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Venezuela Energética poses a necessary and urgent debate. López and Baquero provoke a conversation that Venezuelans need to have now, because the country must take advantage of the last opportunities of prosperity that oil could provide in the coming years.

– Moisés Naím

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VENEZUELA
ENERGÉTICA:

HOW ENERGY REFORMS CAN TRANSFORM VENEZUELA'S FUTURE

based on the new book
by Leopoldo López and Gustavo Baquero

Venezuelans have an uneasy relationship with oil.

It is our most abundant resource, and we have the largest reserves on the planet. Yet, the mismanagement of oil has also fostered political corruption, generated unstable boom-bust economic cycles, and created a rent-seeking mentality that distorts the relationship between the people and the state.

We believe it's time to reverse this paradigm. Oil can be transformed into a blessing, not a curse – if it is managed honestly, productively, and transparently.

Any agenda to reverse Venezuela's economic devastation must begin with the energy sector. It can provide a powerful springboard to recovery – and also pave the way to a Venezuela that is

economically diverse, socially stable, and allows citizens to take personal ownership of their future.

Energy reform can also be the pivot point for a new economic and social contract between the people of Venezuela and their government. The right reform plan will not only reverse our economic decline, it can help rebuild trust, spread economic and social benefits, and create the foundation for broader development. It can be a source of unity, not division, among our people. And it can also restore confidence within the international community that Venezuela is once again a trusted partner for investment.

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**We need to turn oil into our servant,
rather than our master.**

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To secure this future, we need a dramatically new way of thinking about Venezuela’s energy resources and a paradigm shift in how they are managed. Unfortunately, little has changed in our country’s approach to energy in the past 50 years or more.

In the 1970s, the theory that the world was running out of oil was used as an excuse to nationalize the energy sector before our resources were “stolen” by international corporations. Yet instead of suffering from hydrocarbon scarcity, we now live in a world of abundance. Fears of “peak oil” have been replaced by the threat of “peak demand.” The danger is not that Venezuela’s resources will run out; it’s that our energy wealth will stay in the ground, untapped and unrealized.

We need an energy strategy for Venezuela’s next 50 years, rather than continuing to suffer from the mistakes of the past 50 years. By implementing a new framework for the development and use of our energy resources, we can break the cycle of dependence, mismanagement, and corruption, while fostering a new relationship of accountability between the people and their government.

The plan we propose, **Venezuela Energética**, is intended to invite a broad national debate over our nation’s future and the energy sector’s role in it. **Venezuela Energética** has four primary components that offer a path towards a new national agreement among Venezuelans on the future energy policy:

1. **Maximize** oil and gas production;
2. **Democratize** the proceeds;
3. **Diversify** Venezuela’s economy;
4. **Transition** to clean energy.

VENEZUELA ENERGÉTICA: An energy roadmap for a better Venezuela



1

Maximize Oil and Gas Production

With 300 billion barrels of proven oil reserves, Venezuela has more oil resources than Saudi Arabia – or more than Kuwait, Russia, Qatar, Mexico, and the United States **combined**.¹ Venezuela also has around 200 trillion cubic feet of gas reserves – the largest in Latin America and the 8th largest in the world.²

Yet Petróleos de Venezuela (PDVSA), the state-owned oil company, currently produces less than 2 million barrels per day – far below its potential and nearly 50% below a high of 3.7 million barrels per day in 1970.³ Despite holding 20% of the world’s oil reserves, we account for only 2% of oil production.⁴

While Venezuela’s oil and gas potential is vast, the window of opportunity for maximizing its value is closing. Previous concerns about “peak oil” and the depletion of reserves have given way to a world awash in oil, led by the fracking revolution and other technological breakthroughs that have unlocked vast supplies. At the same time,

the shift toward renewable energy sources could well reduce demand for oil, as electric cars and hybrids win greater market share.

Our goal is to maximize oil production to reach 5 million barrels per day by the mid-2030s. By this time, most projections estimate that an additional 30–40 million barrels per day will be needed to compensate for production declines in current projects plus any increases in demand. This provides a timely window of opportunity for Venezuela to significantly increase its oil production and once again become a relevant player in the international oil market.

The current regime’s plans to improve oil production have followed the same path as its other economic strategies: a tortured degeneration into cronyism, corruption, inefficiency, and failure that robs the Venezuelan people of their rightful claim on our nation’s wealth.

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Our suggestion is to aggressively expand oil and gas production and monetize these resources as quickly as possible to benefit the people of Venezuela. This reform plan includes the following elements:

Professionalize PDVSA. In recent decades, PDVSA has been turned into what one respected oil analyst called “the cash box of the state,” enabling the regime to tighten its financial control over the people.⁵ PDVSA should be managed professionally as a sacred trust, not politically as a slush fund for rewarding friends of the regime, while punishing enemies. Our reform proposes new operational, legal, regulatory, and institutional changes that will end financial corruption, depoliticize PDVSA, and turn it into a catalyst for economic development.

Reform Hydrocarbon Laws. Venezuela’s current hydrocarbon laws rest on a highly questionable and likely unconstitutional foundation. Implemented by decree of the Chavez regime, the laws were never debated or approved by the National Assembly. They were never approved by the Venezuelan people or their elected representatives; in fact, they triggered the first wave of protests against the regime. Our plan proposes new hydrocarbon laws that are modern, flexible, and can earn broad public support. They will be designed to provide both appropriate earnings for the Venezuelan people and competitive returns



PDVSA must be managed professionally as a sacred trust, not a slush fund for the regime.



for investors. Successful recent reforms in Mexico, Argentina, Brazil, and Colombia offer good examples for Venezuela’s new hydrocarbon laws.

Create Effective Regulatory Oversight. Effective regulatory oversight is critical to ensuring that Venezuela’s hydrocarbon resources are being managed fairly, transparently, and professionally. A new Agencia Venezolana de Hidrocarburos (or AVH), like similar agencies in Mexico (the CNH), Colombia (the ANH), and Brazil (the ANP) would also help restore trust, both among Venezuelans and within the international community, that our energy sector is no longer a political vehicle, but an efficient, professional business.

Within the first year, these reforms can address Venezuela’s declining oil output. Once this trend is reversed, we believe 4–5% yearly increases in oil output are possible. After all, we have achieved these growth rates before, following the Venezuelan hydrocarbon law in the 1940’s and the opening (“Apertura”) in the 1990’s.

2

Democratize The Proceeds

Any effective energy plan must democratize the revenues from Venezuela's natural resources and reverse the debilitating relationship of dependency that now exists between the Venezuelan people and the state.

Today, the state controls virtually all of Venezuela's oil income. Because of this monopoly, economic activity is tightly controlled and any economic success depends on the good graces of the state. Under this system, citizens become mere clients of the regime. The result is a never-ending struggle over the distribution of the state's income, which promotes cronyism over entrepreneurship, political patronage over productive activity, and rent-seeking manipulation over private wealth creation.

Our top priority will be to reverse this dependency relationship by giving the people a direct stake in the proceeds of Venezuelan oil. This will take place through a new sovereign wealth fund, the **Fondo Patrimonial de los Venezolanos**.⁶ While the details of this fund will be open to debate, the essential elements include:

Direct Funding from Oil Sales. The citizen accounts will be funded from three sources: all royalties from Venezuelan oil sales (currently 33% of the price per barrel); a third of the income tax levied on all production; and all shareholder dividends.

Direct Ownership by the People. At the age of 18, each Venezuelan citizen will receive a personal account in the fund – a direct ownership stake that will grow based on oil and gas sales. These assets will be owned directly by the people, not the state.

Funding for Essential Needs. The assets in each individual's fund can be withdrawn to purchase medical insurance, finance a home, or pay for education. Upon reaching retirement age, citizens will receive a pension based on the assets in the fund.

Full Transparency. Citizens will receive a monthly statement detailing their total assets, additional accumulations, oil sales, and the return on investment. A website will also track activity on a daily basis for each fund owner.



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We can break the cycle of dependence, mismanagement, and corruption, while fostering a new relationship of accountability between the people and their government.
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Independent Control. The fund’s assets will be invested by an independent board, with no interference from the government.

A Government Accountable to Taxpayers.

Rather than financing itself by skimming oil revenue, the Venezuelan government will be funded directly by the people through a tax on 50% of the income deposited in the new citizen accounts. In this new framework, Venezuelans will fund the state with money that belongs to them – creating a new kind of accountability to the people.

While the **Fondo Patrimonial de los Venezolanos** will be designed for the people of Venezuela, it will build on the success of existing models. In Norway, the Government Pension Fund Global (or Oil Fund) was established in 1990 to invest revenues from the country’s petroleum sector. Its mission is: *“to safeguard and build financial wealth for the future generations of Norway.”*⁷ Today, the Oil Fund is valued at over \$1 trillion, making it the world’s largest sovereign wealth fund.⁸

If the **Fondo Patrimonial de los Venezolanos** had been in place between 1998 and 2016, every Venezuelan would now own a personal account worth around \$12,000. Under a well-administered PDVSA that meets its development plans, we estimate this amount could have reached approximately \$26,000 per Venezuelan – many times the average annual income.⁹

“**The future of Venezuela’s oil resources will be decided by the people in a national referendum.**

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Reverse this dependency relationship by giving the people a direct stake in the proceeds of Venezuelan oil, through a new sovereign wealth fund.

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This innovative structure will create a new covenant between the Venezuelan people and our government – to say nothing of our relationship with oil. Our goal is nothing less than to fundamentally reform the relationship between the people and the government by giving our citizens direct ownership in the country and its resources.

In today’s **petro-funded state**, the people have no access to the country’s wealth, no say in its distribution, and no sense that the government is accountable to the people. Under our plan, Venezuela will become a **people-funded state**. The government will become the client of the people, rather than the other way around. Venezuelans will not only share in the nation’s prosperity, they will control it.

In order to truly empower the people, and inculcate a sense of ownership in the use and benefits of our resources, we must make this decision their own. Unlike all previous efforts to manage Venezuela’s oil resources, our plan will not be imposed by the government from the top-down. Instead, the future of Venezuela’s oil resources will be decided by the people in a national referendum.

Like the **Fondo Patrimonial de los Venezolanos**, this referendum will help restore trust between the people and their government. Such a vote will send an important signal to the international community – including those we need as partners and investors in our recovery: The people are invested as well.

3

Diversify Venezuela's Economy

Under Venezuela's current petro-state, rent-seeking – seizing a slice of the government's oil revenues – becomes the #1 economic activity. As mentioned earlier, this inverts the proper relationship between the people and the state by making citizens subservient to government, rather than the other way around. But it also saps economic dynamism, inhibits economic diversification, and ties the nation's prosperity entirely to the volatility of oil prices.

Venezuela desperately needs to extract itself from the "oil trap" by leveraging the new energy sector to diversify our economy. We need to turn oil into our servant, rather than our master.

We envision hundreds of small businesses benefitting from this plan. Existing companies will be revived, new businesses will form, and new wealth will be generated through greater economic diversification.

Once again, we have successful models to study and emulate. In Norway, for example, new industries and a strong service sector have been built around the development of natural resources that also offer opportunities to diversify the economy.

This has generated a vigorous source of job creation, including engineers, technicians, mechanics, and a host of other skilled professionals who can transfer their expertise and technology to a broad range of economic activities. In this way, the energy sector serves as a springboard to broad economic diversification.

Today, Norway's shipyards, shipping companies, engineering firms, drilling companies, services and technology companies, and dozens of others – all initially nurtured by the petroleum sector – form the foundation for economic expansion across a range of industries, including fish-farming, bio-refining, logging, and mining. Expertise related to the oil and gas industry – not just the oil and gas itself – is now a major Norwegian export.¹⁰

A thriving oil sector does not have to be a trap or a curse for Venezuela's economy. With the right strategy, the energy sector can be leveraged to develop new industries and other sectors – such as infrastructure, tourism, and financial services – creating a broader, more diversified, and more sustainable Venezuelan economy.

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4 Transition to Clean Energy

Even as Venezuela takes action to maximize oil and gas production, we must also accelerate our transition to a low carbon emissions society. In other words, our ultimate goal must be to export most of our oil and gas production (with the exception of meeting transportation and petrochemical needs), while transitioning to renewables for 100% of our electricity generation needs.

The world is already moving in this direction. According to the International Energy Agency, renewables accounted for nearly two-thirds of net new power capacity in 2016.¹¹ Solar capacity grew by 50% last year, faster than any other fuel, including coal and natural gas.¹² By 2022, the electricity capacity of renewables is projected to grow by another 43%.¹³

Several developed countries are reaching the point where renewable sources can supply enough energy to meet electricity needs. In Germany, for example, renewables were able to

supply virtually all domestic electricity demand on a given day.¹⁴ Denmark's wind farms generate enough electricity to supply 140% of demand.¹⁵

Venezuela has abundant renewable capabilities. Already, hydropower generates over 60% of the country's electricity and as much as 75% of electricity in Caracas.¹⁶ By expanding our hydro-electric capacity and developing our abundant solar and wind power resources, Venezuela can maximize exports of hydrocarbons within two to three decades.

The Paris Agreement will continue to drive the rise of renewables around the world in the coming decades. Venezuela needs to be part of the renewable transition. This will not only allow us to maximize the benefits of our oil and gas exports, it will aid in the diversification of our economy beyond hydrocarbons.



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Putting Faith in the People

Venezuela Energética is aimed at launching a debate among the people of Venezuela over how best to develop our nation's energy resources. It is designed to ensure that the income derived from resource development delivers clear benefits to the true owners of these resources: the people themselves.

The plan we propose represents our best thinking, yet we do not claim a monopoly on good ideas. We hope this proposal generates a true national discussion, with input from every corner of the country, leading to a true national consensus about the best path forward. To be successful, any plan must win the support of the people, either through a national referendum or a legitimate, representative National Assembly. Ultimately, that's where we place our faith – with the people of Venezuela.

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LEOPOLDO LÓPEZ

Leopoldo López (April 29, 1971) is the founder and National Coordinator of Voluntad Popular (Popular Will), a social movement and political party composed of thousands of activists and community, labor, and youth leaders from all regions of Venezuela. Voluntad Popular promotes a conciliatory message of peace, prosperity, and progress and is committed to construction of a better future where all Venezuelans have access to economic, political, and social opportunities.

Leopoldo spent the early part of his career at PDVSA, in the office of strategic planning, where he became deeply immersed in the most significant issues and opportunities facing the Venezuelan oil economy. From 2000-2007, Leopoldo served as Mayor of Chacao (the geographical, commercial, and cultural heart of Caracas), finishing his second term with 92% approval.

Leopoldo has a Masters in Public Policy from the Kennedy School of Government at Harvard University (1994-1996), and graduated Cum Laude from Kenyon College in 1993 where he later received an Honorary Doctorate of Laws in recognition of his work as a young political leader in Venezuela.

Since early 2014, Leopoldo has been a political prisoner, unjustly held by the Venezuelan government in retaliation for his political views and speech. He has been declared a Prisoner of Conscience by Amnesty International and was unjustly imprisoned on February 18, 2014 in the Ramo Verde military prison. He is currently held in house arrest, forbidden from speaking publicly or participating politically.

GUSTAVO BAQUERO

Gustavo Baquero (Caracas, 1975) has extensive international experience in the oil and gas industry, holding executive positions in leading energy companies worldwide. Trained as an industrial engineer at the Andrés Bello Catholic University (UCAB), he holds a master's degree in international business administration from the Instituto Empresa de Madrid. He studied Negotiation at the John F. Kennedy School of Government, Harvard University.

He has been a professor of Petroleum Economics at the UCAB and of Business Management of Hydrocarbons at the Institute of Advanced Management Studies (IESA).

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The relevance of *Venezuela Energética* is undeniable because of its urgency, but especially because of the place where it was written. Reading these pages it is difficult not to be moved. We are reading a clearly rational argument, an expert view on the future of the Venezuelan economy and the role of oil when, suddenly, we are presented with images of some handwritten notes, fragments of the text, written by Leopoldo López. The prisoner of conscience took advantage of the paper that fell into his hands, even napkins, to write this book; it was the only way his ideas could escape from the military prison where he was unjustly imprisoned for three years and five months. During the few visits he was allowed to receive and when he was transferred to court hearings, Leopoldo was able to pass loose scraps of paper to his wife Lilian Tintori and his lawyer. And from there, this contraband of ideas reached the desk of his co-author, Gustavo Baquero.

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Excerpt from prologue
by Moisés Naím