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Special Report

Venezuela: Prospects Under Perez

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VENEZUELA
Prospects Under Perez

The landslide proportions of Carlos Andres Perez' victory in the presidential election and the unprecedented majority his Democratic Action Party won in Congress give his government the potential to be the strongest Venezuela has had since that of Romulo Betancourt (1958-63). In contrast to President Caldera, who was short on both public support and congressional backing throughout his term, Perez will begin with a secure position of leadership and a generally free hand as president.

His chances to sustain this strength appear good. Despite his background as a controversial political figure over the years, the vigor and decisiveness he displayed in his bid for the presidency clearly appealed to the electorate. During the pre-inaugural period, he has worked to nurture the new spirit of dynamism by conducting an intense round of press conferences, TV appearances, newspaper interviews, and consultations with advisers and experts. He means to give substance to his campaign motto, "Democracy with Energy," throughout the five-year term that begins on March 12.

He intends to focus on domestic matters, where his philosophy is mildly leftist and reformist. Venezuela's oil boom and high per capita income have created a picture of prosperity that is still unavailable to large segments of the population. The conspicuous consumption of the privileged has created severe social tensions, which the new government is intent on easing. Perez intends to build on the industrial development programs launched by his predecessors and to assist Venezuela's long-neglected farm population, hoping to make agriculture an "engine of development."

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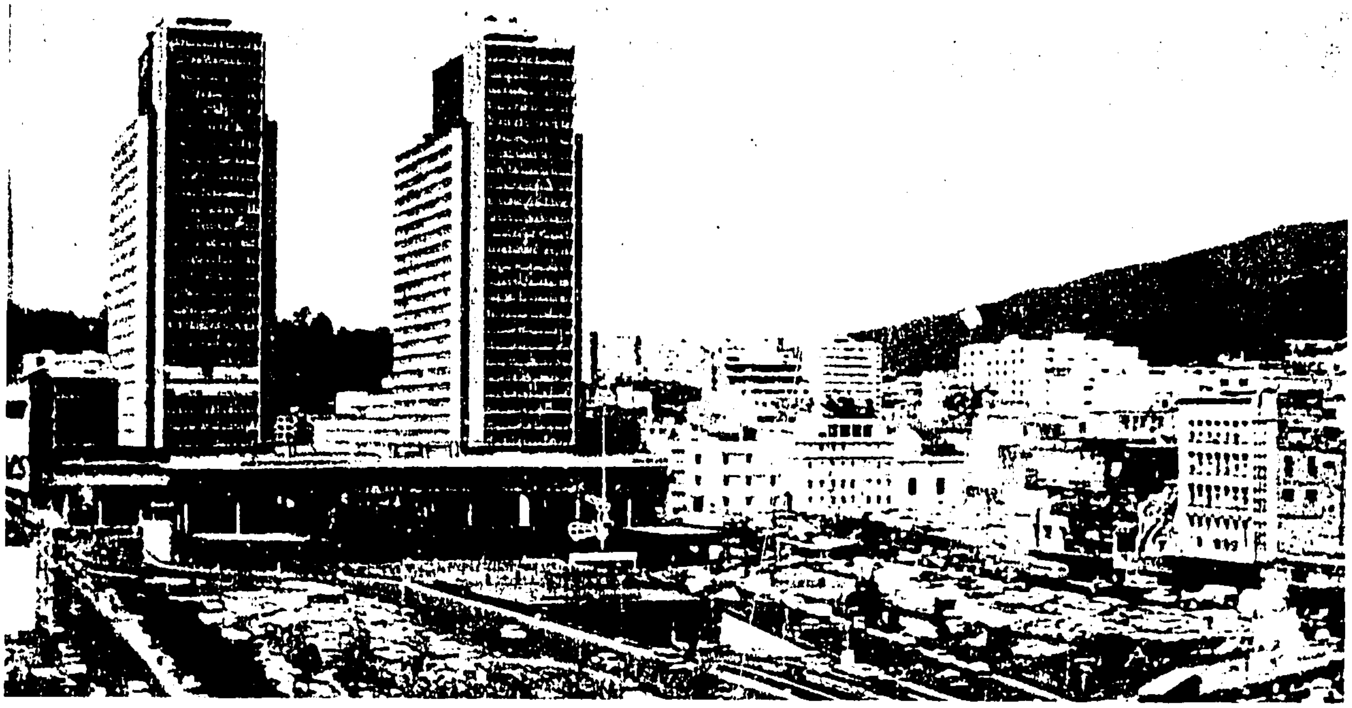

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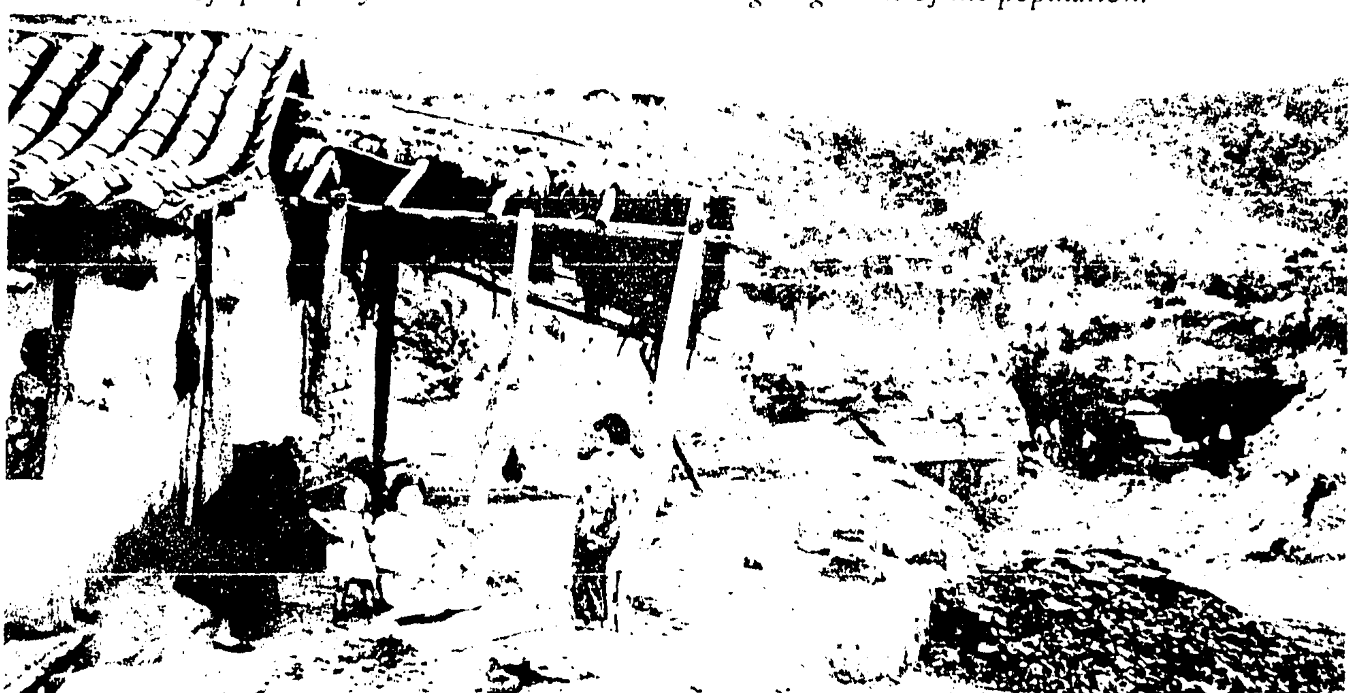

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Oil: A Tool and a Symbol

Perez feels that the domestic programs he envisions can be realized only by better management of the country's oil resources. He believes that Venezuela's oil treasure represents a powerful tool from which he can extract both the funds and concessions needed to implement his programs. His determination to make oil work more effectively for Venezuela's needs is reinforced not only by the heavy world demand for petroleum, but also by the political necessity to respond to the nationalist mood in Venezuela.

For the Venezuelan public, the foreign-operated oil industry has the same symbolism as did copper in Chile. Besides their deep resentment of the very visible role of foreigners in economic and cultural affairs, Venezuelans at all levels of society feel the need to express their new-found sense of national identity, and are increasingly protective of their national assets.

The rising spirit of nationalism has also fed Venezuela's desire for a leadership role in the hemisphere, and oil serves that ambition as well. Perez has already put his prestige on the line by announcing that he will use his oil policy to break down the "totalitarian" trade policies the industrialized nations adopt in dealings with the developing countries. Perez told visiting economic ministers from oil-short Central America that his administration plans to use its increased oil revenues to help the less-developed countries. He ruled out any special price on oil for these countries, but indicated that he would consider providing long-term, low-interest financing for petroleum sales at market prices. He also guaranteed that Venezuelan oil would be available to the Central American states.

In protecting the country's independence, particularly in oil matters, Perez must be even bolder than his predecessor, who was able to provide for government exploitation of gas reserves and to decree a host of minor controls over foreign oil interests—despite their vigorous protests. In fact, because of accusations that he and other Democratic Action administrations have been friendly toward US business interests, Perez may lean over backwards to avoid seeming to favor US corporations operating in the country.

Caldera will not give Perez an easy starting point. In his few weeks left as president, Caldera has already expropriated two almost-defunct portions of Creole oil concessions and plans other nationalist measures, such as converting foreign-owned milk and electric power concerns into mixed enterprises with Venezuelan Government participation. Party leaders are preparing a draft bill calling for immediate nationalization of the oil industry when the new congress convenes on March 2. Complete nationalization at this time is a highly unlikely possibility, yet an idea worth plenty of political capital. In an action designed in part to counter the opposition's political gambit, Perez told a number of journalists recently that present foreign oil holdings will revert to the state within two years after his government takes office.

In the new congress, Caldera's Social Christians, as the major opposition party, will beat the drums of nationalism whenever the new government exhibits apparent weakness in its dealing with the oil companies or the US. The party's courses of action are somewhat circumscribed by the fact that it is still in considerable disarray following the elections. A party congress, reportedly scheduled for June, has been put off until later in the summer, presumably to give Caldera time to orchestrate the conclave. This may avoid a fractious session marked with recriminations over the recent election and divisive debate over the tactics and policies that the party should espouse during Perez' administration.

Venezuela's Market: The US

It is with this set of convictions and pressures that Perez will launch his effort to secure a better deal from the US, Venezuela's traditional and still-favored market. But his approach and

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style will be those of a pragmatic businessman, not those of a demagogue or ideologue. Perez is unencumbered with the ideological baggage of his Social Christian predecessor, and he senses no practical or political advantage in joining the ranks of Yankee-baiters. He has gone along with Caldera's decision to take a percentage of oil royalties in kind, but has passed up opportunities to threaten a forced lowering of production during the oil crisis. In essence, Perez has no basic disposition to be an adversary in relations with the US, with which Venezuela—and his party particularly—has enjoyed cordial ties for a long time.

Yet Perez has expressed dissatisfaction over what he sees as disequilibrium in US-Venezuelan relations. Venezuela, he believes, should receive more from the US in exchange for being a dependable supplier of oil—more, that is, than high prices and an assured market. Specifically, Perez hopes to achieve:

- the removal of trade barriers to non-traditional exports that he hopes to develop, such as metal products, chemicals, and petrochemicals;

- assured adequate supplies of industrial raw materials and agricultural products (cotton, black beans, wheat, soybeans, pulp and newsprint, synthetic fibers, stainless steel, ferrous scrap, and equipment such as farm machinery—all of which are in short supply world-wide);

- technical and managerial assistance for development projects at reasonable prices.

Perez will probably be most interested in negotiating the general terms of an over-all economic agreement that includes oil, trade, tariffs, and other pertinent fields. He will be hesitant to negotiate a government-to-government agreement based strictly on oil, having already expressed his concern about the pitfalls of such an agreement. He will want to keep fairly open the range of options he has in such matters as the nationalization of the oil industry, a goal Venezuelans in general want to achieve during the new presidential term rather than in 1983, as now officially scheduled to begin. As a first step, Perez reportedly plans to set up an autonomous government organization that will be responsible for planning and managing the early reversion to Venezuela of foreign-owned oil companies. The organization would be a cabinet-level office separate from the Ministry of Mines and Hydrocarbons, which would concern itself only with the day-to-day short-range management of petroleum matters other than reversion.

Perez is likely to be a tough but not intractable bargainer. His hand is strong because he has both alternative markets for oil and other sources of investment as well as a huge budgetary leeway for absorbing the initial losses that would probably follow any reorientation of Venezuela's markets and trade relationships. If, despite his preference for good relations, he eventually arrived at an adversary relationship with the US, he could, with Venezuela's resources, break past ties with the US without risking an economic crisis. Perez is confident, however, that the US interest in continuing good relations with an important neighbor and in maintaining access to Venezuelan oil will lead to eventual accommodation to Venezuela's needs.

Venezuela has had oil development and market offers from Japan, Romania, Western Europe, and Brazil, but the US remains Venezuela's most attractive economic partner. This partnership is natural from a geographical standpoint and because of the history of a long political friendship during which abundant and varied lines of contact have developed. Because the great bulk of technical equipment throughout Venezuela's modern sector is made in the US, it will be much easier and less expensive for Venezuela to maintain its ties with the US than to break them. The frequent consonance of views in international affairs reinforces the comfortable relationship.

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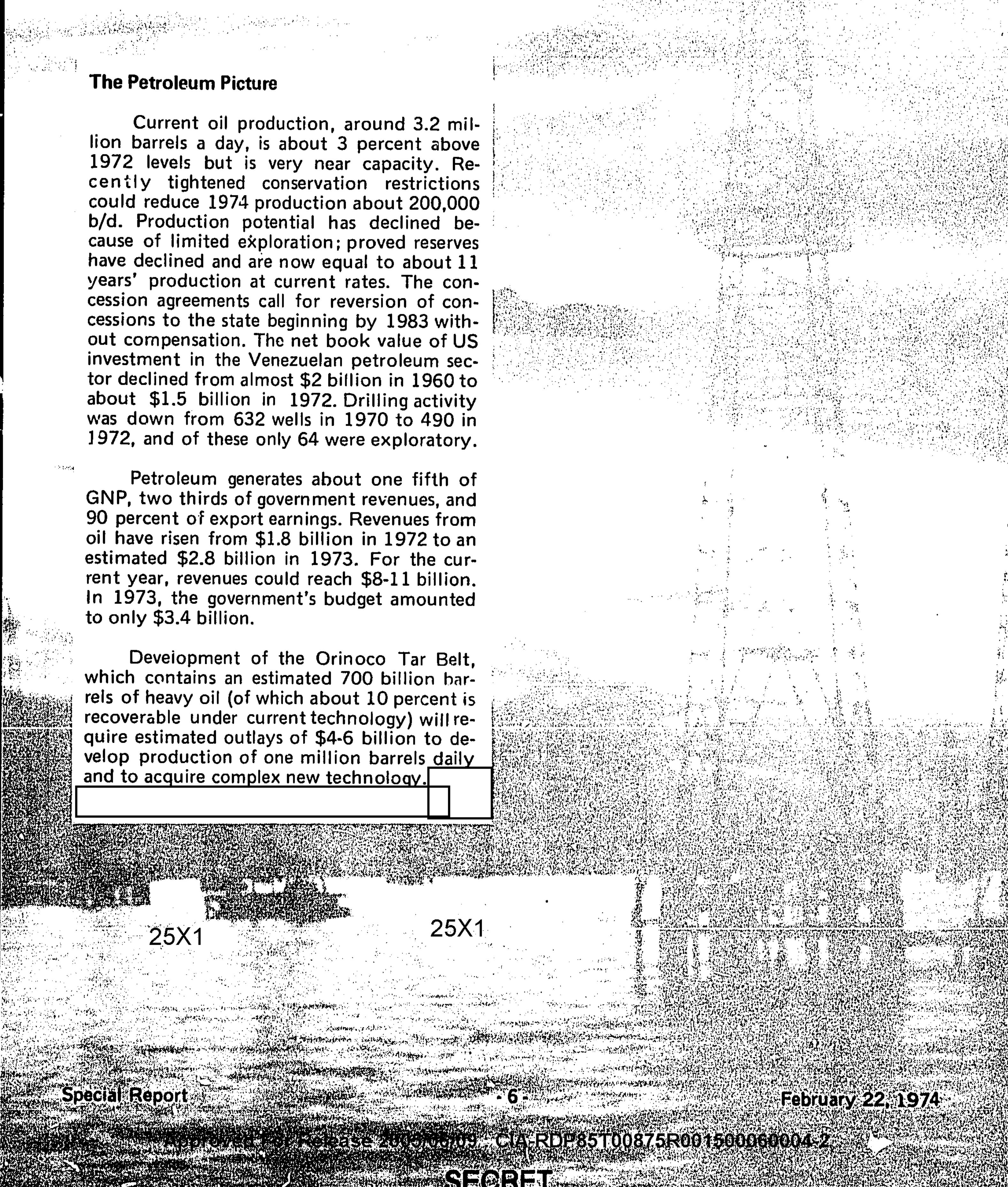

The Petroleum Picture

Current oil production, around 3.2 million barrels a day, is about 3 percent above 1972 levels but is very near capacity. Recently tightened conservation restrictions could reduce 1974 production about 200,000 b/d. Production potential has declined because of limited exploration; proved reserves have declined and are now equal to about 11 years' production at current rates. The concession agreements call for reversion of concessions to the state beginning by 1983 without compensation. The net book value of US investment in the Venezuelan petroleum sector declined from almost $2 billion in 1960 to about $1.5 billion in 1972. Drilling activity was down from 632 wells in 1970 to 490 in 1972, and of these only 64 were exploratory.

Petroleum generates about one fifth of GNP, two thirds of government revenues, and 90 percent of export earnings. Revenues from oil have risen from $1.8 billion in 1972 to an estimated $2.8 billion in 1973. For the current year, revenues could reach $8-11 billion. In 1973, the government's budget amounted to only $3.4 billion.

Development of the Orinoco Tar Belt, which contains an estimated 700 billion barrels of heavy oil (of which about 10 percent is recoverable under current technology) will require estimated outlays of $4-6 billion to develop production of one million barrels daily and to acquire complex new technology. [redacted]

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