Venezuela: 'missing piece' in the plan

by Christian Curtis

"Venezuela is very much the missing piece of the puzzle," a European banking representative in New York commented recently, referring to the fact that of Ibero-America's four largest debtors, only Venezuela had not yet signed with the International Monetary Fund. The oil price collapse is designed to "break" Venezuela, to force it to succumb to the Fund and auction off its oil to pay its ballooning debts.

The dollar-figure impact of the price drop will be bad enough: Venezuela's federal budget, which depends on oil for 75 percent of its revenues, is premised on $16 billion in oil earnings, a 1.6 million barrel per day export rate at an average price of $27.50 a barrel. A $3 a barrel drop in price would cost $1.7 billion, and that does not take into account a likely drop in the volume of exports as well. If exports also drop to 1.4 million bpd—and export volume for January of this year is already below that—Venezuela will wind up with only $12.5 billion in earnings. That is $3.5 billion short of the government's projection and a jolting $5.5 billion less than what the country pulled in during 1981.

However, totally rewriting the budget is a minor problem. The real trouble is the timing. Venezuela has been hit mid-stride while trying to complete sensitive negotiations on the refinancing of some $8.7 billion in short-term debt due this year—$3.5 billion of it by the end of March. And the banks are using every opportunity to justify turning down what should technically be one of the soundest credit risks in the world. The busting of OPEC is merely the *coup de grace* of a several-month process to force Venezuela to buckle, and, just like Mexico, Brazil, and Argentina, call at the IMF in Washington, hat in hand.

"We will *impose* an IMF agreement," one financier said. "Politically, they will *accept* an IMF agreement. It's a play of words. They'll come up here and get 60 percent of what they want. Then they'll have to accept an IMF framework. They have no choice."

A tap on the shoulder

As soon as the Mexican debt crisis erupted last August, it became a strategic imperative for the bankers to break Venezuela, as a leading Christian Democrat in Caracas, Hilarión Cardozo, charged in a statement in mid-January. All last fall the country was wracked by capital flight. A study published in the daily *El Universal* said $13 billion fled the country during 1982, but banking sources "off the record" put the figure at closer to $15 billion or even $20 billion. A U.S. West Coast banker in a position to know put the figure at an impressively precise $143 million a day as of Feb. 1—an annual rate of more than $35 billion. Venezuela's foreign exchange reserve dove from $18 billion to under $10 billion last year.

Venezuela's problems were compounded when the international banks started shutting down credit lines last September, leaving Venezuela holding the bag of close to $10 billion in short-term obligations. At that point, central bank chief Leopoldo Díaz Bruzual went after what the IMF and its allies consider the prize of Venezuela, Petróleos de Venezuela, SA, the largest corporation in all of Ibero-America.

Díaz Bruzual decreed that all dollar holdings and earnings of the nationalized state oil company were to be handed over to the central bank. This move violated a national security policy dating from 1976, when the oil industry was taken over from the Seven Sisters, which established a total financial autonomy for Petróleos to ensure that it would never fall into foreign hands. By December, the inevitable was obvious. Petróleos officials announced that because of the country's cash crisis, the company would have to borrow perhaps $1 billion abroad this year. Petróleos itself would now be subject to bank conditionalities.

In January, Finance Minister Arturo Sosa flew to Washington to meet with U.S. Federal Reserve Chairman Paul Volcker. Volcker quietly offered to "help" the New York banks be a little more cooperative in Venezuela's case, provided Caracas agreed to long-term, fixed exclusive oil sale contracts to the United States—the "strategic hemispheric oil reserve" scheme devised by Henry Kissinger's minions at Georgetown Center for Strategic and International Studies. Of course, the scheme depends on a collapse of oil prices and a crisis in OPEC.

Venezuela was already desperate when the Hong Kong affiliate of London's Nordic Bank, Ltd. sued the Venezuelan Development Corporation (CVF) for default in December because of late payments. In January, seven other banks did likewise. But as one New York financier later let out, the suits were merely additional pressure against Venezuela. "A tap on the shoulder, shall we say," he suggested. "It is also a demonstration to the other countries, to show the banks mean business. What is going on is that the banks first want to knock the Venezuelans down, and then start over with those guys."

It won't be easy. As the banks themselves admit, Venezuela can fight back. "There is talk that Venezuela may be the first country to declare a debt moratorium," a Wall Street banker said recently. "It may well be the case." A European financier noted, "Venezuela did create OPEC. Perhaps it will wake up one day and try to lead a cartel of debtors. So the strategy now would be to prevent this leadership."

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