Andean Report by Carlos Méndez

Venezuela sells its oil future

On the eve of presidential elections, the political establishment is accused of "giving the country away."

An Oct. 31 UPI wire, datelined New York, has created a political uproar in Caracas. "Venezuela has begun negotiations to sell $1 billion worth of futures on its oil production," according to the report. "Caracas entrusted the operation to BankAmerica Corporation (the company which owns Bank of America) and to Salomon Brothers, Inc."

The future sale of petroleum to pay debt is a bombshell in Venezuela, which is holding presidential elections on Dec. 4. The oil industry was nationalized 15 years ago, and it would be hard to find anyone who would openly advocate restoring it to the multinationals. Venezuela's present and its future, after all, is dependent on its oil exports.

What makes the issue particularly explosive, is that social democrat Carlos Andrés Pérez, the presidential candidate of the incumbent Democratic Action party, has spent the last few weeks of the campaign trying to shake allegations made by the Venezuelan Labor Party (PLV) and widely printed in the press, that he is a "bankers' boy." His leading opponent, Christian Democrat Eduardo Fernández, has recently narrowed CAP's lead in the opinion polls by charging that CAP and the other establishment politicos were "giving the country away." The future oil sale proves his point.

Venezuelan Finance Minister Héctor Hurtado felt compelled to "correct" the UPI report, hours after it was printed in the Caracas papers. Hurtado contended that Venezuela was not selling "futures contracts" on its oil, but was using an ingenious mechanism called "accounts payable."

Thanks to the name-change, Venezuelan officials eluded the law that requires futures contracts to be approved by Congress. That route would make an even bigger scandal, especially on the eve of elections. But, the regime needs to pay $1 billion debt service now, to ward off bankruptcy until after the elections.

Journalist Alan Lugo decribed in the Caracas daily *El Universal* Oct. 27 how futures sales violated the sovereignty Venezuela has tried to consolidate since 1905, when gunboats fired on its ports to collect the debt. "In the first place," he wrote, "the contracts force the country to renounce the prohibition against embargoes which is consecrated under international law, in the event of non-compliance for any cause. Also, the country must renounce the principle that any lawsuits involving the contracts be heard in national courts."

Such waivers of sovereign immunity may or may not be among the formal conditions of the "accounts payable," but that is how it works. The deal is: Venezuela sells its oil to Champlin Oil Refining Co. and Citgo Petroleum Co. Instead of paying Venezuela, they deposit the funds in New York, in a trust fund from which Venezuela cannot withdraw them. Then what? Nothing. The money goes to "accounts payable."

The Venezuelan government was forced into a corner by its bankers' refusal to lend. During the years when the oil bonanza brought in so many dollars that the government could not figure out what to do with them, the bankers were happy to lend, puffing up the foreign debt. The debt service burden and the fall of oil prices have rapidly depleted reserves from $30 billion in 1982 to $7.232 billion at last count, only $2.225 billion of which are liquid. And $2 billion of that must be kept on deposit in creditor banks, or the creditors can contractually declare the country insolvent, under terms of last year's debt renegotiation.

To scrape up cash, Venezuela has put $500 million of its gold reserves in the Bank for International Settlements, in Basel, Switzerland, as collateral for a short-term loan, and sold much of its remaining gold. The government has also brought in a little cash by selling state-sector entities to foreign creditors under debt-for-equity schemes.

All of this, however, is not enough to fill up the $2.030 billion hole in Venezuela's current accounts for the first nine months of the year, as calculated by the central bank. During the first three quarters, $11.147 billion came into the country, but $13.177 left it, including $3.587 billion for paying the public and private foreign debt. The difference has come out of reserves, which have diminished by $2.144 billion so far this year. Another $1.5 billion in debt service remains to be paid before New Year's.

The government and its candidate, Carlos Andrés Pérez, reject the widely discussed option of debt moratorium. While they will not negotiate with the International Monetary Fund *before* the elections, they are heading toward a deal with the IMF. On Oct. 19, the government raised from 7.5 to 14.5 bolivars the amount needed to import $1 worth of food and medicine. It also loosened exchange controls to let private-sector exporters keep their dollar revenues for speculative purposes, rather than have to exchange them at the central bank.