

# Venezuela's Oil Industry Between Sanctions and Strategic Blunders: A Conversation with Carlos Mendoza Potella

An oil expert talks about the reasons behind Venezuela's severe drop in oil production and the future of the economy.

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*Carlos Mendoza Potella is an economics professor at Venezuela's Central University and advisor to Venezuela's Central Bank. He recently spoke to Venezuelanalysis about the origins of the crisis in the country's oil industry and what that means for its future.*

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You have been working on the idea of long-standing “promotion of ignorance” in Venezuelan society in relation to the oil industry. This was done to favor private interests in the disposition of a resource that is state property. Chavez tried to turn this around by educating people. However, the Venezuelan population still has few tools to understand the oil industry and the policies that pertain to it. Can you explain your idea and its implications?

Hiding reality from a country's citizens is a general problem in any state. Governments point to issues of national security or reasons of state to justify opacity and privilege particular interests. Occasionally there may be legitimate reasons for doing so, but in the case of the oil industry, more often than not, there is an illegitimate “promotion of ignorance” to cover up projects that are not viable, projects that are not favorable to the society as a whole although they may be very juicy for those who promote them.

The “promotion of ignorance” [also occurs in] an educational system with its back turned to the Venezuelan economy, which has been almost fully dependent on the oil industry until recently. This makes people unable to react when projects, though justified with technical or esoteric arguments, go against the interests of the society.

Now, this is nothing new, and we can find its roots in longstanding geopolitical relations of force. I have long argued that the development of the Orinoco Oil Belt [FPO], with its extra-heavy crude oil, didn't coincide with the interests of the nation and, particularly, those of the Venezuelan people.

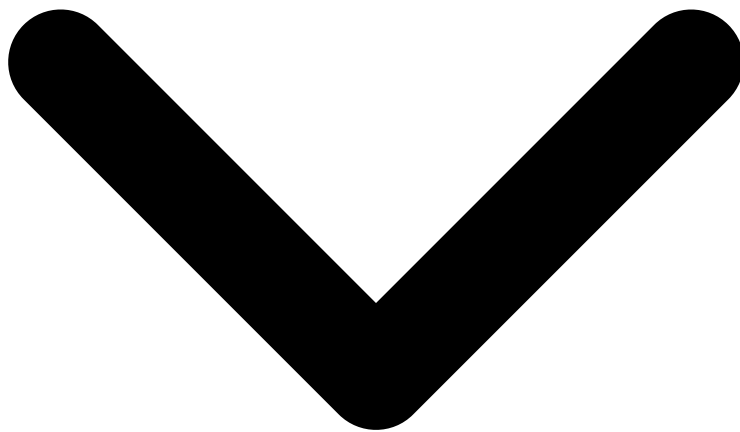
Developing the FPO, with truly pharaonic investments over time, dates back to 1972. The Middle East wars and conflicts in the Cold War were causes of concern to the Western powers, since they relied heavily on Middle East countries for oil supply. With this in mind, the US Congress and the energy agencies developed an energy security plan based on expanding production in both Canada and Venezuela's FPO.

James Akins, US Energy Secretary under Richard Nixon, came to Venezuela and convinced President Rafael Caldera [1969-1974] to develop the FPO. Between 1983 and 2000, some hundred billion USD were invested!

Did that policy shift after President Chavez came to power?

Around 2000 Chavez got OPEC to work more on defending oil prices. However, that policy was weakened around 2005, with the reactivation of the FPO. With this initiative, a contradictory discourse got going: on the one hand support for OPEC and its practices to defend oil prices, on the other FPO planning and investments that would increase production to 5 to 6 million barrels per day (bpd) or more.

There were huge investments in extra-heavy oil processing infrastructure, which led in turn to the abandonment of our conventional oil refineries and fields. This is an important cause of the catastrophic drop in production that we are facing today, which has also been negatively impacted by the US sanctions.



Left: Average BPD produced between 1917 and 2019 (OPEP and PDVSA data) / Right: Average BPD

produced month by month between January and June 2020 (PDVSA and AFP data)

Oil production in June was 393,000 bpd, the lowest in Venezuelan history since February 1943. There are a multiplicity of factors, from the overemphasis on the FPO (only profitable during an oil boom) to the criminal blockade, from management problems to loss of qualified personnel. Could you help understand this complex situation?

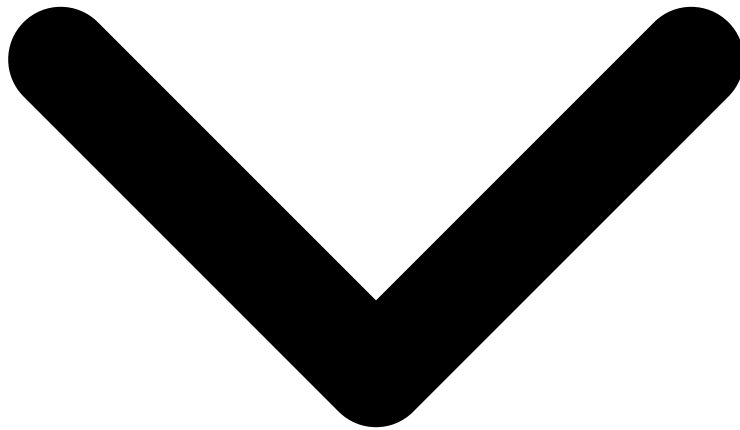
As you point out, there are a multiplicity of internal and external factors. In the '80s, the strategic objectives that oriented the Venezuelan oil industry went against our national interest. That was followed by the "Apertura Petrolera" [literally "Oil Opening," a 1992-1999 policy that opened the door to creeping privatization of the oil industry], leading to an important loss in sovereignty. In the early 2000s, there was a recovery of oil sovereignty, but this project lost ground when the Orinoco Belt became central again.

A lack of humility and a poor understanding of the global situation led to this decision, but of course, the Orinoco Belt path also involved huge economic transactions, procurements, and investments with juicy deals on the side. In fact, around that time, large sums of money were allocated not only for extra-heavy oil exploitation and processing infrastructure, but also for purchasing international assets. Of course, when oil prices plummeted [2014], we were in trouble.

The situation deteriorated further with the US sanctions [[financial](#) since August 2017 and [oil embargo](#) since January 2019], although the US' aggressive policy against the Chavista administration actually began in 2000. With the Trump presidency, however, things reached another level. On his first day in office, Donald Trump characterized Venezuela, Russia, and Iran as "failed states," stating that the US would fight against those nations. In the Venezuelan case, which the White House considers its back patio, the sanctions have accelerated the crisis that was brewing.

We failed to maintain our refineries engineered for lighter crude oil for years because we were dreaming of infrastructure to process the extra-heavy FPO oil. With conventional crude oil production stalled due to poor maintenance and with access to additives and other inputs needed to improve extra-heavy oil blocked, production is close to coming to a halt. In other words, we are not able to consume Venezuelan gasoline not only because the refineries are not working, but also because we cannot purchase the additives needed to create regular gasoline for commercial use.

These enormous investments, based on dreams, yielded practically nothing except juicy deals for some. Now there are some PDVSA managers [behind bars](#), paying for the sins of others. However, the responsibility is really with the upper echelons, where the decisions for the strategic orientation of Venezuela's oil industry were taken.



Left: Three images of the Orinoco Oil Belt (PDVSA) / Right: Orinoco Oil Belt map, blue section  
(Wikipedia)

I suppose that the personnel situation – the industry is understaffed due to workforce drain and workers are underpaid – must also impact the industry.

The conditions of PDVSA workers are dismal and, of course, that has affected production. Their salaries are a minuscule fraction of those in the industry elsewhere, and that has led many qualified workers to leave the country. Those who have stayed in Venezuela are heroes, but they are grossly underpaid and without support. Their plight is part of the overall deterioration of the industry.

Are there any options to come out of the crisis for Venezuela's oil industry?

There are many circumstances that have taken us where we are, but there is only one thing that can keep the industry from coming to a total halt: end the blockade. We need the embargo to be lifted, and this has to happen soon!

Additionally, we have to reorient our strategic goals. First, we have to come to terms with the fact that we have to start from practically zero. That being so, we have to evaluate our real potential in the global context, which means placing the focus on conventional oil production and refining. There are conventional fields and infrastructure that have not been maintained. Recovering those should be our first objective.

We have to come to terms with the fact that investment in non-conventional fields no longer makes sense. We can project some twenty years until there is an energy consumption pattern shift, and we have to understand that the global crisis is leading oil exploration projects around the world to close down. We cannot be dreaming about producing five or six million barrels per day.

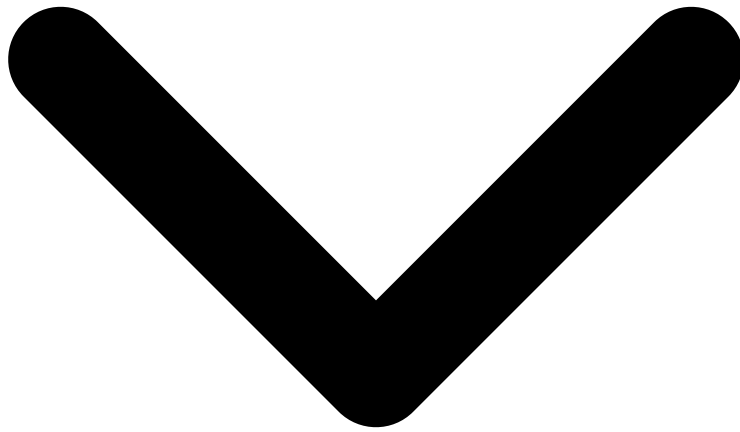
We do have, however, the potential to produce oil in modest quantities to supply our internal needs and generate moderate exports. That would allow us to put hard currency into the nation's budget, thus helping our economy, which is in dire straits.

For some time, the government has promoted "strategic alliances" that are controversial because they stand on questionable legal ground. More recently, there have even been closed-door discussions about changing the country's legal framework based on an alleged need to "reactivate and modernize" the oil industry. While admitting that some modifications and concessions may be necessary, you argue that the changes being considered – which resemble the 1990s "Apertura Petrolera" – threaten Venezuela's sovereignty. Can you tell us about what is at stake?

The threats to national sovereignty are immediate. There are projects for legal and constitutional changes that are absolutely damaging to the national interest. And when I talk about the nation, I'm talking about the "eternal nation," about the future generations.

We should understand that oil is not a panacea: the rent machine can't fuel the rest of the economy. But we shouldn't go to the other extreme and disregard valuable resources which can serve many generations because of their strategic magnitude. This generation doesn't have the right to squander resources or sovereignty.

We can make temporary agreements for oil exploitation and processing. We could do it to guarantee internal consumption and to ensure a moderate level of exports. We have to administer what there is, both resources and sovereignty. We don't have the right to use up what there is. That is precisely why the constitutional declares our resources to be a "national good," and here I stress the idea of national good. A national good doesn't belong to the Venezuelans that are alive today to say nothing of individual citizens. A national good belongs to the eternal nation and citizens cannot simply divvy up the patrimony among those who are alive today to the detriment of future generations.



For two weeks oil has been spilling from El Palito refinery onto the coasts of Carabobo and Falcon states, including Morrocoy National Park. (El Carabobeño)

In recent months there have been some accidents in PDVSA, such as the oil spill in El Palito refinery. There have also been complaints about high-risk situations, because of failure to maintain infrastructure. For example, a group of PDVSA Oriente workers warned that a tanker ship storing more than 1.2 million barrels in the Gulf of Paria is leaking and tilting.

The overall decay of the infrastructure could have catastrophic consequences. As you explained previously, there are multiple factors that lead to the deterioration of the infrastructure. However, this grave situation needs to be discussed.

There is no way to exaggerate the gravity of the situation. It is due, as I said before, to an erroneous geostrategic project. Nonetheless, this generation has an urgent task: it has to turn the situation around, and it must do so with its feet on the ground.

In any fortress under siege, the first obligation is to survive. With this in mind, we have to try to resolve the political circumstances that maintain us isolated and under siege, and

unlock as many doors as possible. This means exercising political intelligence to ensure that the other side won't finish us off. We also have to develop a realistic recovery plan that must be modest but sovereign.

To do things with modesty, first we have to understand where we are. We have to understand our resources in a global context tending towards a "green" pattern of consumption. Finally, we have to understand that we will have to negotiate with international capital, but this must be done maintaining our integrity and sovereignty.

Additionally, we must understand that the oil rent as the key element of our economy is history. In fact, the oil rent factor began to disappear a few years ago because growing production costs and the dwindling prices meant that the profit margin could no longer be considered a rent [i.e. a profit that is captured on the market and not generated through production], and it could no longer buoy the rest of the economy.

That, from my point of view, is the way out of the current crisis. However, we also have to begin to build an alternative now. We have to begin to build the long-haired post-petroleum Venezuela. We must develop the economy on the base of our resources, our productive forces, our capacities, our will.

Agriculture, livestock farming, and fishing – those are areas with enormous potential, but we also have steel mills and the capacity to process iron. In fact, an agronomy professor told me that according to the data, Venezuela has the capacity to feed four countries its size.

First, of course, we have to feed our people, and we cannot count on the oil rent to do this. To do so, we will have to begin from the trenches. We have to climb out of the ditch and reach the ground, and from there we will have to learn to stand again. And yes, as we do this we will have to negotiate, but we have to do so under conditions of sovereignty.

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