic and rehabilitation centres throughout the country. Another key step was also the (re)construction and 'modernization' of several existing hospitals.⁵⁷ Currently about one third of the health ministry's budget is allocated to the various *Barrio Adentro* initiatives. The government reported that in 2005 only *Barrio Adentro*'s units had performed 170 million consultations, serving an estimated 14.5 million people amounting to 54% percent of the population (Rico and Alva 2005).

Contributions made from 2003 to 2007 by PDVSA have amounted to US\$ 5,569 million, which were used to build 1,000 assistance modules, 21 popular medical offices, 48 medical offices, 183 centres for integral rehabilitation and 6 high-technology centres.

Table 13 – Barrio Adentro I (Basic health care)⁵⁸

Indicators	Cumulative (2005)
Number of cases	168 188 996
Consultations	106 028 613
Consultations on the ground	42 349 086
Family visits	15 074 231
Saved lives	24 591
Assisted births	1 609
Educational activities	59 660 060

Source: Misión Barrio Adentro

Education

In the realm of education, three different missions were established as part of the overall framework known as 'Education for All'. The *Robinson*, *Rivas* and *Sucre* missions (named after independence heroes and educators) focus on different levels of education: the *Robinson* mission teaches illiterate adults with the help of volunteers as well as soldiers (as one of the examples in which the public sector has been increasingly supported by the military). In October 2005, Chávez officially announced Venezuela an 'illiteracy-free' country thanks to the interventions of the *Robinson* mission. According to the Ministry of Education, more than 1,4 million Venezuelans had graduated from this programme by 2005 (the initial goal was 1,5 million).

⁵⁶ The exact number still disputed as most were informal dwellers of the peri-urban slums.

⁵⁷ [<http://www.mpps.gob.ve/ms/modules.php?name=Content&pa=showpage&pid=274>] (accessed on 7 September 2008). See also

[<http://www.mpps.gob.ve/ms/modules.php?name=Content&pa=showpage&pid=413>] (accessed on 7 September 2008).

⁵⁸ It is not explained how these figures are measured and who is tasked to report them.

According to the figures disseminated by the Ministry of Communication and Information, over 87,000 facilitators were involved in the various activities conducted under the auspices of the *Robinson Mission*.

Secondary degrees and graduation are obtained through the *Ribas Mission*. This mission is aimed at all individuals who have not completed high school. Resources allocated from 2003 to 2007 have amounted to US \$1,136 millions, which have translated into an average of 150,000 per month, creation of 30,618 education spaces, as well as incorporation of 30,340 facilitators of Education. The Ministry of Education reported that as of 2007, a total of 1,207,076 students had taken part in this programme and 947,131 participants at a national level had received High School Certificates.

The *Sucre Mission* adopts a fast-track education focus, in which university students graduate in three (as opposed to four or five) years. This *mission* seeks to ensure access to university education to all high school graduates who have been unable to enrol in a university and provides infrastructure for higher education. New universities have been created for this purpose, including the *Universidad Bolivariana de Venezuela*. A number of existing educational institutions also receive subsidies to undertake courses under the auspices of the *Sucre Mission*. Contributions to date have reached US \$784 million, while 330,346 people have been reported to have benefited from this *mission*.

This *mission* has also been coupled with that of *Barrio Adentro*, training physicians ‘in a unique and accelerated curriculum’⁵⁹.

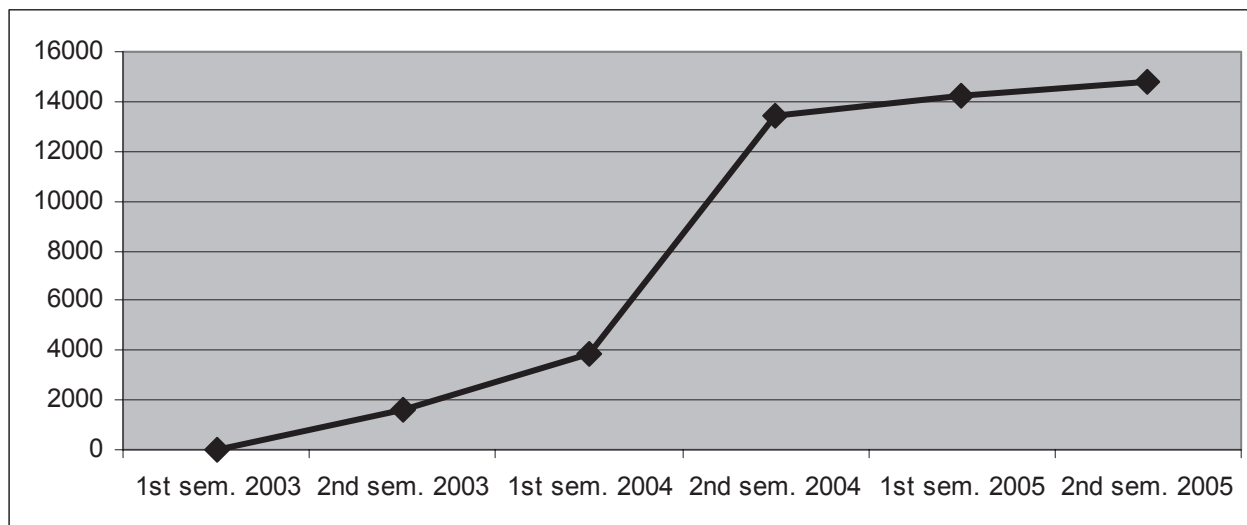
Food Security

According to the Ministry for Food and Nutrition, the *Mercal Mission* provided subsidized groceries to an estimated 40% to 47% of the population (10,7 to 12,5 million people) in 2005. In 2006, this number had increased to over 15,2 million. Direct subsidies amount to approximately 30%-40% of the overall price, depending on the type of food.

The fundamental purpose of this mission is to market and trade first-necessity food products to maintain steady supply for the Venezuelan population, especially those with limited economic resources. The mission was launched in 2003 and has spread throughout the country, from distributing within registered supermarkets to setting up its own branches. In March 2006 the Ministry reported having set up 14,779 outlets across the country (see Figure 14). According to some, *Mercal* represented 47.3% of total sales in the food distribution market in March 2006, compared to 34.7% in October 2005 (Weisbrot 2006). Lastly, the government declared that through this initiative more than 7,000 people have been employed directly (and more than 44 000 indirectly).

According to PDVSA, during 2004-2007 US\$ 1,690 million were allocated by the company alone for setting up outlets at a nationwide level, including the purchase of trucks and the setting-up of packaging plants and food houses.

⁵⁹ [<http://www.misionsucre.gov.ve/>] (accessed on 7 September 2008).

Figure 14 – Number of Mercal Outlets

Source: Ministry of Food and Nutrition

Besides generic information on their internal structure, goals and operational functioning, it is very difficult to find reliable data on the missions level of achievement and general operations. Among analysts, disputes are extremely frequent and most the times the arguments concern the very essence of the missions' structural data.

Most frequently the diverging figures and the data 'black holes' for the education's missions concern funds, drop-out rates and teacher to student ratios, whereas for the health mission the main criticisms concern abandonment of the health modules and desertion of Cuban doctors. The *Mercal mission* has by far the most information available and also seems to have received the least negative feedback from critics and proponents alike.

Another layer of complexity is added by the fact that issues concerning management and financial information about the *missions* are continuously intertwined with the political rhetoric. In this regard, it is difficult to distinguish the social achievements of the *missions* from their political role. For instance, in 2006 the Venezuelan government announced that the missions should become a 'powerful socio-political movement [...] including families, students and facilitators, giving them the strength and capacity to guarantee their role as actors and engines of the Bolivarian Revolution'.⁶⁰ By making the political goals of the missions explicit, the government has inevitably connected any possible assessment of their practical effectiveness with the more general goals of the revolution. Needless to say, this has a huge bearing on any attempt to evaluate their social impact reliably and effectively.

In their analysis of the *missions*, Patruyo et al (2008) conclude that there has been an initial impact on the delivery of basic social services to the population, in particular those segments that have traditionally been excluded. What remains to be seen is whether the missions will be able to go beyond an 'initial' impact and pave the way for a more generalized and sustainable access to services and basic needs. Interestingly, the missions were not mentioned as part of the five 'key engines' of the Bolivarian revolution during the 2006 presidential election nor were they part of the national plan for 2007-2013.

⁶⁰ [<http://www.rnv.gov.ve/noticias/index.php?act=ST&f=2&t=35476>] (accessed on 7 September 2008).

6. ANALYSIS OF RELATIONSHIP BETWEEN OIL AND WELFARE IN VENEZUELA

In the preceding chapters, this report has presented an analysis of the Venezuelan oil industry and its economic and social policies. In order to provide a meaningful interpretation of how key factors have affected policy reforms, the analysis has been conducted against the backdrop of the main political and economic context factors. Furthermore, the report has investigated the most significant indicators concerning socio-economic development and welfare, while providing a discussion of the main policy initiatives aimed at combating poverty and social exclusion.

This section takes a number of steps forward by assessing the potential correlation between governmental policies and welfare levels. In this regard, the content of all preceding chapters is of crucial importance. Aside from analyzing general social welfare statistics, additional emphasis will be put on variables concerning education and health in order to draw more general conclusions. Drawing on the empirical data, a final analysis on the relationship between economic and social factors as well as other related topics will be presented.

6.1 Welfare levels in health and education

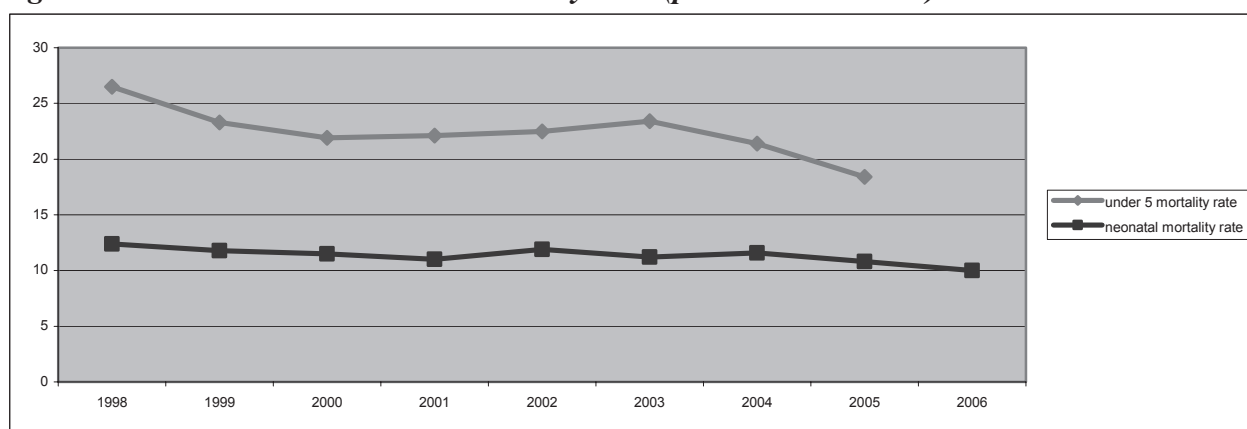
Health

In the previous chapters, it has been explained that access to primary healthcare as well as more advanced services have been the specific target of the *Barrio Adentro Mission* (throughout its various stages). Has there indeed been a significant impact on the general health conditions of Venezuelans? In order to answer this question, we have selected a number of key health indicators.

As shown in Figure 15, neonatal mortality rate has slowly decreased from 12,4 infants every 1000 live births in 1998 to 10 in 2006. The mortality rate of children under five however shows a more definite downward trend with the most dramatic decrease registered between 2003 (23,4 per 1000 live births) and 2005 (18,4 per 1000 live births).⁶¹

Problems of attribution and causality notwithstanding, this decrease could be correlated with improved education on preventive health and early attention to sicknesses. This interpretation would be further corroborated by the fact that the downward trend coincides with the inception of the first generation of the social *missions* in the country (2003). Furthermore, for 2005 the percentage of births attended by trained personnel is 95% for Venezuela, against a 88% Latin America average. The percentage of children under weight is 5% (against a 7% Latin American average) and under height is 13% (against a 16% Latin American average).⁶²

Figure 15 – Under 5 and Neonatal Mortality Rate (per 1000 live births)



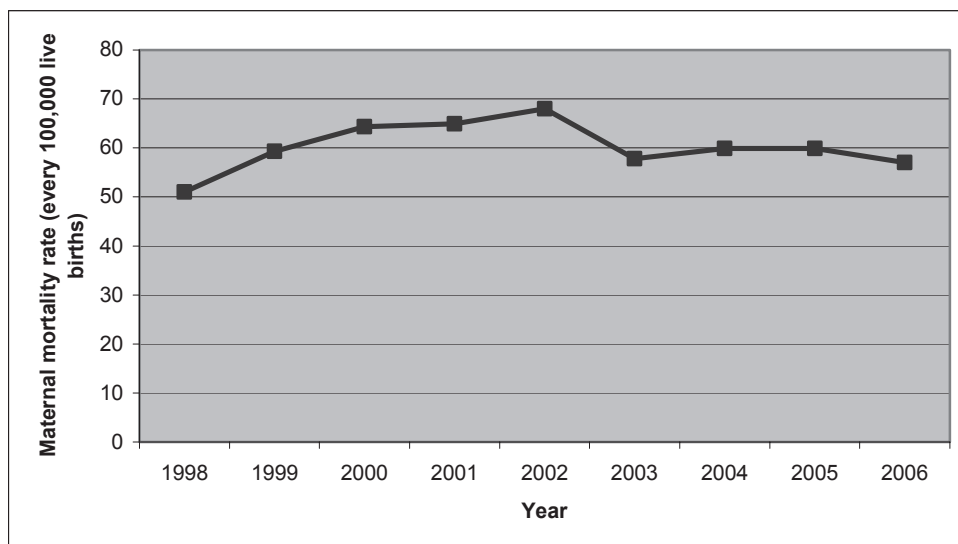
Source: SISOV

⁶¹ No data available for 2006.

⁶² ECLAC and SISOV.

Maternal mortality rates per 100,000 births have however registered an overall increase from 51 in 1998 to 57 in 2006, with a peak of 68 deaths per 100,000 live births in 2002. From 2003 this rate has however also decreased, which seems to be in line with the interpretation given above corroborating the potential impact of Venezuela’s social missions and their focus on trained personnel. At the regional level, the Latin American average is significantly higher (130 deaths per 100,000 live births). Also, life expectancy at birth has increased from 72,4 years (1998) to 73,4 year (2006).

Figure 16 – Maternal Mortality Rate (per 100,000 live births)



Source: SISOV

Education

As explained in Chapter 4, Chávez announced the ‘defeat of illiteracy’ in 2005 referring to Venezuela having reached the 95% literacy rate. Although with some slight differences, the numbers published by ECLAC confirm such a trend and also show that the whole Latin American region has managed to address the educational gap significantly.

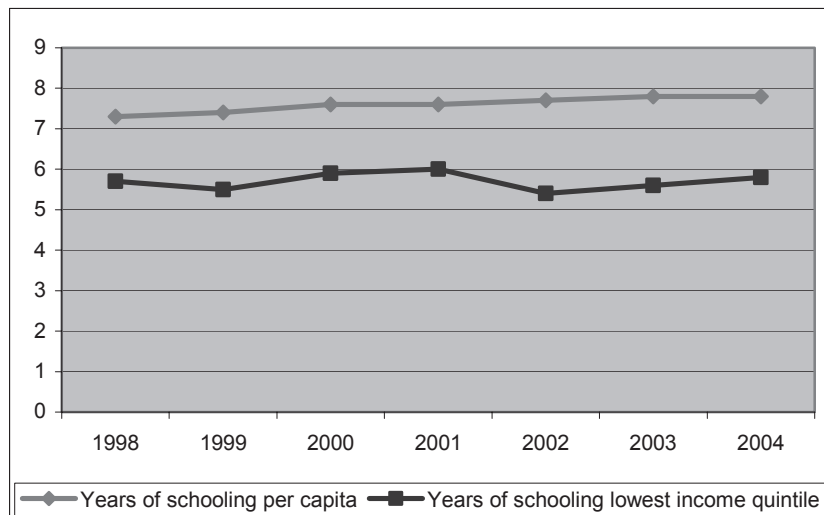
Table 14 – Illiteracy (population aged 15 and over)

	1970	1980	1990	2000	2005
Venezuela, B.R	23,7	16,1	11,1	7,5	6,0
Latin America average	26,3	20,0	14,9	11,1	9,5

Source: ECLAC

As shown in the various sections of this report, also data about educational progress has been marked by controversy. In a *Foreign Affairs* article, Rodriguez and Ortega (2006) mention a household survey to argue that out of the 1,5 million Venezuelans the government reported as having attended missions’ courses, 1,1 million had already been literate prior to joining the government’s programmes. They also conclude that the actual 2003-2005 shift amounted to less than 100,000 people. This assessment is criticized by Weisbrot (2008), who argues that the statistical results of the household survey were not robust enough, due to the fact that the poll was not designed to measure literacy in the first place and would inevitably fail to register improvements in literacy among large sectors of the population.

In terms of years of schooling, Figure 17 compares the average against the trend concerning the poorest quintile of the population. As is clear from the graph, there has been a moderate increase for the poorest segment of the population between 2002 and 2004 (no data available after 2004). It is interesting, though, that Venezuelans had already seen those levels in the late 1990s with some peaks between 2000 and 2001, a few years before the introduction of the Bolivarian *missions*. More generally, the overall average hovers between 7 and 8 years during the 1998-2004 period, showing a rather limited although regular growth.

Figure 17 – Years of schooling (average against lowest income quintile)

Source: INE

6.2 Overall Assessment of Social Spending

In order to assess the effectiveness of social spending on welfare, we firstly need to assess whether overall social spending is actually ‘spent’ on the key welfare sectors of our interest. According to several analysts, Venezuelan government’s social spending as well as PDVSA’s social commitments must be disaggregated in all their components in order to gauge the real impact they might have in each welfare sector (especially the relevant sectors this analysis, that is, education, housing and health).

Overall social spending, has been already discussed at length in Chapter 4 and will not be re-analyzed here. Chapter 4 concluded that social spending has increased significantly since 1998. Nevertheless, when we disaggregate the data regarding expenditure in health, housing and education sectors as a percentage of GDP (see Figure 13 in Chapter 4), it becomes clear that the bulk of social spending (which includes spending on missions) is dispersed in a number of sectors (especially, social security and pensions, which by and large do not target the poorest segments of the population).

As far as our sectors are concerned, overall spending on education (against GDP) increased by 1,6%, the health sector benefited from a 0,47% increase while spending on housing grew by 0,5% between 1998 and 2006. Education expenditure in particular registered a 0,7% dip from 2004 to 2005, only to increase again by 0,9% from 2005 to 2006. At first sight, this trend might be counterintuitive if we take into account that these are years in which most of the Bolivarian missions take off. Yet, as discussed in previous chapters, the bulk of funding for the most broad-based missions comes directly from PDVSA and must therefore be considered separately.

At the same time, PDVSA’s disbursement in each precise welfare sector is not as straightforward as one might think. According to Rodriguez (2008), only 26.8 % of all PDVSA’s expenditures for social development in 2006 actually corresponded to spending in education, health and housing programmes (including the educational and health missions and low-income housing projects). An additional 10.5% referred to other social expenditures (*Misión Mercal*, *Misión Ciencia*, Community Development). However this would leave us with more than 60% of social spending that is, in fact, devoted to non-social activities (see Table 15).

According to Rodriguez (2008) a significant part of PDVSA’s funds earmarked for social development has indeed gone somewhere else: “US\$3.2 billion for debt refinancing, US\$1.1 billion for Ministry of Defense projects, US\$1.3 billion for four large infrastructure projects, and US \$613 million for capitalization of two sectoral finance entities”.

Table 15 – Disaggregated PDVSA Expenditure for Social Development

Year 2006	Education health and housing	Other Social	Total Social	Non-Social	Total (Social and non-social)
Direct Expenditures	2139	1265	3396	676	4072
Investment Funds	207	0	207	859	1066
FONDEN	882	0	882	5974	6856
Total	3219	1265	4484	7510	11994
Percent	26,8%	10,5%	37,4%	62,6%	100%
Years 2001-2006					
Direct Expenditures	4957	2081	7037	1110	8147
Investment Funds	857	0	857	6709	7566
FONDEN	1978	0	1078	7303	8381
Total	6892	2081	8972	15122	24094
Percent	28,6%	8,6%	37,2%	62,8%	100%

Source: Rodriguez 2008

If one endorses this point of view, the conclusion would arguably be that the real budget allocated to health, education and housing has not been significantly different from the social spending of previous governments. Nevertheless, these numbers are contested again. Weisbrot (2008) believes that social spending in Venezuela has grown significantly, although he concedes that it is rather difficult to verify whether all PDVSAs spending earmarked as social welfare is indeed spent on related projects. According to his calculations, if PDVSA's total reported social spending is adjusted to inflation, "real social spending per capita in Venezuela has increased by 314 percent from 1998 to 2006 (Weisbrot 2008).

Table 16 – Largest Non-Social Expenditures included in PDVSA's Expenditure for Social Development

Project	Expenditure (million US\$)	
Ministry of Finance - debt Restructuring	3221	FONDEN
Ministry of Devense - Various Projects	1093	FONDEN
Highway - Ezequiel Zamora	476	FONDEN
Agricultural, Fishing and Forestry Fund	327	FONDEN
Venezuelan Agricultural Bank	286	FONDEN
Orinoco River Bridge	273	FONDEN
Caracas.Tuy Railroad	272	FONDESPA
Barquisimeto Mass Transit System	251	FONDESPA

Source: Rodriguez 2008 (from PDVSA 2006 financial statement, pp.71-76)

It seems that the main point of contention between the two analyses is due to the analysis of absolute vs. proportional levels of pro-poor spending: One school of thought argues that what really counts is the proportion of spending on pro-poor policies as opposed to the absolute increase, and to isolate economic and social development trends in the country from general regional trends and extraneous factors. By contrast, the other school of thought is more concerned with the absolute level of spending in social sectors, regardless of the recent growth in oil revenues. Finally, an underlying factor of dissent also regards the very notion of what are the key elements of social spending.

6.3 Impact on Social Welfare Indicators

Having reiterated the difficulty to find clear data on social spending, we can now attempt to provide a general evaluation of the potential impact that oil-driven social spending might have had on the selected welfare indicators of health, education and housing. So, are the windfall gains due to record oil prices and related-income associated with a general improvement in the welfare of the poorest segments of the Venezuelan population?

When considering official figures, the following conclusions can be drawn with respect to overall welfare:

Table 17 – Summary of Welfare Indicators (official government data)

Aspect	Status between 1998-2006
a) Poverty	Decrease from 49% to 33,1%
b) Inequality (GINI)	Decrease from 0,49 to 0,45
c) Health	
Under 5 mortality (per 1000)	Decrease from 26,5 to 18,4 (2005)
Neonatal mortality (per 1000)	Decrease from 12,4 to 10,4
Maternal mortality (per 100,000)	Increase from 51 to 57
d) Education	
Years of schooling (poorest quintile)	Increase from 5,7 to 5,8 (2004) years
Illiteracy	Decrease from 7,5% to 5%
e) Unemployment	Decrease from 13,9% (2000) to 10%
f) Inflation (CPI base line for 2000=100)	Increase from 70 to 289

According to official documents, most indicators of welfare (with the exception of maternal mortality) have generally improved. Overall poverty levels have decreased by 16%, inequality levels as measured by the Gini coefficient have also decreased from 0,49 to 0,45. Neonatal and child mortality has gone down, although the former more significantly than the latter. Unexpectedly, though, this positive trend has occurred notwithstanding a general worsening of the situation regarding maternal mortality.

As for education, a marginal increase of years of schooling for the poorest quintile and a reduction by 2,5% in illiteracy figures show moderate levels of improvement. Unemployment levels have also decreased by close to 4%. Levels of crime were not taken into account for two reasons; first, they do not pertain directly to social welfare and, secondly, official data has been embargoed since 2003, although anecdotal evidence and all media point a dramatic increase in levels of violent crime.⁶³ Estimates range around 550 murders in the first three months of 2008. According to ECLAC, the consumer price index has also increased dramatically for the metropolitan area of Caracas, especially for food products (Figure 18). In trying to buffer the negative impact of inflation, the administration announced in May 2008 that the minimum wage would be increased by one third, raising it to the equivalent of US\$ 372.⁶⁴

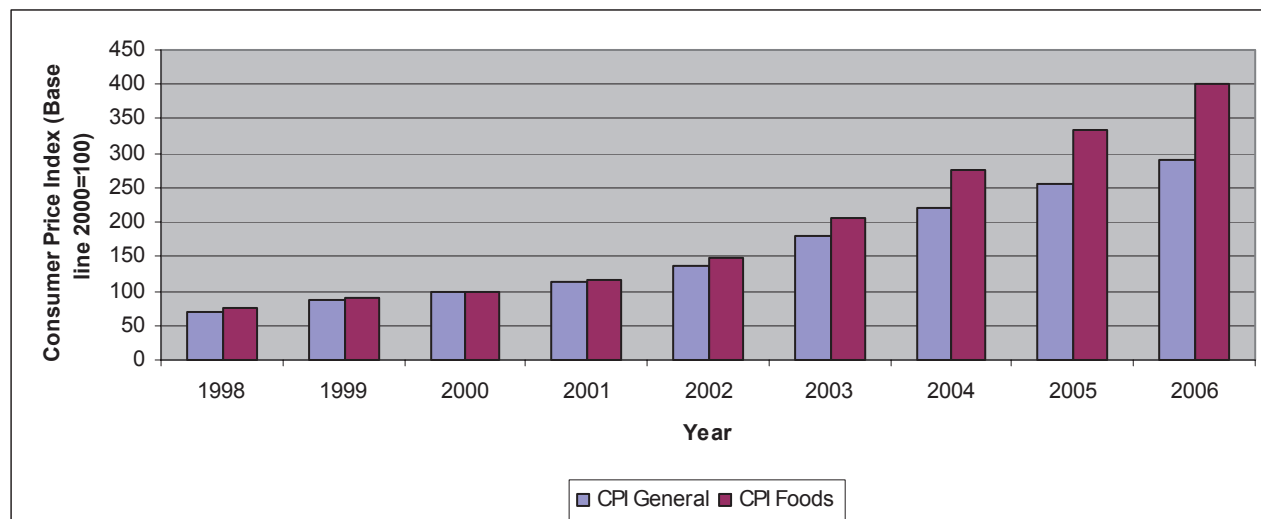
Within an economy that has seen their revenues from oil tripled since 2003, a resource that accounts for most of the country's GDP, the improvements on the welfare indicators selected for this analysis – however contested these numbers might be – point to a minor generalized improvement. Surely it takes years before social policies can show a direct impact, but also indicators that should show an almost immediate increase (schooling levels, mortality levels) only display rather modest improvements with respect to the time-span observed.

A potential risk is also associated with the direct dependency of most social welfare policies (especially the Bolivarian *missions*) from income generated by oil. In an interview held with a senior PDVSA official who wishes to remain anonymous, it was pointed out that most government officials are aware of the volatility and risk associated with a growing reliance upon direct oil-generated revenues for the funding of social programmes. Furthermore, an overvalued exchange rate and dangerous inflation levels, unless addressed, are likely to exert a significant impact on the sustainability of social policies in the country. Although some efforts have been made to diversify the income from exports (showing a minor increase over recent years), extremely high levels of oil dependency of the country's economy are still undeniable and potentially dangerous. Against this back drop, the country's internal polarization between productive industries and government officials continues to translate into scarcity of basic foodstuff (including milk, beef and sugar), due to the country's dependence on private producers who oppose the fixed prices established by government, especially on foodstuff as required by new laws (including taxation).

⁶³ [<http://www-rohan.sdsu.edu/faculty/rwinslow/samerica/venezuela.html>],

[<http://www.terra.com/noticias/articulo/html/act1258887.htm>], [www.talcualdigital.com/Avances/Viewer.aspx?id=8444-40k] (all accessed on July 5, 2008).

⁶⁴ [<http://uk.reuters.com/article/marketsNewsUS/idUKN3056309120080501>] (accessed on 7 September, 2008).

Figure 18 – Annual Food and General Consumer Price Index (Metropolitan Area, Caracas)

Source: ECLAC

As is evident from the above analysis, it is undeniable that welfare levels have increased marginally in the past few years. Yet, it seems fair to argue that current policies are far from translating into efficient and robust efforts to address the levels of poverty and inequality, which have long exasperated Venezuela's poor. Un-transparent practices of reporting both financial and social information have unleashed profound clashes on the reliability of the data and might elicit misinformed policy choices, which are also important criteria to remember when analyzing the data presented in this report. The Bolivarian missions have certainly had an important role to play, though it seems they have proved much more successful in terms of participation, political affiliation and first-hand assistance than as long-term measures to eradicate poverty and social exclusion.

In spite of problematic socio-economic indicators and persistent inequality across the Venezuelan society, it is interesting to note that according to the international World Values Survey (2005), Venezuelan citizens are the happiest people in the world with 55% of respondents indicating they are 'very happy'. 'Happiness' as a measure is anecdotal in nature and hinges in many cases upon socio-cultural norms. Arguably this measure does however provide some insight into the Venezuelan social fabric and its indirect connections with the general socio-economic context of the country.

7. POLICY RECOMMENDATIONS

This final chapter suggests possible ways forward and policy actions to improve the effectiveness of existing mechanisms as well as establishing new systems to improve the link between oil and welfare in Venezuela. Drawing upon the preceding analysis, the next sections discuss the stability and sustainability of natural resources and argue that the connection between oil and welfare should be ‘loosened’ rather than ‘strengthened’ in order to guarantee long-term wellbeing for all Venezuelan citizens, regardless of the fluctuations in the global oil market.⁶⁵

7.1 Stability and Sustainability of Income

The overall resource-related situation in Venezuela can be aptly summarized with the words of a PDVSA senior official interviewed for this research, who requested to remain anonymous. He confirmed that “in Venezuela we do not have other main economic activities that are not related to the oil sector” and added that “sadly, if the price of Venezuelan crude were to go below US\$ 80 per barrel, we might in fact face a social crisis.”⁶⁶ Since this has in fact occurred in September 2008, Venezuela might be entering a delicate and crucial time in its history.

Despite some efforts to diversify income, the Venezuelan government is arguably more dependent on oil revenues today than it was ten years ago (see Chapter 1, Figure 4). Furthermore, given PDVSA’s increasing involvement in subsidizing social spending or directly performing social responsibility initiatives, the long-term sustainability of all major social welfare policies – including the various Bolivarian *missions* – is directly dependent on the fluctuation of oil prices on the global market.

Inevitably, the first (and most important) recommendation would therefore concern the need to diversify the Venezuelan economy by using oil revenues also as a springboard to activate complementary sectors, from industry to agriculture and services. Although the concept of economic diversification has received considerable attention in a number of development plans, including those of PDVSA, there is little evidence that this has in fact occurred. Analysts in general agree that the government should capitalize on current oil-related windfall gains in order to implement large-scale economic policies aimed at providing opportunities for sustainable employment in the private/public sectors and encourage the creation of small/medium enterprises.⁶⁷

Due to the ‘monoculture of oil’, Venezuela reveals most symptoms of the so-called ‘Dutch Disease’ exemplified by the fact that the manufacturing sector has decreased in importance and productivity (e.g. manufactured products on average have lost 0,49% of their value) while the price of oil-related products constantly increased by, on average, 1%.⁶⁸ It must be underscored though that Venezuela has long suffered from a monolithic economy centred around oil and activating a diversified economic sector will require serious planning and significant commitment in order to overcome cultural and sociological resistances.

In order to stabilize the Venezuelan economy, it would be advisable to turn the Macroeconomic Stabilization Fund (FEM) into an autonomous institution, which receives public resources but is not directly guided by the government of the day. Since its inception in 1998 (its name changed from FIEM to FEM in 2006) the fund’s reserves have fluctuated considerably: from USD 215 billion in 1999 to a peak of USD 6226 billion in 2001 to then fall to USD 768 billion in 2006. Such fluctuation was mainly due to shifting priorities established by government and a significant overlap of function between the FIEM/FEM and the FONDEN (see Chapter 3), which channels resources for social initiatives. Yet, while stabilizing the economy and providing incentives for macroeconomic growth should go in parallel with the promotion of social plans, there might be serious pitfalls when the two functions are continuously overlapped and budgets are moved from one institution to the other discretionally.⁶⁹

⁶⁵ This chapter draws on information provided by key specialists. See Annex 5 for interview transcript and completed questionnaires.

⁶⁶ Author’s translation from Spanish to English.

⁶⁷ Interview with Francisco Rodriquez, Assistant Professor of Economics and Latin American Studies, Wesleyan University.

⁶⁸ [http://www.eclac.cl/dmaah/noticias/paginas/8/29148/mulder_enfermedad.pdf] (accessed on 7 September, 2008).

⁶⁹ [<http://www.rnv.gov.ve/noticias/index.php?act=ST&f=4&t=44039>] (accessed on 7 September 2008).

In any case, neither FIEM/FEM nor FONDEN have operated with a view to translating the gains of current non-renewable hydrocarbon resources into long-term development strategies capable of sustaining economic growth and social development for the future. Efraín Velázquez from Venezuela's Metropolitan University points out this lack of forward-looking planning when commenting on the key differences between the Venezuelan management of oil revenues and its Norwegian counterpart: "The most crucial difference between Norway and Venezuela is that in Norway oil is treated as a temporary circumstance, whereas in Venezuela it is seen as a permanent, unlimited resource".⁷⁰ In his words, Venezuela's FEM and FONDEN would better be described as a 'spending fund' as opposed to Norway's 'savings fund'.

The weaknesses of this model are at least twofold: 1) long-term sustainability remains a serious issue; 2) high economic growth is accompanied with high levels of inflation and unemployment. Furthermore this policy also affects the country's capacity to attract long-term foreign direct investment turning Venezuela into a 'heaven' for quick and ready-to-leave speculators and limiting the potential spill-over effect of the oil industry to other economic sectors.

It would therefore be advisable not only to clarify the role of the FIEM/FEM vis-à-vis social funds such as FONDEN, but also to learn from existing practices (as is the case with Norway) capable of utilizing a small percentage of currently available resources to support long-term investment activities, in order to create a hedging tool offsetting the long-term instability of the oil sector.

Arguably, a series of additional macroeconomic tools might be adopted (or further strengthened) to shield the national economy from external pressures and the unavoidable volatility of the oil market. The overarching goal is to promote stability for social development and equality across the population. At the moment, in spite of existing policies and recurrent pronouncements, the Venezuelan economy is still subject to extreme volatility and high inflation, which increase the price of tradable goods and favour a widespread and capillary parallel market to purchase foreign currencies at advantageous rates.

7.2 'Loosening' the Link between Oil and Welfare

As discussed throughout the report, most social policies (in particular, the so-called Bolivarian *missions*) have arguably had a positive impact on welfare levels of disadvantaged sectors of the population. Notwithstanding their relative success, these policies have been often used as political tool by the ruling elite, which inevitably subjects their long-term progress to the short-term paybacks needed to boost the government's popularity and approval rate among the poor sectors of the Venezuelan population.

Venezuela has a long history of broad-based public spending and government-induced social initiatives dating back to the 1970s. Neither then nor nowadays, governments have developed tools to monitor and evaluate the effectiveness of these programmes, mainly due to their political connotations as instruments of popular appeasement.

As a matter of fact, the effectiveness of the current social policies (especially, the *missions*) is hard to assess. While they are de-facto controlled by government, the *missions* actually function as external institutions to the relevant ministries and are therefore not subjected to the same reporting requirements. Their 'political' character as agents of the Bolivarian revolution makes it even more difficult to undertake genuine assessments and promote public accountability. It would be very important to see social policies such as the *missions* as means to an end, rather than political instruments. This would encourage government to set up regular and transparent mechanisms to improve the effectiveness of these policies over time.

Furthermore, whereas some *missions* aim to build capacities and educate segments of the population who would otherwise be unable to get an education, others *missions* are essentially service providing programmes that rely primarily directly on oil revenues generated. In order for these programmes to be sustainable over time and to reduce their dependency on oil-related revenues, the *missions* should be re-conceptualized to also include local capacity-building and income-generating components. Such a 're-conceptualization' could build on a number of existing tools (e.g. micro finance, capacity-building for SMEs, innovative agricultural projects for small farmers, etc.) following the seemingly virtuous example of the social cooperatives constituted through the 'Sowing Oil' approach of PDVSA (see Chapter 5). In short, oil revenues and indirect benefits should be used as a springboard to revitalize economic and social activities in a large number of areas, including investment in innovative sectors such as renewable energy resources. Venezuela is a vast

⁷⁰ Velázquez, Efraín, Presentation: 'El Modelo Económico Noruego y Venezolano: Coincidencias y Diferencias', *Universidad Metropolitana*, Venezuela; March 2008.

and resourceful country and should capitalise on the current 'oil bonanza' also to promote durable wellbeing for all Venezuelan citizens long after the 'oil era' will come to an end.

Lastly, it is important not to forget success stories that may not be entirely conventional from a economic standpoint, but are expressions of welfare in their own right. One very highly publicized example is the National Network of Youth and Children Orchestras of Venezuela, popularly known as *El Sistema*, which involves children in local informal settlements (the 'barrios) and other marginalized communities. Having started very modestly about thirty years ago, it has now transformed into a network of 102 youth and 55 children's orchestras (currently involving an estimate of 100,000 youth) using music as an alternative to crime and drug use in poor communities. At present this may be the best known success story of a social program, now administered through the Ministry of Family, Health and Sports and has been 'copied' as a model in countries around the world. In September 2007 president Chávez announced the creation of *Misión Música*, a social *mission* to support and further the goals of *El Sistema*. As explained in the *New York Times* in October 2007; "Weighing such benefits as a falloff in school dropout rates and a decline in crime, the bank calculated that every dollar invested in the *Sistema* was reaping about \$1.68 in social dividends."

SELECTED REFERENCES

- Alvarez Herrera, B. and Rodríguez, F. (2008), 'Revolutionary Road? Debating Venezuela's Progress' *Foreign Affairs*, pp.158-162.
- Baena, C. (1999), 'The internationalization strategy of PDVSA: a policy-making analysis' *Instituto de Estudios Superiores de Administración (IESA)*, Caracas, Venezuela.
- Barcia Arufe, J. (2008), '¿Petróleo : Euforia o Desesperación?', *MetroEconómica*, Vol. XXVII (No. 5), pp. III– II20.
- D'Elia, Y. et al. (2006), *Las Misiones Sociales en Venezuela: una aproximación a su comprensión y análisis*, Instituto Latinoamericano de Investigaciones Sociales (ILDIS).
- D'Elia, Y. and Cabezas, L.F. (2008), *Las Misiones Sociales en Venezuela*, Caracas: ILDIS.
- Johnston, Daniel (2008) 'Changing fiscal landscape' *Journal of World Energy Law & Business*, Vol. 1 (No. 1), pp.31-54.
- Lah, G., Marcel, V., Mitchell, J., Myers, K and Stevens, P. (2007), 'Report on Good Governance of the National Petroleum Sector', *Chatham House, Royal Institute of International Affairs*; Dundee, Scotland.
- Mommer, B. (2001), 'Fiscal Regimes and Oil Revenues in the UK, Alaska and Venezuela', *Oxford Institute for Energy Studies*, WPM 27.
- Parra, E. (2007), 'How can the Venezuelan Government Ease its Country's 'Oil curse'', *CEPMLP, University of Dundee*; Dundee, Scotland.
- Patruyo, T. et al. (2008) Estado actual de las misiones sociales: balance sobre su proceso de implementación e institucionalización, Instituto Latinoamericano de Investigaciones Sociales (ILDIS).
- Rico, R. and Alva C. (2005), *Las misiones sociales venezolanas promueven la inclusión y la equidad. La revolución bolivariana sorprende al mundo*, Fundación Escuela de Gerencia Social, Ediciones FECS, Caracas.
- Rodríguez, F. (2008), 'An Empty Revolution: The Unfulfilled Promises of Hugo Chávez' *Foreign Affairs*; 87.2 49-62.
- Rodríguez, F. and Ortega, D. (forthcoming 2008), 'Freed from Illiteracy? A Closer Look at Venezuela's Robinson Literacy Campaign' *Economic Development and Cultural Change*.
- Schall-Emden, J. and Fioramonti, L. (2007) 'Welcome to Chavezuela: An Anatomy of Polarisation in Today's Venezuela', *CIPS Policy Brief 2/2007*, Pretoria (South Africa).
- Tinker-Salas, M. (2005); 'Fuelling Concern', *Harvard International Review*, Vol. 26 (4) -Winter; pp.50-55.
- Toro Hardy, J. (1994), *Oil – Venezuela and the Persian Gulf*; Editorial Panapo C.A., Caracas
- Weisbrot, M. (2008), 'An Empty Research Agenda: The Creation of Myths About Contemporary Venezuela', *Center for Economic and Policy Research*, Issue Brief; Washington, D.C.
- Weisbrot, M. and Rosnick, D. (forthcoming 2008) 'Illiteracy Revisited: What Ortega and Rodriguez Read in the Household Survey', *Center for Economic and Policy Research* Washington, D.C.
- Weisbrot, M. and Sandoval, L. (2008), 'Update: The Venezuelan Economy in the Chávez Years' *Center for Economic and Policy Research*; Washington, D.C.
- Weisbrot, M., Sandoval, L. and Rosnick, D. (2006), 'Poverty Rates in Venezuela: Getting the Numbers Right', *Center for Economic and Policy Research* Washington, D.C.

ANNEX 1 – GLOSSARY OF TECHNICAL TERMS (OIL SECTOR)

(Non-) Associated gas	Natural gas found in association with crude oil; non-associated gas refers to natural gas in a reservoir which contains no crude oil
Apertura	Venezuelan economic policy in the late 80s and early 90s to open oil industry for foreign investment
API gravity	An arbitrary scale expressing the gravity or density of liquid petroleum products devised jointly by the American Petroleum Institute and the National Bureau of Standards. The measuring scale is calibrated in terms of degrees API. Oil with the least specific gravity has the highest API gravity. The formula for determining API Gravity is as follows: Degrees API Gravity= $(141.5/\text{Specific Gravity at 60 Deg. F}) - 131.5$
Business assets tax	The business assets tax establishes one percent (1%) over the average value of tangible and intangible assets, adjusted for inflation. Under this law, the tax payable will be the amount exceeding the total CIT payable during the year, if any. If the amount of corporate income taxes is lower than the business asset tax, the exceeding amount can be carried forward as credit on future CIT caused during the following three years.
Crypto Taxes	Crypto taxes can include mandatory currency conversions, unrealistic "local content" quotas, or unrealistic and inefficient procurement and tendering rules, local office requirements (when a local office is not needed), hostile audits, excessive (government-owned) pipeline tariffs, oppressive environmental regulations/permitting requirements, restrictive ring fencing rules etc.
Environment Tax Credit	A reduction in CIT generally based on the cost and life of certain assets purchased and its contribution to the reduction of environmental damages.
Extraction Tax	One third of the value of all liquid hydrocarbons extracted from any field, calculated on the same basis established in article 47 of this Law for purposes of calculating the royalty payable in cash. This tax will be payable on a monthly basis, along with the royalty provided in article 44 of this Law, by the operating entity extracting such hydrocarbons. In calculating the extraction tax, the taxpayer has the right to deduct any amount paid as royalty, including the additional royalty that it shall be paying as a special advantage.
Investment Tax Credit	A reduction in CIT generally based on the cost and life of certain assets purchased.
Lagunilla crude	A type of crude that is not produced anymore but is still used in some contracts to indicate a reference price.
Offtake products	Upgraded crude oil, diluted crude oil, coke, sulphur and any other products produced by the extra heavy oil production
Orimulsion	Patented product developed by PDVSA used as boiler fuel and is an alternative to coal of fuel oil
Upstream and Downstream	Definition of hydrocarbons project types; upstream consisting of exploration and production, downstream of refining and marketing
Withholding tax (W/tax)	An amount withheld by the party making payment to another (payee) and paid to the taxation authorities. The amount the payer deducts may vary, depending on the nature of the product or service being paid for. The payee is assessed on the gross amount, and the tax to be withheld (the withholding tax) is computed in that assessment. The purpose of withholding tax is to facilitate or accelerate collection, by collecting tax from payers rather than a much greater number of payees, and by collecting tax from payers within the jurisdiction rather than payees who may be outside the jurisdiction. It may also be used to counteract tax evasion and tax avoidance.

ANNEX 2 – REFORMS AND AMENDMENTS CONCERNING FISCAL OBLIGATIONS

Type of fiscal obligation	Venezuelan main fiscal conditions during the 1990's oil opening (apertura)	Venezuelan new oil fiscal policies	Comments
	Description		
Corporate income tax	Original tax rate of 67,7% for hydrocarbon activities and a special rebate to 34% rate applied to net taxable profits for the vertically integrated Extra Heavy Oil Strategic Associations.(1) It was also applicable to the services performed by the Operative Agreements in the marginal fields.	50% taxable rate applied to Net taxable profits.(3)	The CIT of 10% and CET of 10% of the new investment, was not renewed in the last reform of the Income Tax Law. The application of the W/tax depends on whether or not there is a Double Taxation Agreement in force amongst the countries. It could vary from 2% to 34% for corporations.
Royalties on crude oil	Royalty = Fiscalised production * Mercantile Value * Royalty rate. Mercantile Value in US\$ = 0.945 x Lagunilla reference price + 0.268 x (Real crude API gravity - 15). 'Rate: 1% for a maximum of 9 years counted as from first commercial production or when accumulated income reaches 3 times total investment. Then the rate would change in principle to 16 2/3%. (2)	Royalty = Volumes produced * Value of crude XP * Royalty rate. Crude XP (8.5 °API) = { [Merey crude - (1- Value)*Mesa crude] / Value } - "Transport of crude adjustment". Value = 0.08316 / (141.5/(131.5 + 8.5 ° API) - 0.87292). Production = Diluted crude oil - (Volume of Dilutants - (Volume of Dilutants * Loss factor)). Rate: 30%. (4)	To the calculation indicated in the new formula the following is added: 33.3% of the value of all liquid hydrocarbons extracted from any field, calculated on the same basis established in article 47 of this Law for purposes of calculating the royalty payable in cash. This tax is payable on a monthly basis, along with the royalty provided in article 44 of this Law, by the operating entity extracting such hydrocarbons. In calculating the extraction tax, the taxpayer has the right to deduct any amount paid as royalty, including the additional royalty that it shall be paying as a special advantage.. Considering the Extraction Tax, the rate was doubled from 16.67% to 33.33%. Associated gas had the same royalty treatment as crude oil.
Royalties on non-associated gas	Under the 1967 Hydrocarbon Law, the royalty rate for the exploitation of associated and non-associated gas was 16 2/3% of volumes sold or used in operations. Flared or reinjected gas was not subject to payment of royalties.	With the publication of the Organic gas law in year 1999 none associated gas for the first time had a differentiated treatment compared to crude oil. (15) The royalty rate was increased only to 20% and the royalty rate for associated gas was raised to 30%.	

Type of fiscal obligation	Venezuelan main fiscal conditions during the 1990's oil opening (apertura)	Venezuelan new oil fiscal policies	Comments
	Description		
Special contribution on extraordinary prices of hydrocarbon (Windfall tax law)	Did not exist.	Applies to taxpayers that export or transport raw or upgraded hydrocarbons and its by-products abroad when the average month price of the Brent barrel exceeds US\$70 per barrel. The special contribution per barrel will be 50% of the difference between the month average Brent barrel value and the price of US\$70. (8)	If the average price exceeds US\$100, the contribution amount per barrel shall be 60% of the value that exceeds US\$100. The special contribution will be calculated by multiplying the amount per barrel by the monthly volumes of raw and upgraded crude oil and its by-products, which shall be determined in compliance with dates and load certificate data. The amount paid as special contributions can be registered as cost for CIT purposes. The amounts obtained by this law shall be paid to the MENPET and transferred directly to the FONDEN.
Superficial tax (Land rental)	Each concessionaire was deemed to pay: 5 Bolivars or Bs. (national currency) per hectare per year for 10 years, then 10 Bolivars for the next 5 years, then 15, for the next 5 years and so on until it reached 30 Bolivars per year. As from that moment, remained unchanged. (5)	100 Taxable Units (UT) per Km ² per year which increases in 2% on a yearly basis during the first 5 years and in 5% for the subsequent years. The UT for 2007 is Bs. 37.632*100 = BFs (national currency since 01.01.2008) 3.763,2 the equivalent of US\$ 1,750 per Km ² without considering the annual increases. (6)	
Municipal Tax	Organic Law of municipal public finances and specific regulations per jurisdiction. The taxable base is gross income and the rate varies from 1% to 5% depending on the activity and the municipality.	No relevant change.	Even though oil companies are not the direct taxpayers, some projects shall act as withholding tax agents in several jurisdictions on behalf of the local government. The municipal tax is absorbed by the entities dedicated to the exploitation of hydrocarbons through costs of the services or goods received.
Business assets tax	Payment of 1% of the yearly average net value of monetary and non-monetary assets after inflation adjustment. (14)	Tax eliminated on August 17, 2004.	The business assets tax established one percent (1%) over the average value of tangible and intangible assets, adjusted for inflation.

Type of fiscal obligation	Venezuelan main fiscal conditions during the 1990's oil opening (apertura)	Venezuelan new oil fiscal policies	Comments
	Description		
Value added tax	Final consumers absorb the VAT derived from the purchase of goods and services. Rates vary from 14% to 16%.	Current rate: 9%. There is a withholding tax mechanism on payment basis. Funds withheld are transferred twice a month to the National Integrated Service of Customs and Tax (SENIAT).	Hydrocarbon projects can recover VAT in connection with the construction of plants. Exporters can also recover VAT paid in the acquisition of goods and services linked with the export activities. Both recovery systems are subject to electronic certificate recovery instruments (CERT) approved by the SENIAT. Official approval of the CERT takes approximately from 3 to 12 months.
Bank transaction tax (Tax on Bank Debits)	The taxable base of this levy comes into effect upon withdrawals of any amount from a bank account. The rate varied from 1% to 0,5%. Deductible for CIT purposes.	In year 2007 the government created the tax on financial transactions. Very similar in its conception to the tax on bank debits which this time excluded individual bank account holders. The rate was 1,5%. Another relevant difference is that the bank transaction tax was non-deductible for CIT returns purposes producing an indirect increase of tax costs. (9)	On June 12, 2008 through the presidential decree No. 6.165, this tax was suspended until December 31st, 2008. (10)
Customs duty	Upstream (exploration and production) and downstream (refining and marketing) hydrocarbon projects that import goods to Venezuela were subject to a payment of customs tax that could vary mainly from 5% to 15% and a customs services fee from 1% to 2%.	No relevant changes.	Companies could also require the application of a simplified customs mechanism in order to expedite customs procedures and classify goods per processes. By using this benefit, projects could indirectly obtain an overall reduction of customs tax cost.
Science, technology and innovation tax	Did not exist.	2% of yearly gross income to be dedicated to the own company's innovative and technology programs or to similar activities. (7)	If the oil company uses such amount of resources within its own activities, it will not be considered as an additional cost. Otherwise it will constitute a new mandatory cost for the entity.

Type of fiscal obligation	Venezuelan main fiscal conditions during the 1990's oil opening (apertura)	Venezuelan new oil fiscal policies	Comments
	Description		
Other contributions	Housing policy law (HPL)	HPL: Employers shall deposit an additional 2% of total salary payment. (11)	These mandatory contributions are basically a complement of salary payment to employees administered by banks and public institutions. No major changes since the 1990's to nowadays.
	National institute of education cooperation (NIEC)	NIEC: 2% of total salary payment.	
	Obligatory social security (OSS)	OSS: Depending on the category of risk of the company the contribution based on regular salary is: Minimum: 9%, Medium: 10% and High: 11%. 12	
	Employment fund regime (EFR)	EFR: 2% of salaries with a maximum contribution of 10 minimum wages and a minimum contribution of 1 minimum wage per person. (13)	

Legend:

1 = CIT law published in the Official Gazette number 4.727 of May 27, 1994.
2 = Royalty agreement signed between the Joint Venture participants and the Ministry of Energy and Mines.
3 = CIT law published in the Extraordinary Official Gazette No. 352.801 dated February 16, 2007.
4 = New Royalty calculation sent by the MENPET to the Associations.
5 = Hydrocarbon law of Venezuela 1955 published in the Official Gazette No. 471 of October 13, 1955.
6 = Organic Hydrocarbon law 2001 published in the Official Gazette No. 37.323 of November 13, 2001
7 = Science, technology and innovation organic law published in the Official Gazette No. 37.291 dated September 26, 2001.
8 = Published in Official Gazette N° 38.910 dated April 15, 2008.
9 = Bank transaction tax published in Official Gazette No. 357.633 dated October 26, 2007.
10 = Official Gazette No. 38.951 dated June 12, 2008.
11 = Official Gazette No. 38.182 dated May 09, 2005.
12 = Official Gazette No. 37.600 dated December 30, 2002 and Official Gazette No. 35.169 dated March 11, 1993.
13 = Official Gazette No. 38.281 dated September 27, 2005.
14 = Official Gazette No. 4.654 Extraordinary dated December 1, 1993.
15 = Official Gazette No. 36.793 dated September 23, 1999.

Source: Parra 2008

ANNEX 3 – EXCERPT: LAWS AND REGULATIONS RELEVANT TO THE PETROLEUM INDUSTRY (IN SPANISH)

1. LAWS, REGULATIONS, RESOLUTIONS RELATED TO HYDROCARBONS AND PETROCHEMISTRY ACTIVITIES

Decreto Ley No. 5.200 de migración a Empresas Mixtas de los Convenios de Asociación de la Faja Petrolífera del Orinoco; y los Convenios de Exploración a Riesgo y Ganancias Compartidas

Gaceta Oficial No. 37,323 - 13 de Nov 2001

• RESERVA DE EXPORTACIÓN O IMPORTACIÓN DE PRODUCTOS DERIVADOS DE HIDROCARBUROS A FAVOR DE LAS EMPRESAS DEL ESTADO

DECRETO No. 1,648 - G.O. - 24 de Abril de 2002

• RESOLUCIÓN No. 335 COMERCIO FRONTERIZO DE HIDROCARBUROS
No. 37,853 - 08 DE Enero de 2004

• RESOLUCION No. 236 EXPORTACIÓN DE COMBUSTIBLES
No. 35,816 - 31 DE Octubre de 1995

• CREACIÓN DE LA COMISION INTERMINISTERIAL PARA LA FIJACIÓN DE LAS REGALÍAS
DECRETO No. 2,335 - No. 37,734 - 17 DE Julio de 2003

• RESOLUCIÓN No. 197 QUE ESTABLECE LA REBAJA DE IMPUESTO AL CONSUMO GENERAL CONTRIBUYENTES DEDICADOS A REFINACIÓN O MANUFACTURA DE HIDROCARBUROS
No. 37,753 - 14 DE Agosto de 2003

• RESOLUCIÓN No. 336 EXPENDIO DE COMBUSTIBLE EN ESTABILIDAD DE EXPENDIO SAFEC
No. 37,853 - 09 De Diciembre de 2004

• RESOLUCIÓN 36690 PARA LA FIJACIÓN DE FLETES DE TRANSPORTE
No. 38.091 - 21 Diciembre de 2004

• RESOLUCION 168 y 212 PARA LA DETERMINACION DE NUEVAS ÁREAS GEOGRÁFICAS DE PDVSA PETROLEO, S.A.

No. 37,952 - 03 de Junio de 2004 / No. 37,996 - 06 de Agosto de 2004

Gas Hydrocarbons

• LEY ORGÁNICA DE HIDROCARBUROS GASEOSOS
No. 36,793 - 23 de Septiembre de 1999

• REGLAMENTO DE LA LEY DE HIDROCARBUROS GASEOSOS
G.O. Extraordinaria No. 5,471 - 5 de Junio de 2000

• REGLAS PARA EL CUMPLIMIENTO DE LA LEY ORGÁNICA DE HIDROCARBUROS GASESOS – ENAGAS
No. 37,505 - 14 de Agosto de 2002

• RESOLUCIÓN MEDIANTE LA CUAL SE DELEGA EN EL ENAGAS LA INSTRUCCIÓN DE EXPEDIENTES ADMINISTRATIVOS POR CASOS DE INFRACCIÓN DE LA LOHG
No. 37,505 - 14 de Agosto de 2002

• RESOLUCIÓN No. 216 FIJACIÓN DEL VALOR FISCAL DEL GAS NATURAL ASOCIADO
No. 37,645 - 07 DE Marzo de 2003

• RESOLUCION No. PARA LA FIJACION DE LOS PRECIOS DEL GAS METANO EN LOS CENTROS DE DESPACHO

• RESOLUCION No. PARA LA FIJACION DE LAS TARIFAS DE TRANSPORTE Y DISTRIBUCIÓN DEL GAS METANO

- RESOLUCIÓN No. 165 PARA LA FIJACIÓN DE LOS PRECIOS DEL GLP
No. 36,227 - 13 de Junio de 1997
- RESOLUCION No. 197 GAS NATURAL PARA VEHÍCULOS
No. 37,982 - 19 de Julio de 2004

Petrochemistry

- LEY DE ESTÍMULO AL DESARROLLO DE LAS ACTIVIDADES PETROQUÍMICAS, CARBOQUÍMICA Y SIMILARES
No. 36,537 - 11 de Noviembre de 1998

Transport (by land)

- NORMA PARA EL TRANSPORTE TERRESTRE DE HIDROCARBUROS INFLAMABLES Y COMBUSTIBLES
RESOLUCIÓN 141 - G.O. No. 36,450 - 11 DE Mayo de 1998 / RESOLUCIÓN 357 Y 359 - G.O. 38,083 - 09 DE Diciembre de 2004 / RESOLUCION 36690 - G.O. No. 38,091 - 21 de Diciembre de 2004

PDVSA

- DESIGNACIÓN DEL PRESIDENTE ACTUAL DE PDVSA
DECRETO NO. 3,264 - G.O. 38,082 - 08- de Diciembre de 2004
- ESTATUTOS DE PETRÓLEOS DE VENEZUELA, S.A.
DECRETO No. 3,299 - G.O. No. 38,081 - 07 de Diciembre de 2004

2. GENERAL LAWS, REGULATIONS, RESOLUTIONS AND RELATED THAT INFLUENCE THE HYDROCARBONS INDUSTRY

- CONSTITUCIÓN DE LA REPÚBLICA BOLIVARIANA DE VENEZUELA
- CÓDIGO CIVIL DE VENEZUELA
- CÓDIGO DE COMERCIO
- LEY DEL BANCO CENTRAL DE VENEZUELA No. 37,296 - 3 Octubre de 2001
- LEY GENERAL DE BANCOS Y OTROS INSTITUCIONES FINANCIERAS No. Extraordinaria 5,555 - 13 de Noviembre de 2001
- LEY PARA LA PROTECCIÓN Y PROMOCIÓN DE LAS INVERSIONES No. 37,489 - 22 de Julio de 2002
- LEY PARA LA PROMOCIÓN DE LA INVERSIÓN PRIVADA EN CONCESIONES No. Extraordinaria 5,555 - 13 de Noviembre de 2001
- LEY DE ARBITRAJE COMERCIAL No. 36,430 - 7 de Abril de 1998
- LEY DE COMERCIO MARÍTIMO No. 5,551 - 9 Noviembre de 2001
- LEY DE REACTIVACION DEL COMERCIO MARÍTIMO No. 37,323 - 13 de Noviembre de 2001
- LEY DE DERECHO MARÍTIMO Y ACTIVIDADES RELACIONADAS No. 37,321 - 9 de Noviembre de 2001
- LEY GENERAL DE PUERTOS No. 37,331 - 23 de Noviembre de 2001
- LEY DE AREAS COSTERAS No. 37,319 - 7 de Noviembre de 2001
- LEY DEL SERVICIO ELÉCTRICO No. Extraordinaria 5,568 - 31 de Diciembre de 2001
- REGLAMENTO GENERAL DE LA LEY DEL SERVICIO ELÉCTRICO No. Extraordinaria 5,510 - 14 de Diciembre de 2001
- LEY ORGÁNICA DE TELECOMUNICACIONES No. 36,970 - 12 de Junio de 2000

2.1 STATE OWNED ENTERPRISES

- LEY DE LICITACIONES No. Extraordinaria 5,556 - 13 de Noviembre de 2001
- REGLAS PARA LA APLICACIÓN DE LA DE LICITACIONES (UBICAR GACETA OFICIAL)
- UBICAR DECRETOS DE PARTICIPACION / CONTENIDO NACIONAL
- LEY ORGÁNICA DE LA CONTRALORÍA GENERAL DE LA REPÚBLICA

- LEY DE FINANCIAMIENTO PÚBLICO
- LEY ORGÁNICA DE LA ADMINISTRACIÓN PÚBLICA No. 37,305 - 17 de Octubre de 2001
- LEY ANTICORRUPCIÓN No. Extraordinaria 5,637 - 7 de Abril de 2003
- LEY DE CIENCIA, TECNOLOGÍA E INNOVACIÓN No. 37,291 - 26 de Septiembre de 2001
- LEY ORGÁNICA DE LA PROCURADURÍA No. Extraordinaria No. 5,554 - 13 de Noviembre de 2001

2.2 TAXES

- CÓDIGO ORGÁNICO TRIBUTARIO No. 37,305 - 17 de Octubre de 2001
- LEY DE IMPUESTO SOBRE LA RENTA No. Extraordinaria 5,566 - 28 de Diciembre de 2001
- REGLAMENTO DE LA LEY DE IMPUESTO SOBRE LA RENTA (POR UBICAR GACETA OFICIAL)
- LEY DE IMPUESTO AL VALOR AGREGADO No. 37,480 - 9 de Julio de 2002
- REGLAMENTO DE LA LEY DE IMPUESTO AL VALOR AGREGADO No. Extraordinaria 5,363 - 12 de Julio de 1999
- LEY ORGÁNICA DE ADUANAS No. Extraordinaria 5,353 - 17 de Junio de 1999
- REGLAMENTO DE LA LEY ORGÁNICA DE ADUANAS No. Extraordinaria 5,129 - 30 de Diciembre de 1996
- LEY DE IMPUESTO AL DÉBITO BANCARIO No. Extraordinaria 37,648 - 14 de Marzo de 2003

2.3 ENVIRONMENT

- LEY ORGÁNICA DEL AMBIENTE No. 32,004 - 16 de Junio de 1976
- LEY PENAL DEL AMBIENTE No. Extraordinaria 4,358 - 3 de Enero de 1992
- LEY DE BOSQUES Y AGUA No. Extraordinaria 1,004 - 26 de Enero de 1996
- LEY DE AREAS COSTERAS No. 37,319 - 7 de Noviembre de 2001

3. INTERNATIONAL TREATIES THAT INFLUENCE THE HYDROCARBONS INDUSTRY

- REGLAMENTO DEL PACTO ANDINO RESPECTO AL TRATAMIENTO COMÚN DE CAPITAL FORÁNEO, MARCAS, PATENTES, LICENCIAS Y REGALÍAS
No. 34,930 - 13 Febrero de 1992
- TRATADO DE LIMITACIÓN DE ÁREAS MARINAS Y SUBMARINAS ENTRE TRINIDAD & TOBAGO Y VENEZUELA
No. 34,752 - 10 de Julio de 1991
- TRATADO CON EL GOBIERNO DE LOS ESTADOS UNIDOS DE AMÉRICA SOBRE DOBLE TRIBUTACIÓN E INTERCAMBIO DE INFORMACIÓN
No. Extraordinaria 5,427 - 5 de Enero de 2000

ANNEX 4 – LIST OF BOLIVARIAN/SOCIAL MISSIONS

[www.misionvenezuela.gov.ve] (direct excerpt Venezuelan Embassy in the United States Website)⁷¹

Misión Hábitat

This Mission's goals are the construction of thousands of new housing units. By the year 2021, all Venezuelans will have a house. The program also seeks to develop agreeable and integrated housing zones that make available a full range of social services — from education to healthcare, likening its vision to that of New Urbanism.

Misión Barrio Adentro

The primary objective of the Barrio Adentro Mission is to guarantee full access to integral health services. Nowadays, this mission embraces between 90 and 100% of the prioritized municipalities. Low income families are exempt from payment of essential medicine.

This program came in to existence thanks to the cooperation treaty between Venezuela and Cuba; a country which is internationally recognized for its high standards of basic health care.

PDVSA's contribution in 2004 paid for medical supplies and other expenses. Up to May, 2005, 196,900 million bolivars have been assigned to this Project.

Misión Miranda

The program establishes a Venezuelan military reserve composed of ordinary Venezuelan citizens; it also provides needed social benefits to unemployed Venezuelan veterans from poor socioeconomic backgrounds.

Misión Identidad

This mission has brought about one of the most recent social benefits, the registering of 5,076 000 people – out of which more than 600,000 were Venezuelan nationals and the remainder were foreigners who had been living in the country for many years. For the first time, they were all given their identification documents, the first requirement to becoming a Venezuelan citizen; with the right to take part in the electoral process and to enjoy full participation in shaping the future of the nation.

In 2004, PDVSA contributed, with 81,000 million bolivars for the development of this mission which gave an important number of the community, the right to an identity.

Misión Milagro

This is one of the most significant Social Missions that the Bolivarian Republic of Venezuela has implemented within the framework of the Bolivarian Alternative for America (ALBA). It is intended to correct or bring back eyesight to six million people from all of the Americas during the next ten years. Those who have been living in darkness for a long time, are being operated on today, free of charge. The main eye ailments treated are cataracts and pterygium. The operations are being carried out in Cuba and will soon be done in Venezuela also, allowing the patients to return to their countries with renewed hopes.

Venezuela and Canada should work together in this Mission in order to reach the established goals of treating 6,000,000 patients, from all over the American continent, during the coming decade.

Misión Piar

The mission falls in line with the current Integral Plan of Sustainable Development for Mining Communities advanced by President Chávez. Executed by the Ministry of Energy and Mines, this Mission seeks to

⁷¹ [www.geocities.com/embaven/misionesinglesfinal.doc] (accessed on 7 September 2008).; since this excerpt at least five new missions have been launched: Misión Negra Hipólita and Misión Madres del Barrio (social assistance), Misión Arbol and Misión Revolución Energética (environmental and energy) and Misión Villanueva (housing and physical relocation).

improve the quality of life of small-scale miners while promoting environmental sustainability. It is named after Venezuelan independence hero Manuel Carlos Piar.

Misión Guaicaipuro

Guaicaipuro Mission is a government initiative of the Bolivarian Republic of Venezuela, relating to the rights of indigenous peoples and communities as recognized under the framework of the Bolivarian Constitution.

Within its main functions, Guaicaipuro Mission is in charge of guaranteeing agricultural and nutritional needs, in addition to promoting the harmonic and sustainable development of these unique communities with an ethno development vision.

PDVSA budgeted 22,900 million bolivars to support this mission for the year 2005. For more information about Guaicaipuro Mission, you can consult its official website: [www.misionguaicaipuro.gov.ve/].

Misión Mercal

The principle objective of the Mercal program is to guarantee the access of basic food items to low income families in Venezuela by its distribution, commercialization and delivery, as well as by the stimulation of national food production.

The State subsidy to these products is approximately 40%, and in cases of extreme poverty, the distribution is totally free.

In less than a year, the Mercal Mission had reached nearly 75 % of Venezuela's poor.

In 2004, PDVSA supported the development of this important food supply mission and they backed it with 178,560 million bolivars in that same year. In 2005, the government assigned 634,000 million bolivars from the national budget.

Misión Ribas

True to its motto of "Winning is vital," the Ribas Mission educational program started on November 17TH 2003, has been an astounding success.

Under the management of PDVSA and the Ministry of Energy and Petroleum, this mission has incorporated a total of 718,309 winners, 31,041 facilitators with 8,174 localities, and 3,797 coordinators working in 29,929 classrooms.

By the end of 2005, 211, 289 students who had previously been unable to complete their secondary education, finalized their studies and graduated as a result of this mission. Now they go out into the world, with their high school diplomas in hand, able to continue on to higher education or better employment.

Between the years 2004 and 2005, this mission has been financed with 915,700 million bolivars to carry out its objectives.

To get more information about this initiative carried out by the Bolivarian Government of Venezuela, you can visit its official website: [www.misionribas.gov.ve/mribas/]

Misión Robinson Mission I - II

The program uses volunteers to teach reading, writing, and arithmetic to the more than 1.5 million Venezuelan adults. The program is based on the application of a method "Yes, I can do it" created by the Cuban Prof. Leonela Relys, this method goes from the "known" (numbers) to the "unknown" (letters) based on experiences. It has three stages: training, reading and writing, and consolidation. The delivery of this Mission, named after Simón Rodríguez (alias Samuel Robinson), teacher of Simón Bolívar, is in charge of the Ministry of Education, Culture and Sports.

Misión Robinson

The objective of this mission is to allow people to obtain an elementary school certificate, to consolidate their knowledge and to offer education for specific jobs. This Mission is based on the method of “Yes, I can continue”, that uses television, videos and brochures under the coordination of a facilitator on a class of 15 students; the process is divided into two parts, the first one includes math, language, history, geography and natural sciences and the second one computer skills and English.

Misión Sucre

Sucre mission is a dream come true for those adults of all ages who had not had the possibility to enroll in university, and can now take advantage of this project, that’s main objective is to extend the option of higher education all over the country through its municipal program.

This mission opens the door of the Bolivarian University of Venezuela (UBV), a university occupying the site of offices formerly occupied by PDVSA’s elite management, to thousands of students who are being trained to become social communicators, historians and lawyers.

At present, the new PDVSA is also contributing to this university project. It is constructing a university campus and paying for scholarships. The Venezuelan government assigned 100,000 million bolivars to the program in 2004.

Misión Vuelvan Caras

The primary goal of the Vuelvan Caras Mission is to qualify unemployed youngsters or adults by providing them with comprehensive technical training as well as in the giving them the tools to form their own production and services cooperatives. With this strategy, unemployment in the country has been reduced by more than 2 %.

The contributions of this mission have been assigned to pay for student scholarships, instructors and supervisors as well as to supply the universities with materials and equipment.

ANNEX 5 – INTERVIEW TRANSCRIPT AND COMPLETED QUESTIONNAIRES

(1) Entrevista	
Nombre, organización y posición:	Desea mantener el anonimato, Empleado de nivel gerencial, PDVSA
Fecha:	Entrevista, 3 Julio 2008

1) Desde hace ya varias décadas las actividades petroleras constituyen la principal fuente de ingreso del estado Venezolano. Al mismo tiempo el precio del petróleo se ha caracterizado por una gran inestabilidad, mientras a nivel internacional el debate se ha concentrado en reducir la dependencia del petróleo como principal fuente de energía. Tomando esto en cuenta, ¿existe en su opinión una política específica enfocada a la sustentabilidad de la energía y de fuentes de ingreso en el país a largo plazo?

De ser el caso, por favor explique. De lo contrario, por favor indique dos a tres políticas que en su opinión deberían ser adoptadas para este fin.

“Al día de hoy, no existe un mecanismo o política gubernamental creada con el fin de contrarrestar alguna caída de los ingresos petroleros.

Tristemente, si el precio del barril de crudo venezolano bajase a \$80 dólares por barril, en Venezuela podría haber una crisis social. Los beneficios que actualmente recibe la población de menores recursos esta ligada directamente a los excedentes recibidos de los ingresos petroleros actuales.

Una actividad económica que podría desarrollarse con éxito en Venezuela como complemento de la actividad de hidrocarburos es la del turismo, sin embargo, no se han dado los pasos necesarios para atraer la inversión extranjera ni impulsar adecuadamente la inversión interna para desarrollar eficientemente y a gran escala dicha actividad.

Nosotros en Venezuela no tenemos otra política económica principal que no sea la actividad petrolera. No existe interés verdadero en trabajar en otras áreas como la agricultura o turismo. Incluso, cuando se requiere el activar alguna de las otras formas de actividad económica, se solicita la participación de PDVSA. Por lo que todo es canalizado a través de nosotros. PDVSA es el brazo ejecutor de las políticas gubernamentales en materia social.”

2) Las provisiones sociales proveídas principalmente por las misiones han tenido una receptividad variada a nivel nacional y mundial. Por una parte se ha celebrado el mayor vínculo entre rédito petrolero e inversiones sociales al igual que una ampliación en la oferta de servicios sociales, particularmente dirigida a sectores menos pudientes de la población. Por otra parte se ha indicado que a la mayoría de las misiones les ha faltado transparencia en la gerencia de sus fondos, así mismo se ha considerado que su financiamiento es altamente dependiente del ejecutivo nacional y no prevé un modelo sustentable en el tiempo.

a) Por favor comente sobre cuán adecuadas estima que sean las misiones como mecanismo de política social, tanto a corto como a largo plazo.

b) Comente por favor sobre el impacto social que las misiones u otras políticas sociales actuales han podido obtener.

“Las misiones como concepto son una buena idea y sus programas han llegado a mucha gente. El que los médicos estén a la disposición de las poblaciones pobres es un beneficio que las personas aprecian mucho. Otros beneficios como los de Mercal y ahora PDVAL que proveen alimentos a bajo costo es muy bien recibido por una buena parte de la población de bajos recursos.

Actualmente existe una complicación en la implementación de las misiones ya que están llegando muchas personas de otros países y participan también de estos beneficios, los cuales a veces se hacen insuficientes. Existe otra situación sin precedentes en Venezuela: se está consumiendo aproximadamente 500 barriles diarios de combustible subsidiado, lo cual incrementa los gastos para PDVSA y la nación. Durante los años 2006 y 2007 cada familia compró un vehículo nuevo en Venezuela por las grandes facilidades bancarias existentes. Y trajo como consecuencia mayor tráfico y contaminación a las ciudades.

Las poblaciones se ubican mayoritariamente al norte del país lo cual crea una merma en la calidad de vida poblacional. Redistribuir las requiere de planes a mediano y largo plazo bien definidos que estén atados a nuevos puestos de empleo distribuidos en el resto del territorio nacional y que no existen hoy en día.

En conclusión, las misiones si han colaborado con la población pobre de Venezuela pero están vinculadas directamente con los ingresos petroleros y por consiguiente con el incremento en los precios de los hidrocarburos.”

(2) Cuestionario	
Nombre, organización y posición:	Diego González, Profesor de Postgrado USB, Monteávila
Fecha:	10 de julio 2008

1. Desde hace ya varias décadas las actividades petroleras constituyen la principal fuente de ingreso del estado Venezolano. Al mismo tiempo el precio del petróleo se ha caracterizado por una gran inestabilidad, mientras a nivel internacional el debate se ha concentrado en reducir la dependencia del petróleo como principal fuente de energía. Tomando esto en cuenta, ¿existe en su opinión una política específica enfocada a la sustentabilidad de la energía y de fuentes de ingreso en el país a largo plazo?

La respuesta es NO. En Venezuela no hay políticas públicas de Estado en materia de Energía. En especial en materia de la jerarquización del uso de los diferentes energéticos y de sus precios y tarifas.

De ser el caso, por favor explique. De lo contrario, por favor indique dos a tres políticas que en su opinión deberían ser adoptadas para este fin.

- *Jerarquizar el uso de los diferentes energéticos, en función de la capacidad para exportarlos y de la capacidad de los ciudadanos para cambiar sus usos culturales.*
- *Se necesita una política de precios y tarifas de los diferentes energéticos, acorde con su costo de producción y sus costos de oportunidad para exportarlos*
- *La creación de un Ente regulador de todo el sector energético, completamente autárquico e independiente del gobierno.*

2) Las provisiones sociales proveídas principalmente por las misiones han tenido una receptividad variada a nivel nacional y mundial. Por una parte se ha celebrado el mayor vínculo entre rédito petrolero e inversiones sociales al igual que una ampliación en la oferta de servicios sociales, particularmente dirigida a sectores menos pudientes de la población. Por otra parte se ha indicado que a la mayoría de las misiones les ha faltado transparencia en la gerencia de sus fondos, así mismo se ha considerado que su financiamiento es altamente dependiente del ejecutivo nacional y no prevé un modelo sustentable en el tiempo.

a) Por favor comente sobre cuán adecuadas estima que sean las misiones como mecanismo de política social, tanto a corto como a largo plazo.

Las misiones pueden ser necesarias coyunturalmente, pero en ningún caso serán una solución estructural, y menos cuando se han diseñado para sustituir a los ministerios respectivos, y para evadir los controles presupuestarios.

b) Comente por favor sobre el impacto social que las misiones u otras políticas sociales actuales han podido obtener.

El impacto social ha sido negativo, porque se ha agudizado el carácter pedigrüño del venezolano de las clases más bajas. Una familia puede obtener 3 y 4 ingresos por concepto de diferentes misiones, lo que la hace desistir de los trabajos tradicionales que realizaban para la economía, inclusive la informal. Hoy es difícil conseguir un empleado para labores domésticas, de jardinería, etc. P[porque estiman que reciben mas a través de las misiones, realizando menos trabajo y con menos compromiso. Las misiones no le exigen. También se ha creado alrededor de las misiones una nueva clase de empresarios (mejor sería llamarlos negociantes) que se encargan de suplirlas, sin licitaciones, y solo usando sus contactos con el gobierno.

3) En su opinión, explique tres políticas económicas que podrían tener la posibilidad de maximizar el impacto social del actual rédito petrolero. Igualmente comente sobre su sustentabilidad en el tiempo. Por favor indique si en su opinión estas previsiones ya están siendo aplicadas o no.

La mejor política para que los ingresos petroleros por concepto de regalías y dividendos que produce la empresa estatal lleguen a la mayoría de los venezolanos, sería la creación de un fondo generacional, para cubrir pensiones de retiro, costos de la educación, salud y vivienda, en función de las necesidades personales de cada ciudadano,. Que tendría la libertad de decidir en que plan o planes usa su fondo. Se crearía una cultura económica importante, porque cada ciudadano todos los meses pasarían por su banco para ver como le depositaron, los intereses que está devengando, etc. Los ejemplos de Noruega, Alaska, Qatar, etc. Son más que positivos.

(3) Cuestionario	
Nombre, organización y posición:	Francisco Rodriguez Assistant Professor of Economics and Latin American Studies Wesleyan University 222 Public Affairs Center 238 Church Street Middletown, CT 06459-0007 Tel: 860.685.3958 Fax: 860.685.2301 http://frodriquez.web.wesleyan.edu/
Fecha:	3 Julio 2008

1. Desde hace ya varias décadas las actividades petroleras constituyen la principal fuente de ingreso del estado Venezolano. Al mismo tiempo el precio del petróleo se ha caracterizado por una gran inestabilidad, mientras a nivel internacional el debate se ha concentrado en reducir la dependencia del petróleo como principal fuente de enegería. Tomando esto en cuenta, ¿existe en su opinión una política específica enfocada a la sustentabilidad de la energía y de fuentes de ingreso en el país a largo plazo?

De ser el caso, por favor explique. De lo contrario, por favor inique dos a tres políticas que en su opinión deberían ser adoptadas para este fin.

No veo que existan en el actual momento política serias de diversificación. Por supuesto que la diversificación y la disminución de la dependencia siempre son mencionadas en los planes de desarrollo, pero no hay mucha evidencia de que el gobierno esté tomando este tema en serio como un objetivo que deba recibir prioridad. De hecho, de acuerdo con casi todas las formas en las que ésta se puede medir, la dependencia del petróleo ha aumentado desde 1998.

En mi visión las principales políticas que se podrían adoptar para disminuir la dependencia del petróleo son:

- *Mantener un tipo de cambio competitivo, que estimule las exportaciones alternativas al petróleo.*
- *Adelantar una política industrial activa, concentrada en intentar identificar y apoyar a sectores con potencial exportador.*
- *Crear y mantener un Fondo de Estabilización Macroeconómica con reglas claras, que permita ahorrar los ingresos generados en tiempos de bonanza para atenuar los efectos de los descensos.*
- *Mantener un superávit fiscal significativo durante períodos de altos precios del petróleo.*
- *Enfatizar la provisión de bienes públicos que generen aumentos en la rentabilidad de exportar (e.g.: infraestructura de apoyo a sectores exportadores, estímulos a la innovación, apoyo a la entrada a mercados internacionales).*

2. Las provisiones sociales proveídas principalmente por las misiones han tenido una receptividad variada a nivel nacional y mundial. Por una parte se ha celebrado el mayor vínculo entre rédito petrolero e inversiones sociales al igual que una ampliación en la oferta de servicios sociales, particularmente dirigida a sectores menos pudientes de la población. Por otra parte se ha indicado que a la mayoría de las misiones les ha faltado transparencia en la gerencia de sus fondos, así mismo se ha considerado que su financiamiento es altamente dependiente del ejecutivo nacional y no prevé un modelo sustentable en el tiempo.

a) Por favor comente sobre cuán adecuadas estima que sean las misiones como mecanismo de política social, tanto a corto como a largo plazo.

Considero que la principal falla de diseño de las misiones consiste en no haber creado mecanismos de evaluación y rendición de cuentas que permitan medir el cumplimiento de los objetivos de los programas. En Misión Robinson, por ejemplo, la evaluación del programa consistía en la totalización de los reportes de logro obtenido por los coordinadores regionales, lo cual evidentemente genera un sesgo hacia creer que se alcanzaron los objetivos. Al mismo tiempo, el momento y condiciones de lanzamiento de las misiones hizo que se le diera prioridad a la consecución de un objetivo político (la victoria en el referéndum del 2004) en vez de un objetivo social.

b) Comente por favor sobre el impacto social que las misiones u otras políticas sociales actuales han podido obtener.

De acuerdo con los principales resultados de mi investigación, las misiones no han tenido un efecto significativo sobre la pobreza, por lo menos más allá de lo que sería normal esperar en medio de una bonanza petrolera. En particular:

- *La tasa de disminución del analfabetismo no ha sido diferente de la observada antes de Misión Robinson.*
- *La tasa de disminución de la mortalidad infantil no ha sido diferente de la observada antes de Barrio Adentro y ha sido menor a la experimentada en otros países en el mismo período.*
- *Existen deterioros en varios indicadores de salud tales como el porcentaje de niños con bajo peso al nacer.*
- *La elasticidad ingreso de la disminución de la pobreza no ha sido diferente a la observada en otros países.*
- *De acuerdo con las mediciones metodológicamente más adecuadas, la desigualdad parece haber aumentado*

3) En su opinión, explique tres políticas económicas que podrían tener la posibilidad de maximizar el impacto social del actual rédito petrolero. Igualmente comente sobre su sustentabilidad en el tiempo. Por favor indique si en su opinión estas provisiones ya están siendo aplicadas o no.

- *La aplicación de un programa de transferencias de dinero condicionadas sobre la participación de los niños en las escuelas (condicional cash transfers).*
- *La creación de un ente fiscal autónomo que supervise la asignación y uso de las transferencias provenientes de los recursos petroleros.*
- *El diseño de mecanismos de seguimiento y evaluación, basado en la implementación de programas piloto con asignación aleatoria de participantes iniciales, de forma de tener un estimado de la efectividad de programas específicos antes de aumentar el número de recursos que se destinarán a ellos.*

ANNEX 6 – GRAPHIC SUMMARY OF OIL REVENUE DISTRIBUTION

