

Notes on Venezuela and oil resources – April 2014

The question arises did Venezuela really introduce a cooperative system or is this Newspeak for nostalgic leanings to a Marxist-Leninist system? Are these cooperatives directly controlled by the people? It appears the apparatchik lean over them and control the money supply. So it is dubious if these are coops or pseudo coops. It looks like they may be pseudo coops, because of the control of money supply by the political party in power. The matter needs to be thoroughly examined. Real coops need to be rooted in economic democracy – which is about decentralised economic power.

With so much wealth from oil, surely it would have been not so hard to really give the cooperative ownership to the people and their communities. It appears it did not happen.

What is wrong in Venezuela is not so difficult to understand. Simply stated, it adopted an outdated Marxist-Leninist socio-economic approach, despite the fall of communism since over 2 decades ago. This was a fatal error of Chavez. He did not consider the importance of the middle class and providing them with the necessary amenities and incentives to fulfil their potential.

It was admirable that Chavez lifted living standards to some extent. However, the correct approach, and it was do-able in Venezuela (given its wealth from oil) would have been to balance the economy and attain an equilibrium. How?

1. A constitutional guarantee that all persons have the right to obtain their minimum requirements of life, namely food, clothing, housing, education, health care, by providing employment so that people attain sufficient purchasing power to acquire these basic necessities of life.
2. After that, the economic principle is that surplus wealth be distributed in 2 streams:
 - i. to meet common amenities that everyone requires above their minimum necessities (e.g. essential goods like refrigerators) or to meet universal service obligations such as electricity, communications, transport; and
 - ii. to provide special amenities or incentives on a merit basis to suit and enable persons to render service to society or apply their skills and knowledge for social good or that are necessary for research and development or innovation.

Venezuela has gazillions of petro-dollars coming in. But the kleptocrats, Chavez and Maduro, have made it so the people can't get toilet paper. Where are the large gains in living standards? It is the government's mismanagement and corruption that has bled Venezuela's wealth away whilst leaving the population impoverished - making \$1, \$2 or even \$5 dollars a day doesn't make you rich. Maduro and his regime have to realize that they need to alter the course of the 'Bolivarian revolution' so that it works for the Venezuelan people as a whole.

Let us consider oil production in Venezuela. The top oil producers in the world, according to the International Energy Agency, producing around 64% of world supply, are:

Saudi Arabia 13 %,
Russia 13 %,
United States 9 %,
China 5%,
Iran 4 %,
Canada 4 %,
United Arab Emirates 4 %,
Venezuela 4 %,
Kuwait 4 % and
Iraq 4 %.

There are other producers around the world for the remaining 36%.

Of the top producers some of them have created a cartel, i.e. OPEC (Organization of the Petroleum Exporting Countries), in other words they have economically centralised power. OPEC's founding members are 5 countries namely Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. These countries were later joined by Qatar, Indonesia, Libya, United Arab Emirates, Algeria, Nigeria, Ecuador, Gabon and Angola. But later Gabon terminated its membership and Indonesia suspended its membership. Ecuador also suspended its membership temporarily, but not now. Currently, OPEC has a total of 12 member countries.

Venezuela is a founding member of OPEC. It can easily create lasting fiscal stimulus for the country and resource security through its oil resources and their downstream processing industries, even more than the USA. Yet Venezuela imports gasoline, and loses money on PDVSA - Petróleos de Venezuela, S.A. - the state-run oil company. PDVSA makes US\$6 billion+ in losses per year. That is not how a key industry should be running – the obligation to the people is to run on a no profit no loss basis.

Why the losses and inefficiencies? Due to:

- restrictions on domestic prices and extremely cheap prices to consumers (stimulating use of motor vehicles, congestion and pollution),
- free oil giveaways to political allies, e.g. Cuba,
- pricing and marketing restrictions (cartel conduct) by OPEC membership, and
- most importantly, crumbling or non-existent infrastructure for advanced extraction and refining of oil.

The first 2 are not as significant as the latter 2, and can have economic benefits if properly applied. The latter 2 result in monopolisation (economic centralization) and inability to diversify the economy to make it more self-sufficient.

But these losses and inefficiencies should not happen when there is so much wealth latent in Venezuela's oil resources. These oil reserves and the extraction and post extraction industries are a boon for Venezuela, but potential is being lost and squandered.

The key industry sector of oil (a public resource), and its secondary industries (to be run as cooperatives), need to be revamped and heavily invested in. This requires reform of the state-owned enterprise of PDVSA so it operates properly as a key extracting industry. Also, domestic refinery facilities and capacity needs to be invested in (so as to reduce reliance on importing finished fuels) and this industry activity needs to move towards cooperative ownership. Secondary and downstream industries need to be built up in the country.

There are also large subsidies on gasoline in the country, making it cheap, leaving a carbon footprint, and potentially having negative effects on building other transport infrastructure besides roads for cars (i.e. there is maladjustment in infrastructure spending and development). These large subsidies do not make much sense, although some subsidisation may be warranted to give people common amenities of transportation, but the whole transport infrastructure diversity needs to be considered. The subsidies make not much sense given the importation of expensive refined gasoline by Venezuela.

Thus the fundamental problem lies in lack of industrialisation of the oil extraction industry and lack of secondary industries for carrying out refinement processes. Why import refined products (gasoline) when you can do it yourself. But this is not possible under a Marxist-Leninist style outlook which produces State capitalism (and economic centralization) and tends towards totally inefficient industry and production. That is the core of the matter.

Individual or group capitalism (corporate capitalism) is also not the solution. A system of recognising oil as a key industry held on trust for the public, and refinement and other downstream industries being based on a cooperative model, operating in a market economy, is what is required.