Venezuela and ExxonMobil Oil Discovery in Guyana

Anne Marie Morán and Laura Bluher

Anne Marie Morán has eight years of experience in advisory, social research, and strategic communications roles. Anne Marie is fluent in Spanish and Portuguese, and her current research interests include forced migration and the intersection of technology and development. She holds a B.A. in Foreign Affairs from the University of Virginia. She will complete her M.A. in International Affairs at the Elliott School of International Affairs in May of 2019.

Laura Bluher is a paralegal at Kids in Need of Defense (KIND), where she assists with children's immigration cases. Laura holds a B.F.A. in Photography and a minor in Latin American Studies from New York University. She was awarded a Wolcott Foundation Fellowship to pursue a M.A. Latin American and Hemispheric Studies at the Elliott School of International Affairs.

ABSTRACT

Venezuela's economic crisis has spiraled out of control, creating secondary ripple effects that are impacting the entire Western Hemisphere. This manmade crisis has produced an unprecedented regional outflow of migrants and refugees that shows no sign of slowing down and is likely to surpass the Syrian exodus. With an inflation rate estimated to be above 1,000,000 percent, Venezuela has placed its bets on a cryptocurrency tied to oil reserves it is unable to extract. Meanwhile, in neighboring Guyana, ExxonMobil has made nine discoveries since 2015. The discoveries are estimated to hold around 4 billion barrels of crude oil and expected to deliver over $6 billion in royalties and taxes once production is in full swing. This article examines the Venezuelan economic and humanitarian crisis within this context, considers the possibility of Guyana falling victim to the "resource curse," and proposes recommendations for key actors – Guyana, ExxonMobil, Venezuela, and the United States – to ensure Guyana's burgeoning oil industry is established in a responsible manner.

INTRODUCTION

Venezuela's economic crisis has careened out of control, creating ripple effects with implications for the entire Western Hemisphere. According to the United Nations, 3 million Venezuelans, or 10% of the population, have left Venezuela since 2015.[1] An average of 5,000 Venezuelans are fleeing daily,[2] and a new study by the Brookings Institution forecasts that a total of 8 million Venezuelans of diverse social classes will soon reside outside the country.[3] This mass outflow is likely to surpass the magnitude of the Syrian exodus. It has led to a variety of regional security issues, including increased violence in Brazilian and Colombian border towns[4] and proliferation of organized criminal activity like human and arms trafficking.[5]

On May 20, 2015, ExxonMobil announced that it had discovered crude oil in Guyana,[6] a South American country with a population of 800,000 people and the second weakest economy in the region.[7] Guyana shares its western border with Venezuela, and the two countries have long been engaged in a legal battle stemming from Venezuela's claims to the Essequibo land tract that comprises 40% of Guyana's current territory. This dispute escalated again after ExxonMobil made first of nine significant discoveries in the Stabroek Block.[8] This area off the coast of Guyana is estimated to hold at least 4 billion barrels of crude oil.[9] The output is expected to exceed Saudi Arabia's per capita oil production within a decade[10] and could provide a significant economic opportunity for Guyana.

OIL DISCOVERY AND RESOURCE CURSE IN VENEZUELA AND GUYANA

Developing countries like Guyana and Venezuela that are well endowed with extractable natural resources frequently fall victim to the "resource curse." With little to no dependency on tax income and abundant resource revenues, the government fails to develop strong domestic institutions, properly direct investments, and diversify the economy. Oftentimes, the inflow of resource rents promotes corruption, creates economic instability, and increases conflict rates. Assuming Guyana can avoid this fate, the discovery provides an opportunity to reinvigorate and develop the domestic economy. Simultaneously, this discovery will likely exacerbate Venezuela's economic downfall by diminishing any remaining hope for the revival of its once proliferate oil industry.

With the largest proven oil reserves in the world,[11] Venezuela is a prime example of the dangers of the resource curse. Once considered the crown jewel of Latin America, the country thrived on an oil economy for decades. The socialist leader Hugo Chávez, in his early years in power, capitalized on the high price of oil and extensively invested the revenues to finance a broad portfolio of social programs including welfare, housing projects, literacy, and healthcare initiatives. From 2003 to 2008, Venezuela experienced positive economic outcomes: the unemployment rate dropped significantly, from 16.75 percent to 6.85 percent,[12] and the poverty rate halved from 54 percent to 27.7 percent.[13] However, the Chávez regime concurrently became increasingly authoritarian and corrupt as he attempted to consolidate his grip on power. Chávez expanded his executive authority, allowing him to pass laws by decree, and subsequently dismantled the democratic checks and balances system.

Chávez also nationalized the oil industry, consolidating it into the state-owned oil company, Petróleos de Venezuela (PdVSA). PdVSA now operates all of Venezuela's crude production.[14] Both Chávez and his successor, current president Nicolás Maduro, failed to invest an adequate amount of revenue into maintaining PdVSA and diversifying other sectors of the Venezuelan economy. Diversification would have safeguarded the economy, to some degree, against the global oil market's inevitable and volatile boom-bust cycles.

In 2014, a crash in oil prices ignited an economic tailspin in Venezuela as government revenues were wiped out, leading to a deep deficit in the state budget. In response to crashing oil prices and their influence on the Venezuelan economy, the Maduro regime began printing more money to cover costs, contributing to the hyperinflation we see today. In its 2018 World Economic Outlook, the International Monetary Fund (IMF) projected that inflation in Venezuela could reach 1,370,000 percent by the end of 2018.[15]

To combat hyperinflation, the Maduro regime recently redenominated and launched its official currency as the "sovereign bolívar," slashing five zeros from the end. Then, in another move that baffled analysts, Venezuela announced the launch of a new cryptocurrency, the petro, supposedly backed by oil reserves. The idea behind petro is that it will raise enough money to allow Venezuela to meet its financial obligations and prevent a full-blown default. The Venezuelan government has approximately $150 billion in outstanding foreign debt with about $2.5 billion in default, according to Caracas Capital.[16] At current prices, 100 million petros could theoretically raise about $6 billion. However, as a result of underinvestment in PdVSA, oil production has tanked since 2016[17] and the output is less than half of that in 1999 when Chávez came into power.[18] According to oil expert Francisco Monaldi, Venezuela would need investments of at least $8 billion to extract the 5 billion barrels in reserves that are supposedly backing the *petro*,[19] while PdVSA is currently $45 billion in debt. In March 2018, the United States government made it illegal for American companies and citizens to deal in the *petro*.[20] Other countries followed the suit, limiting foreign investment in a climate where investors' confidence in Venezuela was already low. Furthermore, the *petro* is not presently found on any major currency exchanges. In a special report, Reuters found no evidence of the *petro* being used in Venezuela, nor of any efforts to tap into the oil reserves that supposedly back it.[21] Thus, it is unlikely that this gamble will pay off.

Moreover, Venezuela is currently experiencing explosive political unrest and one of the highest murder rates in Latin America.[22] The United States and other countries have joined in sanctioning Venezuela for human rights violations, corruption, and economic mismanagement.[23] In May, the Lima Group, comprised of 14 countries that include Argentina, Brazil, Canada, and Colombia, formally refused to recognize the Maduro government, citing illegitimacy in the electoral process.[24] Today, Venezuela is a risky investment, especially when a more stable political environment and new oil reserves are right next door. As there is no security in the *petro*, and no one knows what it actually sells for, companies will likely prefer to do business with Guyana, which has a tradeable currency interlinked to the global economy.[25]

As a country located between Venezuela and Suriname, Guyana is the only English-speaking country in South America. However, since its independence in 1966, the country has been plagued by political corruption and polarization between two parties oriented around ethnicity. As of 2017, over one-third of the country's population lives below the poverty line,[26] with the unemployment rate at 12.5 percent.[27] This tense political climate and lack of economic opportunities has led to a high degree of "brain drain," a phenomenon that occurs when high-skilled and educated people leave their country to pursue opportunities abroad. Endowed with natural resources, Guyana's economy has been based largely around exports of minerals and timber, with gold comprising 60 percent of the country's exports.[28] With ExxonMobil's recent discovery of oil, the World Bank projects Guyana's annual GDP growth to skyrocket from 3.8 percent in 2019 to 29 percent in 2020.[29]

Construction of the first ExxonMobil development, Liza Phase 1, is already underway. Production is slated to commence in early 2020 and is expected to churn out 120,000 barrels of oil a day.[30] According to the Norwegian consultancy Rystad Energy, Guyana's government is poised to annually accrue over $6 billion in royalties and taxes by the end of the 2020s.[31]

Guyana should take concrete steps to learn from Venezuela's mistakes. The country's growth and development potential hinges on whether the influx of revenues can be accessed by its people and is used to develop domestic institutions and business environment. Guyana must prioritize investment of oil revenue in areas that will lift its population from poverty. This includes the health and education sectors to promote long-term growth, increase productivity, and reverse the country's "brain drain" problem. It must also include social welfare programs to alleviate poverty and bolster human development. However, as evidenced by Venezuela, this is just one step in the process towards sustainable development. Guyana must also safeguard its economy from future bust cycles in global oil prices by maintaining economic diversity and continuing to invest in other natural resource and industrial sectors apart from oil and gas.

DIVERSIFY THE ECONOMY

When considering actionable economic measures, there are several cases Guyana could seek guidance from. Malaysia is one example of an oil-rich nation that has avoided the resource curse by diversifying its economy and investing in its institutions. Even after the 2014 decline in global oil prices, Malaysia still managed to sustain 5.9 percent growth in 2014[32], and sustained a positive growth rate for 2015. Where other oil-dependent countries took substantial hits to their economies after the 2014 bust, the IMF attributes the relative stability and maintenance of positive growth in Malaysia to the diversification of its economy. Guyana should look to Malaysia as a model for economic diversification and commit to investing in its mineral and timber sectors, as well as other underdeveloped sectors like manufacturing. Diversification will temper the country's reliance on oil, which is prone to boom-bust cycles. On the other hand, creation of new opportunities and incorporation of social programs will incentivize Guyana's top talent to remain there, counteracting the existing brain drain problem.

ENSURE GOVERNMENT ACCOUNTABILITY

Guyana is an admitted member of the Extractive Industries Transparency Initiative (EITI),[33] an international oversight initiative that seeks to create openness and accountability in resource-rich countries. While in theory, EITI promotes transparency and accountability, there is no formal mechanism of enforcement to ensure that member states remain faithful to EITI regulations. Guyana must ensure government accountability by contracting an independent oil sector oversight committee to evaluate levels of transparency and corruption, especially as it relates to oil revenue. Guyana should publish an annual report announcing the fiscal year's earnings, the national budget, along with the sectors, offices, organizations, initiatives, and individuals which received funds derived from oil revenue. Transparency in the nation's budget and the allocation of oil money will push the government to consistently sustain investments in sectors and initiatives that promote development and benefit the public.

ALLOW EXXON TO CONTINUE INVESTMENT

ExxonMobil has a vested interest in ensuring that Guyana's oil industry is developed responsibly and sustainably, not only because stability and low corruption foster a more productive business environment, but also because the company is mitigating a host of reputational challenges. ExxonMobil's new CEO, Darren Woods, is trying to break away from his predecessor's legacy of billions of dollars in write-downs and a stock market performance that lags behind peers like Chevron and Royal Dutch Shell.[34] The company is also coming off the heels of other reputational challenges, including the 2017 climate change controversy, where a study conducted by two Harvard professors suggested that Exxon had actively misled the public for 40 years about the effects of climate change.[35] Thus, Guyana presents ExxonMobil with an opportunity to not only make a massive return on their investment, but also to build its reputational equity through leadership in the sustainable development of Guyana's energy sector. ExxonMobil has already begun to host workshops to educate Guyanese small business owners and the general public on how they can maximize their skills and advertise their businesses to access and profit from the new oil sector. Hopefully similar initiatives will follow, even after oil production is in full swing.

IMPLICATIONS FOR THE UNITED STATES

The U.S. must pay attention to Guyana's development in the interest of regional security. Guyana is currently a strategic partner in the Caribbean Basin Security Initiative (CBSI), working with the United States to combat narcotics trafficking through the Caribbean.[36] In its 2016 International Narcotics Control Strategy Report, the U.S. Department of State cited Guyana as a key transit country for South American cocaine shipments en route to the United States.[37] Since the beginning of the surge of Venezuelan migrants to other Latin American countries, analysts have noticed increasing activity by Venezuelan transnational criminal organizations in receiving countries. Members of the so-called Venezuelan "mega-gangs" have been accused of kidnapping, extortion, murder, and narco-trafficking outside of Venezuela.[38] Neighboring Guyana is especially at risk of infiltration by these criminal organizations. If resource curse persists in the region, Guyana could become more unstable and corrupt, rendering it less capable of cooperation with the United States on matters of transnational security.

ENDNOTES

1 UNHCR, "Number of Refugees and Migrants from Venezuela Reaches 3 Million," November 8, 2018, https://www.unhcr.org/news/press/2018/11/5be4192b4/number-refugees-migrants-venezuela-reaches-3-million.html

2 UNHCR, "Venezuela Situation: Responding to the Needs of People Displaced from Venezuela," January-December 2018, http://reporting.unhcr.org/sites/default/files/unhcr%20venezuela%20situation%202018%20supplementary%20appeal.pdf

3 Dany Bahar, "How Many More Migrants and Refugees Can We Expect Out of Venezuela?" *Brookings*

Institution, December 10, 2018, https://www.brookings.edu/blog/up-front/2018/12/10/how-many-more-migrants-and-refugees-can-we-expect-out-of-venezuela/

4 Venezuela Investigative Unit, "Restrictions on Venezuela Migrants Boost Criminal Networks," *Insightcrime.org*, September 11, 2018, https://www.insightcrime.org/news/analysis/venezuela-migrant-restrictions-boost-criminal-networks/

5 Anastasia Moloney, "Venezuela's crisis boosts trafficking risk for women, children: experts," *Reuters.com*, August 30, 2018, https://www.reuters.com/article/us-venezuela-migrants-trafficking/venezuelas-crisis-boosts-trafficking-risk-for-women-children-experts-idUSKCN1LF1XG

6 Micah Maidenberg and Manuela Andreoni, "The Country that Wasn't Ready to Win the Lottery," *Foreign Policy*, June 2018, https://foreignpolicy.com/2018/06/19/the-country-that-wasnt-ready-to-win-the-lottery-guyana-oil/

7 World Atlas, "The Poorest Countries in South America," March 26, 2018, https://www.worldatlas.com/articles/the-poorest-countries-in-south-america.html

8 "Exxon Mobil Declares Major Guyana Finding," *Energy Monitor Worldwide* (Amman, Jordan), January 8, 2018, Newsbank.com, https://infoweb-newsbank-com.proxygw.wrlc.org/apps/news/document-view?p=AWNB&docref=news/1694D3EB1D771B28. Accessed October 14, 2018

9 ExxonMobil Media Relations, 2018, "ExxonMobil Increases Estimate for Guyana's Stabroek Block to 4 Billion Barrels," July 23, 2018, https://news.exxonmobil.com/press-release/exxonmobil-increases-estimate-guyanas-stabroek-block-4-billion-barrels

10 Kejal Vyas, "Eureka! giant oil find set to bring guyana startling riches. Maybe," *Dow Jones Institutional News*, June 21, 2018, http://proxygw.wrlc.org/login?url=https://search-proquest-com.proxygw.wrlc.org/docview/2057735278?accountid=11243

11 Organization of the Petroleum Exporting Countries, "OPEC Share of World Crude Oil Reserves," accessed October 14, 2018, https://www.opec.org/opec_web/en/data_graphs/330.htm

12 The World Bank, "Unemployment, total (% of labor force)(modeled ILO estimate): Venezuela," accessed October 8, 2018, https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=VE

13 Global Poverty Working Group, The World Bank, "Poverty Headcount Ratio At National Poverty Lines (% of Population): Venezuela," accessed October 14, 2018, https://data.worldbank.org/indicator/SI.POV.NAHC?locations=VE

14 Business Monitor International Research, "Venezuela oil & gas report - Q1 2018," 2018, 94-96, accessed October 14, 2018, http://proxygw.wrlc.org/login?url=https://search-proquest-com.proxygw.wrlc.org/docview/1961996322?accountid=11243

15 International Monetary Fund, "World Economic Outlook, October 2018," accessed October 15, 2018, https://www.imf.org/en/Publications/WEO/Issues/2018/09/24/world-economic-outlook-october-2018

16 Julie Wernau, "Venezuela is in Default, but Goldman Sachs just got paid," *Wall Street Journal* (New York), April 11, 2018, https://www.wsj.com/articles/venezuela-is-in-default-but-goldman-sachs-just-got-paid-1523379999

17 Anatoly Kurmanaev and Kejal Vyas, "Venezuela's Oil Production is Collapsing," *Wall Street Journal* (New York), January 18, 2018, https://www.wsj.com/articles/venezuelas-oil-industry-takes-a-fall-1516271401

18 Ben Chu, "Venezuela: How the most oil rich nation on earth was brought to the brink of collapse," *Independent.co.uk*, August 18, 2018. https://www.independent.co.uk/news/business/analysis-and-features/venezuela-nicolas-maduro-economy-crisis-oil-prices-explained-history-hugo-chavez-a8494696.html

19 Gideon Long, "Maduro's cryptocurrency scheme met with skepticism," *Financial Times* (London), January 16 , 2018, https://www.ft.com/content/9c0fcc2c-faa9-11e7-9b32-d7d59aace167

20 President Donald J. Trump, "Executive Order on Taking Additional Steps to Address the Situation in Venezuela," The White House, section 1 (a), March 19, 2018, https://www.whitehouse.gov/presidential-actions/executive-order-taking-additional-steps-address-situation-venezuela/

21 Brian Ellsworth, "Special Report: In Venezuela, new cryptocurrency is nowhere to be found," *Reuters.com*, August 30, 2018. https://www.reuters.com/article/us-cryptocurrency-venezuela-specialrepor/special-report-in-venezuela-new-cryptocurrency-is-nowhere-to-be-found-idUSKCN1LF15U

22 U.S. Department of State, Bureau of Diplomatic Security, "Venezuela 2018 Crime & Safety Report," April 2018, https://www.osac.gov/Pages/ContentReportDetails.aspx?cid=23791

23 U.S. Department of State, "Venezuela-Related Sanctions," accessed October 8, 2018, https://www.state.gov/e/eb/tfs/spi/venezuela/

24 Perú Ministerio de Relaciones Exteriores, "Declaración del Grupo de Lima," May 2018, http://www.rree.gob.pe/SitePages/comunicado_conjunto.aspx?id=CC%20-%20009%20-%2018

25 Ellsworth.

26 International Monetary Fund, "Guyana Staff Report for the 2017 Article IV Consultation," IMF Country Report No. 17/175, June 2017, 26, https://www.imf.org/~/media/Files/Publications/CR/2017/cr17175.ashx

27 The World Bank,"Unemployment, total (% of total labor force) (Modeled ILO estimate): Guyana," September 2018, accessed October 7, 2018, https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=GY

28 Extractive Industries Transparency Initiative, "Guyana Extractive Industries Transparency Initiative," Accessed October 14, 2018, https://eiti.org/guyana

29 The World Bank, "Guayana | Data," accessed October 14, 2018, https://data.worldbank.org/country/Guyana

30 ExxonMobil, "ExxonMobil Advances Liza Phase 1 Development," June 12, 2018, https://news.exxonmobil.com/press-release/exxonmobil-advances-liza-phase-1-development

31 Clifford Krauss, "The $20 Billion Question for Guyana," *New York Times*, July 20, 2018, https://www.nytimes.com/2018/07/20/business/energy-environment/the-20-billion-question-for-guyana.html

32 International Monetary Fund, "Malaysia: Staff Report for the 2014 Article IV Consultation," accessed October 14, 2018, https://www.imf.org/~/media/Websites/IMF/imported-full-text-pdf/external/pubs/ft/scr/2015/_cr1558.ashx

33 Extractive Industries Transparency Initiative, "Guyana," October 2017, https://eiti.org/guyana

34 Ernest Scheyder, "Exxon CEO Struggles to Reverse Tillerson's Legacy of Failed Bets," *Reuters.com,* March 7, 2018, https://www.reuters.com/article/us-exxon-mobil-wall-street/exxon-ceo-struggles-to-reverse-tillersons-legacy-of-failed-bets-idUSKCN1GJ0IE

35 John Schwartz, "Exxon Misled the Public on the Risks of Climate Change, a Study Says," *The New York Times*, August 23, 3017, https://www.nytimes.com/2017/08/23/climate/exxon-global-warming-science-study.html

36 U.S. Department of State, "Caribbean Basin Security Initiative: Guyana," https://2009-2017.state.gov/p/wha/rls/fs/2013/218472.htm

37 Bureau of International Narcotics and Law Enforcement Affairs, "2016 International Narcotics Control Strategy Report (INCSR): Guyana," https://www.state.gov/j/inl/rls/nrcrpt/2016/vol1/253269.htm

38 Venezuela Investigative Unit, "Capture of Venezuela Mega-Gang in Peru is Ominous Sign for Region," *Insightcrime.org,* August 10, 2018, https://www.insightcrime.org/news/analysis/capture-venezuela-mega-gang-peru-ominous-sign/