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Venezuela's Oil Crisis; A brief history of Chavez, Maduro and U.S sanctions in the world's richest land.

Venezuela, once the destination of Europeans looking for a better future in the seventies and eighties, a country with the largest oil reserves in the world, situated between the crystalline waters of the Caribbean and the enchanting Amazon rainforest has become the most economically backward country in Latin America. In this paper, I discuss why, covering Venezuela's modern history from Chavez's rule to modern-day Maduro, and making connections with the oil crisis and economic instability. Throughout Venezuelan history, the figure of Hugo Chavez stands as a pivotal force, shaping the nation's trajectory with his charismatic leadership and bold political maneuvers. Emerging from a failed military coup in 1992, Chavez's ascent to power marked a shift in Venezuelan politics, beginning from the constitution. His presidency, marked by socialist reforms, ignited hope among Venezuelans. Chavez set the stage for his successor, Nicolás Maduro. Maduro's government is subject to the turmoil of U.S. sanctions, corruption, and human rights violations. Nowadays, 90% of the Venezuelan people live in poverty and the country ranks third globally in terms of corruption. How could the richest land in the world have experienced such a fall?

Section 1: Hugo Chavez

On the fourth of February 1992, Hugo Chavez's name was first announced to the Venezuelan public. Chavez had attempted a military coup on Carlos Andrés Perez's government, triggered by the Caracazo protests against economic liberalization and the cutting of subsidies aimed at reducing Venezuela's piling debt. The coup failed, but at a time of social unrest Chavez's words broadcasted on National television, resonated with the Venezuelan people as he declared a 'temporary' defeat- seeding a sense of hope for change. Chavez was subsequently sent to prison in the state of Miranda but pardoned in 1994 by the new president, Rafael Caldera, and devoted his life to politics. He founded the 'Fifth Republic Movement (MVR)' in 1997, a party founded by socialist and 'populist' ideology that he later merged with Venezuela's left-wing parties to create the 'United Socialist Party of Venezuela (PSUV)'. With 30% of the country's population in extreme poverty (Caruso-Cabrera, 2014) and a universal animosity towards 'Yankee' American imperialism, Hugo Chavez won the 1999 presidential election in a landslide; with 56.2% of the people's vote (McCoy, 2006).

Upon taking office on the second of February 1999, Chavez made it clear of his desire for change starting with the constitution; he set up the 'National Constituent Assembly of 1999' which aimed to make changes to the existing constitution in one hundred and eighty days. The Venezuelan constitution had never been changed since its formation in 1957. Chavez's new constitution increased presidential terms from five to six years, introduced a two-term presidential limit, and made legislative changes aimed at facilitating the President's passing of policy (McCoy, 2006). The new constitution was approved by referendum in April with over 80% of the assembly's votes in favor of changes (Istúriz, 1999).

Chavez had strong ties with Cuban president Fidel Castro during his tenure, with both countries establishing a secure trade network and political parallels; Both Chavez and Castro were Socialist revolutionaries who attempted coups d'etats on former imperialist leaders, both were imprisoned and pardoned only to repeat their political uprisings successfully. Once in power, Chavez's constitutional changes involved a switch from a bicameral legislature to a single assembly (Istúriz, 1999), silencing possible opposition power, and increasing his ability as a supreme leader to pass policies. Castro had done the same in Cuba after gaining power and the Venezuelan people feared a Castro-style dictatorship in their country. Chavez also had ties with international controversial 'revolutionaries' such as Saddam Hussein and Muammar Gaddafi which further instilled fear and doubt into the Venezuelan people's minds. This fear and tension erupted on the eleventh of April 2002 through a military coup on Chavez's government by political opponents supported by the Catholic Church. Chavez was arrested by the militants and Pedro Carmona was appointed interim president. However, a mere forty-eight hours later, loyal government supporters and the National military surrounded the presidential palace forcing Carmona to resign and Chavez was reinstated as president (Nelson, 2009).

Venezuelan oil has always been a significant source of income for the country; Figure 1 shows oil revenues as a percentage of GDP between 1970 and 2014 values ranging between five and thirty-six percent suggesting an unstable management of the primary resource. Since taking office, Venezuelan crude production under Chavez dropped by 19% (Caruso-Cabrera, 2014)- a significant number considering how reliant the Venezuelan economy was on the commodity. Of

the 2.6 million barrels being produced each day, 1.4 million were given away for free. Chavez's socialist ideals prompted him to found 'the Bolivarian Missions' campaign which aimed to provide education, food, and health for all those living in poverty. He would fund this project with oil revenues from the PDVSA (Petróleos de Venezuela)- a Venezuelan state-owned oil company. As a result, he increasingly relied on oil exports which in 2012 accounted for 95% of exports and 18% of GDP (IMF, 2023). Public spending in 2012 however accounted for 53% of GDP, significantly higher than oil revenues Chavez was raking in. When oil prices dropped in 2008 from \$140/barrel to \$34/barrel, Chavez responded by introducing further exchange controls, slowing down the free flow of resources from the country. In 2001 Chavez introduced the "Hydrocarbons Law" which taxed transnational companies involved in Venezuelan oil extraction and imposed a minimum state ownership of mixed companies (public and private) of 51% (Heritage, 2002). As a result of these protectionist policies, the country experienced a drain of foreign investment, falling from 3.7Bn to 0.7Bn in 2001 (Heritage, 2002), and a decline in infrastructure quality. Chavez imposed strict price controls on basic goods such as food which led to severe shortages in supermarket aisles as producers were no longer able to sell their products at an operation-worthy price. Several black markets surfaced attempting to smuggle basic goods from neighboring countries. This increased the law enforcement to prevent smugglers, further increasing Venezuela's expenses. In 2013 Chavez died and was succeeded by Nicolas Maduro who inherited an economically beleaguered nation grappling with heightened political divisions and mounting social unrest.

Section 2: Nicolás Maduro

Following Chavez's fourteen-year tenure, Nicolás Maduro, former vice president was elected following a close election, narrowly defeating Henrique Capriles by a margin of 1.5% of votes (De Córdoba, 2015). Maduro is anti 'Yankee' imperialism and his government is known for its corruption, human rights violations, and controversial international partnerships. In 2014 oil production decreased a further 13% (De Córdoba, 2015) from when Chavez took office. The government raised the previously subsidized gas prices to reduce the PDVSA's losses, during this period, Venezuela's oil prices fell to a four-year low. Despite this, Maduro continued nationalizing and expropriating land, and key mining and exploration businesses; iron ore production dropped 49.8% in 2014 (De Córdoba, 2015). Despite these financial strains, Maduro continued Chavez's expensive public programs such as the Bolivarian Missions. The poverty rate between 2014 and 2021 rose from 47% to 90.82% as Venezuelans struggled to take on basic tasks; people would queue up for days to fill their cars with petrol, supermarket shelves were empty due to shortages induced by price caps, vaccines, and medicinal goods were also scarce. On April 3rd, 2016, Maduro created the 'Local Committees for Supply and Production (CLAP)' to address national food shortages (El Nacional, 2017). The group provided basic food staples to impoverished Venezuelans with each box costing the government \$42 despite its value estimate at \$13. Maduro was accused of personally taking the difference in prices which amounted to \$200 million in total (Altuve, 2019). Throughout the hunger crisis, Maduro was seen dining at luxurious restaurants around the globe and overspending on inter-office parties. He was sentenced to eighteen years in prison by the Justice of Venezuela in exile for embezzlement of \$2 billion of the PVDSA's revenues; raising suspicion that Maduro banned foreign companies from exploiting the country's rich oil reserves to allow his government officials to exploit the

resources for their personal gain. Maduro was also accused of partnering with Mexican drug cartels to import cocaine to fund his presidential campaigns; his two nephews were officially apprehended by the DEA and found guilty in a U.S. court. Maduro attested to these accusations and struggles to ‘Yankee’ imperialism working its way to knock him out of power and exploit Venezuelan resources. In 2018, Maduro was re-elected in a controversial vote, deemed illegitimate by many international leaders such as Trump, Bolsonaro, and Trudeau who labeled him as a dictator. Maduro resisted this international pressure from over sixty countries, refusing to cede power and allow Juan Guaidó to be interim president. In 2019 Guaidó was elected by the opposition’s national assembly as interim president. However, he was unable to consolidate his power; Maduro’s strong ties to government officials and the secret service who had collaborated with Maduro’s drug trafficking schemes feared a change in government as they would no longer hold immunity.

Government debt rose from a relatively stable 84% of GDP to 327% of GDP from 2013 to 2020 in Venezuela as shown in Figure 7. To fund this debt, Maduro’s government began to print money, which fueled a cycle of hyperinflation, peaking in 2019 at 63,000% (Figure 4) relative to the previous year. Despite his religious anti-Yankee views, Maduro was forced to informally adopt the U.S. dollar as a second currency in Venezuela as a result of the unstable Bolivar.

Section 3: U.S Sanctions

U.S. sanctions on Venezuela have been a bilateral issue for the last thirty years; sanctions on Maduro's government are directly correlated with an influx of migrants to the United States. In turn, this leads to a decline in political support for the president issuing sanctions. However, collaborating with a human rights-violating government is also considered political suicide; the U.S.' democratic culture is undermined. Presidents of the U.S. have been troubled with this dilemma. Figure 5 shows the influx of Venezuelan migrants into the U.S. which has risen by 215% between 2010 and 2018, a period during which the U.S. had issued the most sanctions. Until now, sanctions have been issued as leverage to incentivize democratic elections in the country. In 2014 President Obama imposed sanctions on Nicolas Maduro, the Venezuelan Supreme Court, Vice President Arreaza, and the Venezuelan defense minister for human rights violations and anti-democratic actions (Seelke, 2022). Maduro reacted to this by criticizing the American government, claiming that it was part of a plot to gain control of the Venezuelan land's rich resources. Between 2017 and 2018, Trump sanctioned PDVSA and the Venezuelan central bank for corrupt endeavors with government officials, and in 2019 Trump blocked all transactions from U.S. entities to Venezuelan entities (Seelke, 2022). These sanctions restricted Venezuelans' access to U.S. financial markets and capital. As depicted in Figure 2, foreign inflows of capital to Venezuela plummeted from \$0.9 billion in 2018 to a deficit of -\$1.3 billion in 2019, illustrating a struggling economy. Infrastructure for oil drilling and mining, Venezuela's primary source of income, also deteriorated further hindering the country's ability to accrue government revenues to pay for public services. During this period, household poverty rose to 96% and extreme poverty rose to 79% as shown by Figure 3 as the government was no longer able to fund its public spending programs on food rations, housing, and medicine. The

constrained access to foreign goods exacerbated shortages in Venezuela, also depreciating the Bolivar. With diminished demand for Venezuelan oil and goods internationally due to sanctions, the relative cost of importing goods surged, intensifying inflation. To sustain spending, the government resorted to printing additional currency and financing its debt. These actions compounded the already rampant inflation rates, which soared to 63,000% of 2018 levels, as illustrated in Figure 4.

In 2022, the Biden administration eased restrictions on Maduro, allowing Chevron to resume production, import, and export of oil and petroleum products in Venezuela since they were the major U.S. oil company that previously operated there (Seelke, 2022). Partly due to the Russian sanctions and a half-depleted government petroleum reserve (SPR), the U.S. was forced to open the Venezuelan oil trade to protect Americans from an oil price hike during times of already high cost of living. Following this, Venezuela witnessed its first notable surge in GDP since the era of Chavez, marking a 66% increase (Armas, 2023). This uptick stemmed from the country's ability to partially leverage its oil reserves on a broader international scale, compared to previous trade restrictions predominantly focused on Asia. As a result, inflation slowed, and the poverty rate halved (Sequera, 2022). These developments represented significant strides for Maduro, hinting at a brighter future for the Venezuelan people, who glimpsed the potential of their petrostate. Nonetheless, substantial challenges remain, indicating that there is still much work to be done by the government.

The 'Barbados Accord,' reached in October 2023, marked an agreement between the Biden administration and the Maduro government, resulting in the relaxation of sanctions imposed on Venezuela. Biden issued licenses for American energy companies to work with Venezuela. This was considered a pathway for free elections in the country. One month later, Maduro released U.S. allied political prisoners and gave political opposition the right to appeal their penalties to the Supreme Court. In return, the U.S. released Maduro's ally, Alex Saab, imprisoned for U.S. money laundering charges (Seelke, 2022). Significant progress appeared to have been achieved in advancing the democratic process in Venezuela, a crucial development, especially in light of the impending 2024 presidential elections scheduled for July. However, on April 17 of this year (2024), the Biden administration reinstated oil sanctions after Maduro's government failed to register opposition leader Maria Corina Machado. U.S. companies were instructed to cease operations with PDVSA by May thirty-first. This represents a significant challenge for Maduro, who faces a critical decision: either demonstrate to the Venezuelan people his ability to enhance the country's condition by complying with U.S. policy, or persist in his resistance against democracy, thereby obstructing the opposition's voice and potentially forcing the PSUV's re-election.

Section 4: Oil Industry:

Venezuela has recorded 300 Billion barrels equivalent of oil reserves, 18% of the global share above Saudi Arabia, and Russia (Worldometer, 2023). Its main oil consumers are Spain and Italy, but it continues to trade predominantly with Asian countries, avoiding Western sanctions. Venezuela's oil primarily comes from its 'Orinoco belt' in the center of the country

and is referred to as Merey oil characterized by its high sulfur content- six times the Brent crude oil's sulfur content (CEIP, 2023). Oil production costs \$10-12/barrel (Ho, 2024), the cheapest production costs for oil in the world. However, lack of infrastructure has prevented the country from refining its crude oil into different, lighter (more costly) grades, and its international infamy and therefore lack of trading partners has forced it to severely discount its crude with Chinese refineries taking advantage of this; Venezuela has exported oil to China for \$14/barrel less than the Brent Crude oil rate (Ho, 2024). Figure 7 shows the increase in Chinese imports of Venezuelan oil at times of sanctioning by the U.S. government and a fall in imports when sanctions are lifted. Venezuela therefore has very little pricing power on its crude and they are never able to take advantage of its rich reserves.

Generally, profits made in the oil industry from extraction to refining, are heavily centered around arbitrage in time, location, and product grade making this a very segmented industry; in a free market, the journey from oil well to consumer involves a large number of specialized brokers who take on a niche and specific role in the supply chain to maximize the efficiency and cost along each stage of the operations. This requires stable and high-quality infrastructure such as storage facilities, refineries, and land-transport such as railroads, ports, and extraction equipment. The oil supply chain process in Venezuela is completely operated by the government owned company 'Petroleos de Venezuela S.A (PDVSA)'. This poses many difficulties for a state-owned petroleum company.

Firstly, PDVSA is vulnerable to political interference; revenues from this company will be redirected within the government to support certain agendas and policies. On top of this, the appointment of roles within the company can be subject to favoritism and political bias rather than efficiency. For example, PDVSA fired more than 18,000 employees who participated in a two-month-long strike in 2002 in a mass reprisal for legitimate strike activity, as well as eighty employees deemed supporters of political opposition (Holland, 2008). Therefore, political interference has led to a reduced pool of skilled workers. This immediately reduces the level of human capital that the company has access to as competitive workers not aligned with government beliefs, who may be more skilled, will not assume positions. Secondly, this reduces competitiveness in the markets disincentivizing innovation. Innovation fuels cheaper and more efficient extraction methods, access to information, and technological advancements. A lack of incentive to do so will create information gaps in the industry, further reducing productivity, and profits. Political interference has also heavily restricted PDVSA's access to financing, reducing the quality of their infrastructure and hindering efficiency; U.S sanctions on the company Between 2015 and 2018, have restricted the company's access to U.S financial markets- the largest in the world. Hence, a smaller supply of financial resources increases their cost of financing rendering operations significantly more expensive and damaging revenues. For example, PDVSA revenues dropped 74% as shown in Figure 6, directly correlating to the sanctions imposed by Trump.

Section 5: Thoughts and ideas

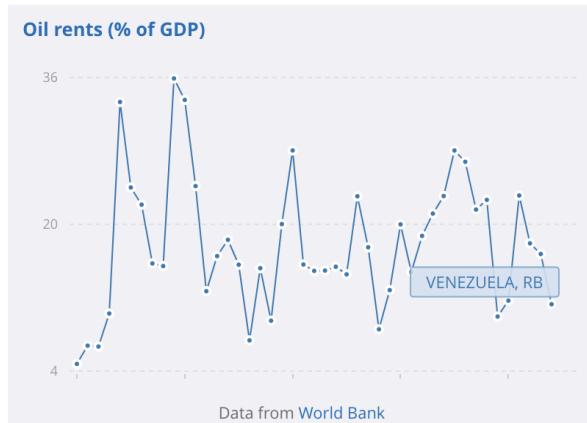
Venezuela stands at a critical crossroads with the upcoming elections, as the people face a daunting uncertainty of whether the country can reverse its downward spiral or continue its descent into economic and social turmoil. I certainly believe Venezuela has the resources and potential to strive given its pre-1980s prosperity. The country's future relies on a series of factors, including political stability- tied to international cooperation, and economic reforms. However, the most crucial factor is political change; a turning point with regards to economic policy, and foreign-imposed sanctions, enabling Venezuela to successfully channel the country's resources toward effective public policy. However, remnants of deep-rooted structural issues will persist in the short term, including corruption, and political unrest; Maduro has obtained the loyalty of military and government officials involved in criminal activities with him. To fight this would require a violent and radical 'no tolerance' shift in attitude towards the judicial and military branches of government which will undoubtedly be met with resistance. Just recently we have seen Maduro silence and imprison primary political opponent María Corina Machado undermining the legitimacy of a democratic election yet again. Given this, I believe it will take time for Venezuela to fully recover from its economic miseries, however, I also believe that the country is on a gradual upward trajectory, having experienced a 6% increase in GDP this year and constant growth from 2020 (O'Neill, 2024).

In conclusion, Venezuela's crisis has been marked by the leadership of Hugo Chavez, Nicolas Maduro, and the imposition of U.S. sanctions. Under Hugo Chavez, Venezuela witnessed a significant shift towards socialist policies, with rampant levels of government spending from PDVSA revenues. Despite initial hopes for change, Chavez's tenure saw a decline

in oil prices, and revenues, and thus social programs were poorly funded, exacerbating economic issues and debt. The transition to Nicolas Maduro's presidency further deepened Venezuela's economic troubles, characterized by corruption, human rights violations, and a continued dependence on oil exports. Maduro's tenure saw a further decline in oil production, hyperinflation, and widespread shortages of basic goods, plunging the country into a severe humanitarian crisis. U.S. sanctions, imposed as a response to human rights violations and anti-democratic actions, further exacerbated Venezuela's economic challenges, leading to a sharp decline in foreign investment, capital flight, and increased poverty rates. While some easing of sanctions under the Biden administration provided temporary relief, the reinstatement of oil sanctions continues to harm the Venezuelan people. The Venezuelan oil industry, once a symbol of prosperity, has been corrupted by political interference, and international sanctions, hindering the country's ability to take advantage of its vast oil reserves effectively. With upcoming elections in July 2024, Venezuela's future is subject to the radical change it needs to protect its people who are currently suffering, starving, and sitting on the richest land in the world.

Figures:

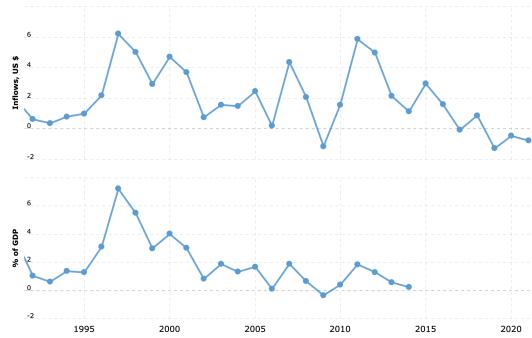
Figure 1:



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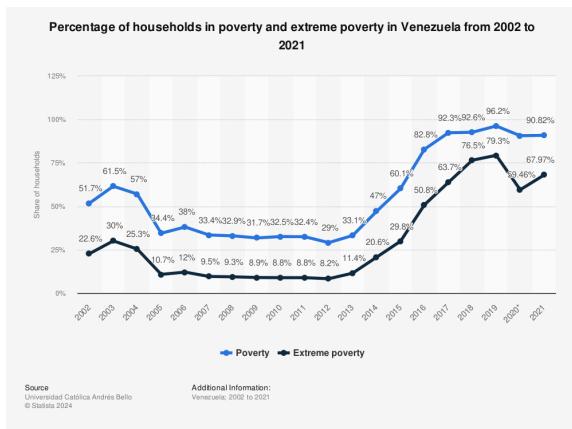
src="https://data.worldbank.org/share/widget?end=2014&indicators=NY.GDP.PETR.RT.ZS&locations=VE&start=1970&view=chart" width='450' height='300' frameBorder='0' scrolling="no" ></iframe>

Figure 2:



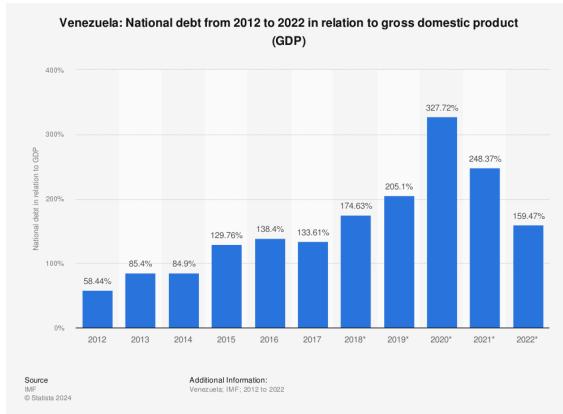
Venezuela Foreign Direct Investment 1970-2024

Figure 3:



Universidad Católica Andrés Bello. (October 21, 2022). Percentage of households in poverty and extreme poverty in Venezuela from 2002 to 2021 [Graph]. In Statista. Retrieved April 20, 2024, from <https://www.statista.com/statistics/1235189/household-poverty-rate-venezuela/>

Figure 7:



IMF. (October 5, 2023). Venezuela: National debt from 2012 to 2022 in relation to gross domestic product (GDP)

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Figure 4:

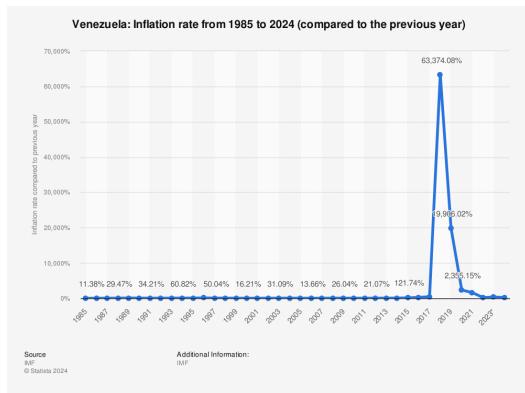
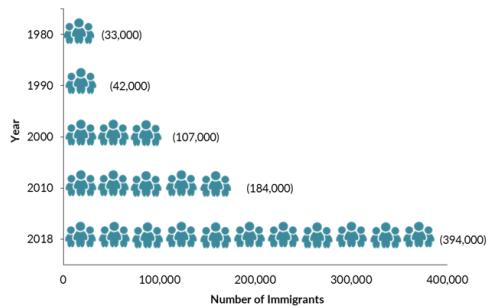


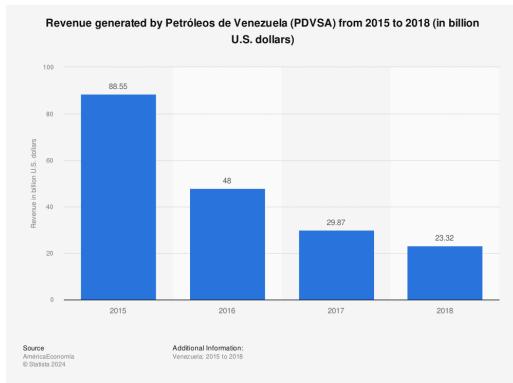
Figure 5:



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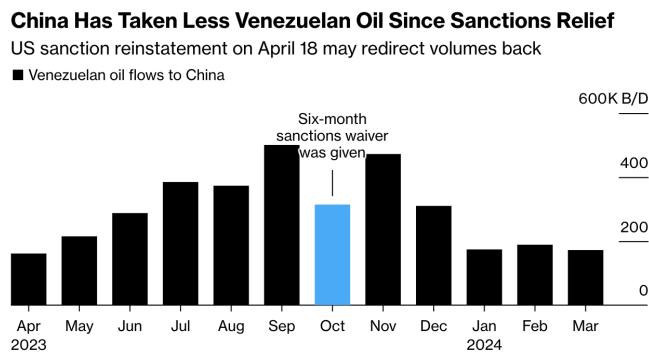
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Figure 6



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Figure 7:



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