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HOW MUCH OIL IS PRODUCED IN VENEZUELA?

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After the General Oil Strike that completely stopped oil production in late 2002 and early 2003, the accuracy of the oil production figures released by the Ministry of Energy and Petroleum has been highly questioned. This is because of the discrepancy that is clearly evident between the oil production figures released by the Government and those that are released by international agencies that monitor such things within the oil industry like the Energy Information Administration (EIA) and the Organization of Petroleum Exporting Countries (OPEC). This report will analyze these sources in order to offer some insight that may help better understand the issue.

**The point is still
being debated**

It was recently announced that a group of investigators from the OPEC was being sent to Venezuela to study the issue of the country's oil production statistics and to decide where the discrepancies are coming from. This mission is very important because it could help to improve the confidence in official oil industry figures and also begin to repair the disparity that exists between international agency and Venezuelan Government figures.

Weekly Report

It's worth remembering that in September 2007, after the 145th OPEC conference, the organization published a readjusted list of its members' quotas on its website. Venezuela's quota dropped from 3.22 million barrels daily to 2.47 million b/d which is equal to a drop of 753,000 barrels. However, the OPEC made this change without any previous announcement and because of several complaints from PDVSA, the production allocation remained unchanged. During the previous eleven months, OPEC figures reflected that Venezuela was producing around 800,000 b/d less, however, the Government never recognized those figures then and it still doesn't admit that there has been a drop in production.

A difference between the figures reported by the OPEC and PDVSA is not a new thing going back to 2006 when OPEC's yearly report put the country's production at 2.5 million b/d and at the close of 2007 it put production at 2.3 million b/d. PDVSA's figures on the other hand put production at 3.3 million b/d and 3.1 million b/d respectively.

To date, OPEC continues to back its figures

OPEC's latest quarterly report put Venezuelan oil production at 2.33 million b/d at the close of March, total global production for the organization at 29.6 million b/d. OPEC figures which point to Venezuelan production being at 2.3 million b/d are from secondary sources and reflect a drop in production equal to 800,000 b/d compared to PDVSA's official figures which put production at 3.1 million b/d. The U.S. Energy Information Administration (EIA) report for the close of March announced that Venezuelan crude oil exports to the U.S. dropped under a million barrels (927,000). Just 5 years ago, Venezuela was the leading exporter of crude oil to the U.S. market, now it is fluctuating between fourth and fifth largest exporter.

Opec Member Countries Crude oil production Allocations (M bl/d)

Algeria	810
Indonesia	1.396
IR Iran	3.861
Kuwait	2.105
SP Libyan AJ	1.398
Nigeria	2.164
Qatar	676
Saudi Arabia	8.561
United Arab Emirates	2.301
Venezuela	3.028

Source: OPEC and Ecoanalítica.

According to our calculations, crude oil and oil by-products exports to the U.S. are calculated at around 1.2 million b/d (including CITGO), an average of 250,000 b/d to meet PETROCARIBE solidarity agreements and agreements with other South American countries, and around 700,000 to 800,000 b/d to meet the domestic demand.

PDVSA's efforts have dropped

It's important to point out that Venezuelan production also includes significant quantities being produced by private companies. This situation is much different from the years before the General Oil Strike. For example, between 1997 and 1998, PDVSA's own production was around 3.0 million b/d. At the close of 2007, the situation is quite different. Production, according to PDVSA is still at around 3 million b/d, but private oil production makes up around 1.2 million b/d of this total, which means that PDVSA's own production now is only at 1.8 million b/d. This means that PDVSA's own production efforts have dropped by 66.7% between 1998 and 2007.

Is there any way to resolve this discrepancy?

One way to answer this question is by simply looking at oil exports reported by the Central Bank of Venezuela (BCV). However, these figures aren't considered very reliable by many analysts because most of the oil industry information reported by the BCV comes directly from PDVSA. Up until 2003, the BCV used to have its own office within PDVSA headquarters so that it could audit the oil company's figures. Now-a-days, this office is not operational and this limits the BCV's ability to audit the figures released by the company.

The last method left to calculate and get an idea of what Venezuelan oil production is at, is to compare the oil export figures released by the Government and compare them to the what the rest of the world says they are importing from Venezuela. This involves using outside sources independent of Venezuela. We carried out this exercise with Venezuela's 60 largest trade partners and the results are presented in the following table.

US\$ Millions	1997	1998	1999	2000	2001	2002*	2003*	2004	2005	2006	2007
Venezuelan Exports. Source BCV	18.330	12.178	16.735	27.874	21.745	21.532	22.029	32.871	48.143	58.438	62.555
Oil imports of the rest of the world from Venezuela	14.564	9.675	13.476	22.307	15.180	21.922	24.247	27.326	41.800	50.600	N/A
Oil price, Venezuelan Basket (US\$/b)	16,4	10,6	16,2	26,0	20,2	22,2	25,7	33,6	46,0	56,4	65,0
Venezuelan Oil Export, MM barrels per day. Source BCV	3,1	3,1	2,8	2,9	3,0	2,7	2,3	2,7	2,9	2,8	2,6
Venezuelan Oil Export, MM barrels per day. Source ROW	2,4	2,5	2,3	2,4	2,1	2,7	2,6	2,2	2,5	2,5	N/A
% difference between BCV-ROW	79%	79%	81%	80%	70%	102%	110%	83%	87%	87%	N/A

(*) Oil Stoppage

Source: Aladi, EIA, CEPAL, FMI, BCV and Ecoanalitica

Just with these numbers, we can't really draw any conclusions. First, this sample doesn't include all the countries in the world that import Venezuelan oil, and many of them don't release import figures. Second, before the General Oil Strike, these 60 largest trading partners represented at least 78% of oil exports reported by the BCV. After the General Oil Strike, the rest of the world represented 86% of Venezuelan exports. And lastly, we still don't have the 2007 figures, given that most countries take quite a while before they release their figures. So we still don't have enough evidence to accurately determine how much Venezuelan oil production dropped last year, which was at around 180,000 b/d.

Coverage has improved

In 2006, our group of 60 countries imported a total of US\$50.60 billion while the BCV figures report it was US\$58.40 billion. We believe that this difference between the figures is acceptable. In fact, what stands out the most is that these discrepancies between the BCV and outside sources have existed since 1997. Between 1997-2001, the level of discrepancies that existed were around 78%, which is to say that rest of the world crude oil imports represented around 78% of the total reflected by the BCV balance of payment figures. For the 2004-2006 period, this figure was at 86%. We've excluded the 2002-2003 period because of the effects caused by the General Oil Strike. If we stick strictly to the numbers, one could even say that coverage has gotten better in the last few years.

The problem goes beyond the figures

The question that we have been asking ourselves lately is: why does it seem like PDVSA is on the edge of going broke? Part of the answer to this question was recently revealed by an International Transparency report about the transparency of oil and gas company revenues. The report evaluated 42 oil companies (state-run as well as private) from 21

countries around the world. The report and the analysis carried out is based on information made public by the companies. Only 12 of the 42 companies listed took advantage of the opportunity they had to review the data which was being analyzed. The final sample, chosen in January 2007, was made based on the size and the relevancy of the companies.

The study measured four oil company transparency dimensions: operations, anti-corruption programs, payments, and regulatory and procedural issues. The report placed PDVSA in the bottom half of a list of 42 companies with regard to transparency.

The report points out an issue that we agree with, and even more so after seeing the figures we've introduced here, that Venezuela needs to radically change its disposition concerning allowing access to information about its resources gotten from extraction activities. It's important that PDVSA release its own figures so that they may be publicly scrutinized.

In general, the organization considers that Venezuela presents a restrictive environment, even compared to countries which facilitate the publication of data about their companies. This is due to the absence of any kind of regulation concerning this issue.

It's not only PDVSA's problem

The International Transparency report's general finding was that most of the companies evaluated don't release enough information concerning their payments to the Government of the countries where they operate. In fact, two-thirds of the companies included in the study placed in the middle to lower range with regard to transparency. This leads one to assume that transparency with regard to revenues is not a common practice within the industry.

The second best business in the world

In the midst of these incredibly high oil prices, PDVSA has been able to continue to increase its contributions to the State and not pay quite as much attention to its cost structure as it should be doing, and not be aggressively increasing production. This situation isn't going to put the company in jeopardy in the short term nor will it diminish the flow of resources that President Chávez will need in the upcoming months, but it will severely affect the future and the sustainability of the model. This brings to mind a story about Rockefeller, a 20th century oil tycoon. Somebody once asked him, what was the best business in the world? And old Rockefeller calmly answered that the oil business was the best. But the person not satisfied with the answer asked, what was the second

best business in the world? And Rockefeller said, a poorly run oil business.

In a scenario of high oil prices in the medium term, where some analysts are already saying the crude oil prices may reach US\$150 per barrel, PDVSA can still continue to allow itself to be an example of the second best business in the world. It's sad that because of the shortsightedness of some people we can't be on our way to becoming the best business in the world.

Economic Tips

They increased it. The Ministry of Finance announced the official results of the issue where US\$4.0 billion of a Combined offer of 2023 and 2028 International Sovereignty Bonds were placed. According to the Ministry's announcement, the increase was in response to the amount of demand observed. 32,398 purchase orders were placed equally a total of US\$9.29 billion. The bonds will be liquidated this coming Wednesday, May 7th and they aren't, nor will they be, registered in the United States, rather "the Republic will request that they be introduced in the EURO MTF market of the Luxemburg Stock Exchange."

More supplementary appropriations. So far this year, the Parliament has authorized VEF20.80 billion in supplementary appropriations which has during this quarter increased the National Budget by 15% placing it at VEF158.30 billion. Initially the Budget was set at VEF137.50 billion. This increase in the Budget is much like the increase which was reflected during the first four months of 2006.

Priority due to elections. Of the supplementary appropriations authorized during 2008, 43% have gone to governorships, mayorships, and communal councils, because the funds were part of additional revenues which were registered during the previous fiscal year. This spending policy has a lot to do with and correlates directly with the upcoming regional elections to be held this November.

Financing via surplus. In order to finance a large part of operations, the Administration has been dipping into the Miranda Fund and the Ministry of Finance and the National Treasury Office trust fund which are the mechanisms where the 2007 surplus was deposited.

Significant loss for the regions. A legal report being passed around between the candidates for governor and mayor warns of the restriction (illegal) against special contributions. Instead, the report considers that a transfer of US\$1.80 billion corresponds to the states and municipalities.

Limited growth. CADIVI figures and the BCV report turned into the National Assembly show that during the first quarter, foreign currency liquidated, which is to say, foreign currency that was actually released, increased to US\$10.44 billion, an amount which represents a slight increase of 6.1% compared to the same period in 2007.

The impact is in the measures. This figure contrasts with the 57% jump evidenced when comparing the first quarter of 2007 with the same period in 2006. The drop is explained in part by the adjustment made to the foreign currency internet purchase quota which went from US\$3,000 to US\$400 and the decision to restrict the use of prepaid credit cards. At the same time, CADIVI cutback on the foreign currency being assigned to the automotive and electric appliance sector.

Rise in salary. President Hugo Chavez announced an increase of 30% on the minimum wage the past May 1st, which will now be of VEF 799 for public and private employees. The president assured that with this raise, the salary is the highest of all Latin America. It is also important to notice that our inflation is also the highest of all Latin America.

Significant cost. According to the scenarios contemplated by the Ministry of Planning, and increase in costs for the Government due to the upcoming pay raise is at between VEF3.0 billion and 4.0 billion.

The weight of social security. Official sources explained that the brunt of the adjustment will be felt by the Venezuelan Institute for Social Security (IVSS) pensions because they are absorbed by the Ministry of Finance. According to the official figures, by the close of last year, 1,208,300 were receiving pensions from the institute. Last year's increase cost the State around VEF2.40 billion.

Will it finally happen? The Ministers of Economy of the *Banco del Sur* member countries defined the authorized capital for the new Bank setting it at US\$20.0 billion. Argentina, Brazil and Venezuela, the largest economies, will initially contribute US\$2.0 billion; Uruguay and Ecuador will contribute US\$400 million; while Paraguay and Bolivia will contribute US\$100 million.

20% of Fonden projects finished. In the three years it has been in existence, the Government has defined 182 projects to be financed by National Development Fund (Fonden) which has received deposits for approximately US\$35.0 billion. Of all these projects, only 37 (20%) of them have been completed. The more important of these are the fertilizer and propylene plants at Jose (Anzoátegui state) and the gas conversion project at the Central Plant, among others.

OIL TIPS

National basket price continues to go up. Surprisingly, even though the US-dollar has appreciated, oil prices continue to increase. In fact, the Venezuelan oil and oil by-products basket has gone up for the third straight week reaching a weekly average of US\$105.08 per barrel.

Analysts believe oil prices will continue to increase. Due to an expected increase in demand for energy from the emergent economies and given that production could diminish, some analysts believe that oil prices could reach US\$150 per barrel.

Crude oil sent to U.S. reduced. According to the U.S. Department of Energy monthly report, the average of hydrocarbons sent to the neighboring country was at 927,000 b/d. This drops Venezuela to being the fifth largest U.S. supplier of hydrocarbons.

Gasoline shortage in Táchira state. Due to a shortage of gasoline trucks currently working the area, gasoline distribution to all the municipalities in the state has been affected. Truck drivers allege that commercialization margins which have been frozen since 2004, do not allow for enough earning to allow them to keep their trucks well serviced.

BUSINESS SECTOR TIPS

Threatened to expropriate. President Hugo Chávez threatened to expropriate *Sidor del Orinoco* (steel company) if it could not come to a "fair" agreement regarding the price of the company. The State is offering US\$800 million. At **Ecoanalítica**, we consider the amount offered to be way beneath the value of the company which is closer to US\$2.34 billion.

Salary agreement. SUTISS, the Sidor transition commission came to an agreement regarding some of the economic proposals concerning the collective bargaining agreement which will be in effect until 2010. Union representatives accepted an increase of VEF53 per workday, 120 days in bonuses at the end of the year, a 10% raise of the base salary due to performance evaluations, up to 77% of the normal salary in overtime and 45% of the normal salary in night time bonus pay. They still have to define the amounts owed in retroactive pay.

ELECAR ratings go up. Fitch Ratings improved the *La Electricidad de Caracas* domestic and international currency credit rating to BB- from B+. Fitch says this improvement is due to PDVSA as well as the Government's implicit support of the company regarding investment needs, access to foreign currency, and help with its spending program.

General Motors plant stops operations. The General Motors assembly plant stopped operations indefinitely after certain events have put the security of their workers at risk, said the manager in charge of Government Relations and Communications.

Chocolate in his sights. President Chávez ordered a cacao plantation to be investigated in Aragua state, due to the fact that it was exploiting and exporting Venezuelan raw materials to the English company Venezuelan Black.

Expropriated. The aluminum production company *Ruedas de Aluminio C.A.* (Rualca), which has not been operational since July 2007, was expropriated upon being declared by the National Assembly in the *Gaceta Oficial* as being of public and social interest for the *Centro de Producción de Rines de Aluminio* (Rialca) (a tire rim production center).

Support dropped. During 2007, the Ribas Mission Foundation didn't fulfill its goals due to a lack of financing caused by a drop of 58% (VEF362.5 million) in direct transfers from PDVSA. During the first quarter of 2008 there are no indications that this situation will change any.

Government increases price of corn and sorghum. Three years since its last price adjustment, President Hugo Chávez authorized a 30% increase in the import of corn and sorghum at the producer level so that the new corn price is now at VEF0.728 per kilo while sorghum is at VEF0.547 per kilo.

Other prices. According to the resolution published by the Government in the *Gaceta Oficial*, the Government fixed new prices for the kilo of chicken (whole and chopped) at VEF8.39 and he took eggs off the price controlled list. The resolution also states that if the price of eggs begins to behave irregularly, that the Administration reserves the right to place them on the price control list again. **Not enough.** According to the National Statistics Institute, the minimum wage of VEF614.79, earned by 18% of the Venezuelan population, only covers 45% of the basic basket at the close of February which was VEF1,364.92. Minimum wage has been showing a sustained downward tendency to not be able to cover basic spending for the last few years.

Possible control. For the Minister of Food, Félix Osorio, it makes sense that the communal councils help control the sale of goods. "When the time comes we will evaluate the control mechanism for the electrical appliances. The communal councils could help in determining who need these goods most."

Socialist fund. During a network broadcast, the creation of the Socialist Agrarian Fund (Fondas) was introduced. It will substitute FONDAFA and it will be in charge of initiating new support mechanisms and granting loans to the agriculture sector. Fondas' goal will be to grant VEF1.30 billion to 1,600 producers and 82 communal projects.

Food reserves are down to low levels. The director of the World Food Program, Josette Sheeran, warned that world food reserves are at their lowest levels of the last 30 years due to the ever increasing food prices on the world market. The increase in global food prices has caused the United States to suffer its worst inflation for food items in the last 20 years and it has led some of the big food chains to restrict the sale of products like rice.

Production has to increase. Central American and Caribbean countries and Venezuela got together last week to explore alternatives to increase food production, in the middle of what the U.N. is calling a "global crisis" due to high food prices.

Rejecting intervention. The president of the Central American Agriculture and Livestock Council (CAC), rejected the State's intervention in trade as a measure to face increasing world food prices proposed by the Nicaragua President since it doesn't generate incentives among producers.

Basic raw materials increase. The report introduced by CAVIDEA before the National Assembly points out that, raw materials in the basic food sector have

increased by an average of 19.8% between February and March this year. Such is the case with raw corn oil which increase by 27.9% and the price of wheat has gone up by 18.2%. The price of items such as rice and coffee is much lower in Venezuela compared to other countries in the region like Argentina and Colombia.

Coca-Cola sales will drop by 20%. Due to the barricading of Coca-Cola installations, industry sources calculate that Coca-Cola Femsa sales will drop by 20% in April. The conflict has already generated losses for VEF29 million.

New fund. ALBA member countries announced the creation of a commercialization network and signed a food security agreement with initial capital of US\$100 million. This amount will be put into a fund through the ALBA bank.

One that is investing. AJE soft drink producer increased production capacity by 40% in its Big Cola plant located in Valencia with an initial investment of VEF95 million. This translates into the inauguration of four product lines on top of the eight that already exist and generates 140 new jobs.

60% of DIANCA stock transferred to PDVSA. By order of the President of the Republic, published in the *Gaceta Oficial*, 613,967 common stock were transferred which corresponds to 60% of the total of Dianca stocks to Petróleos de Venezuela.

Another one just like it coming. PDVSA is considering building two national shipyards in order to build the tankers that the oil industry needs to expand its action radius. Taking control of Dianca allows it to accelerate domestic ship building while it is waiting to receive the new ones ordered from China, Brazil and Argentina.

Considerable production. As part of the strategy to place as much liquid milk on the domestic market as possible, the national Company *Lácteos Los Andes* produced 90,000 liters (23,782 gallons) a day of liquid milk during the month of April. Enlandes satisfies around 40% of the domestic demand with 25 different products.

Increasing. Aiming to increase the production of corn and other food items, the *Banco Agrícola de Venezuela* (BAV) granted more than VEF3.4 million in agriculture and transportation loans in Barinas state.

Energy mission. In the third stage of the light bulb replacement project which the Energy Mission is carrying out, 19,559 light bulbs were replaced in Miranda, Vargas and Zulia state, during the first week. Energy saved from the first two stages of the

project reached 800 megawatts. The first stage began in November 2006 and the second stage in June 2007.

CNG foresees increase. The monthly report of the National Management Center (CNG) revealed that during the first quarter of the year, electric power consumption increased by 2.1% compared to the same period last year. In March, power consumption went up by 6% compared to the previous month. According to technical estimates, electric power consumption could increase by 4.8% by the end of the year.

Power outage due to system failure. The Minister of Interior and Justice, Ramón Rodríguez Chacín, announced that the widespread power outage which started at 3:59 pm last Tuesday afternoon originated at the Guri hydroelectric power station. An 800 kilowatt high tension power line overheated which caused the system to shut down. The states affected were: Carabobo, Zulia, Miranda, Capital District, Vargas, Nueva Esparta, Sucre, Aragua, Yaracuy, Lara, Mérida, Portuguesa and Apure.

Few houses. The Minister of Housing and Habitat, Edith Gómez, announced that 132,932 housing units were currently under construction and that during the first quarter of the year 8,000 units were finished. Last year, according to the Ministries records, more than 100,000 housing units were under construction and by the end of the fiscal year 48,000 houses were built.

Political Tips

Change of Minister. President Hugo Chávez announced at the 577 Minister's Council the appointment of Héctor Navarro as the new Minister of Education replacing Adán Chávez, who will now become the vice-president of the United Socialist Party of Venezuela (PSUV) in Barinas. Navarro has already been Minister of Education before and Minister of Higher Education during Chávez's Administration. He was also at the Ministry of Science and Technology.

A TSJ decision. The Administrative Political Chamber decided that the cautionary measure introduced by a pre-candidate for the governor's office of the state of Táchira against the resolution introduced by the Comptroller's Office which restricted him from serving in public office for two years was irrelevant.

New vice-president of the National Assembly. The majority of the overwhelmingly chavista controlled National Assembly named representative Saúl Ortega as First Vice-President of the National Assembly filling the vacancy left by Roberto Hernández after he was named Minister of Labor.

Suspended “for now”. The National Assembly agreed to suspend for an indefinite period the discussion concerning the reform project of the Decentralization, Delimitation and Transfer of Competency of Public Powers Organic Law. These reforms if approved, would have reverted the transfer of competency of goods and service. According to parliament sources, one of the rezones the reform was shelved is that its article 2 went against the constitutional principles of the Municipal Public Power’s Organic Law.

PODEMOS backs opposition candidates. Ismael García, secretary general of PODEMOS pointed out that they would back some opposition candidates like Carlos Ocariz and Leopoldo López. He also criticized Chávez for having hand picked his party’s candidates.

Investing for November elections. The CNE announced that they would be investing VEF40 million in the purchase of 7,500 more voting machines for the upcoming regional elections in November. It’s not ruled out that they may purchase some other fingerprinting machines also.

Chávez popularity down. President Hugo Chávez popularity numbers were at 51.8% during Datanálisis’ last survey, down 20 points from the surveys taken over the last few years says Datanálisis. The people’s view of the country which was positive from 2004 to 2007 reflective positive numbers for the President of up to 75%, began to slide months before the constitutional reform vote. Experts say that Chávez’s popularity rate was at 52% when he lost the constitutional reform referendum vote.

Other Tips

US\$1.3 trillion in energy. According to the Economic Commission for Latin America and the Caribbean, the region must invest around US\$1.3 trillion in energy during the next 20 years in order to maintain economic and social development and satisfy future demand. This situation is especially serious for countries that do not

have strategic oil and gas reserves like Chile, Uruguay, Paraguay, Nicaragua, El Salvador, Honduras or Costa Rica.

CEPAL changes its perspectives. The Economic Commission for Latin America and the Caribbean adjusted by one point, from 5.7% to 4.7%, its forecast of for economic growth for the region in 2008, due mainly to foreign events, especially the economic crisis in the United States. Venezuelan GDP growth forecast was adjusted from 8.4 to 6.0%; Argentina, the drop was from 8.7 to 7.0%; and Brazil from 5.4 to 4.8%. Ecuador was the only country in the region that had a positive adjustment going from 2.7 to 3.0%.

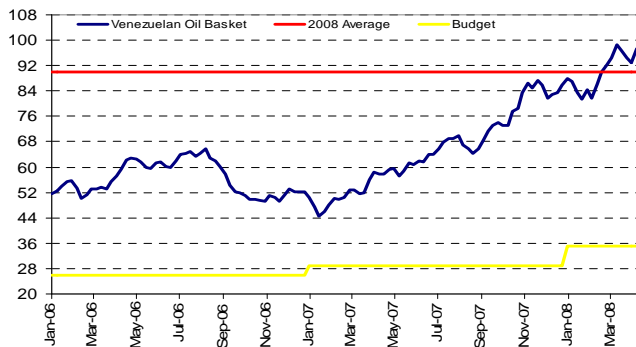
A lead to follow. Direct foreign investment in Brazil for the first quarter of 2008 was at US\$8.80 billion, up 34% compared to the same period last year (US\$ 6.57 billion) and the largest in the country's history for the quarter, announced the Brazilian Central Bank. If direct foreign investment continues at this pace, by the end of the year it will top last years performance and set a new record, despite the fact that the Central Bank has forecasted a drop in investment for 2008, closing at around US\$32.0 billion.

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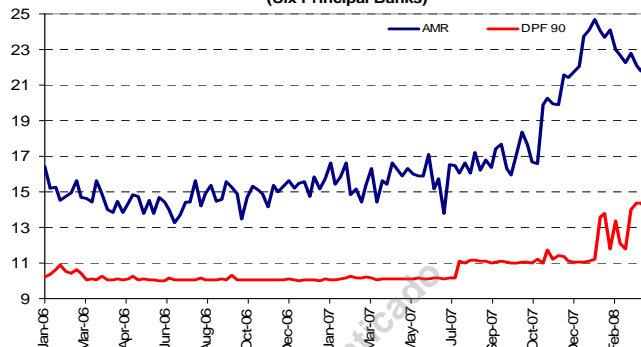
Weekly Report

ECONOMIC OVERVIEW

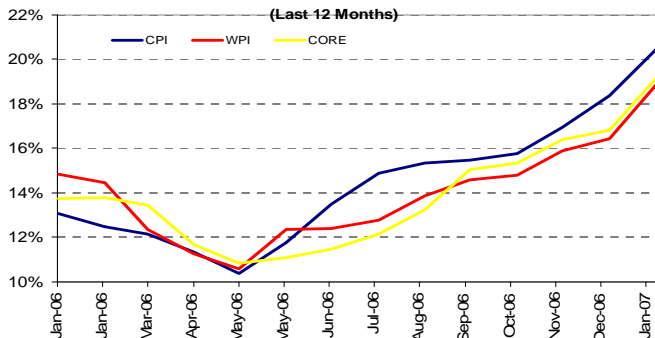
Oil Price
(Venezuelan Basket US\$/pb)



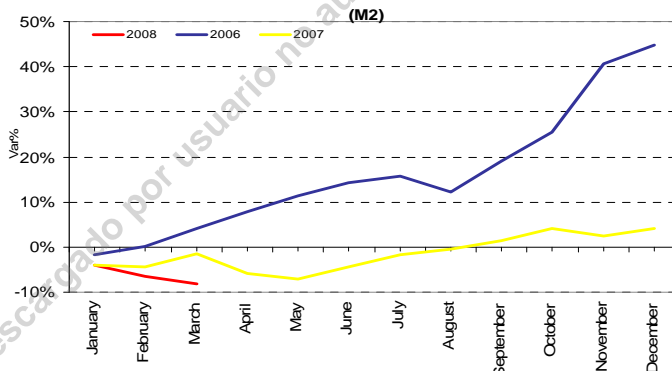
Interest Rate
(Six Principal Banks)



Inflation
(Last 12 Months)



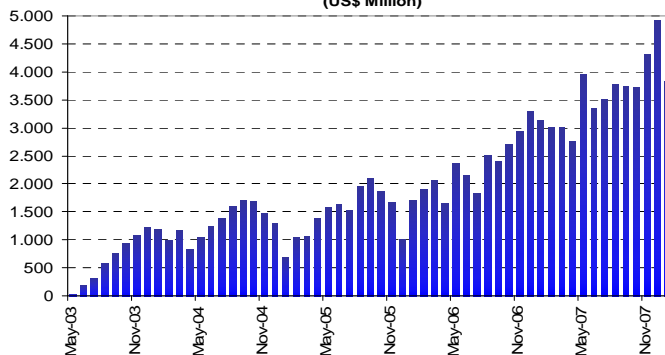
Real Expansion
(M2)



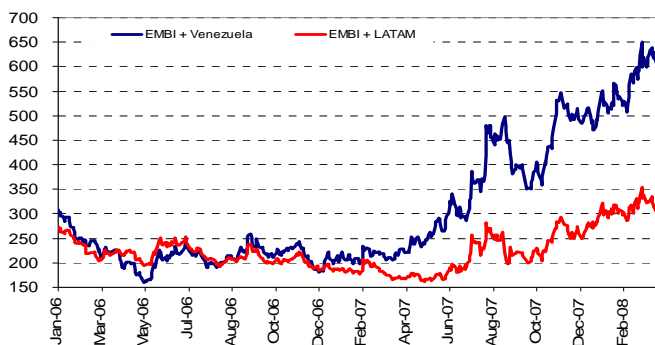
Fx Reserves - BCV
(US\$ Million)



Disbursement
(US\$ Million)



EMBI



Central Government
(VEB Billion)

