

Venezuelan Oil Production Data

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When OPEC was founded, both the press and the governments of western countries greeted the event with a resounding silence, and went out of their way to disparage OPEC as a talking club of no relevance whatsoever. Oil companies, for their part, were happy to go along with the snub, refusing to negotiate collectively with OPEC under the – strictly genuine, albeit self-serving – excuse that their respective home governments would never grant them leave to do this (by the time permission finally came, of course, their goose was well and truly cooked).

This feigned indifference on the part of companies and governments alike was an act. Indeed, as James Bamberg’s magisterial corporate history of British Petroleum makes clear, plans were afoot to destroy OPEC from its very inception. The reason why these plans occupy such a prominent place in Bamberg’s account, of course, is that Iran was singled out as OPEC’s weakest link. Yet winds in the international oil industry at the time turned out to be so favourable that OPEC nevertheless ended up in the safe harbours of the Tripoli and Tehran agreements, which in turn laid the foundations for the price rises in the wake of the Arab Oil Embargo.

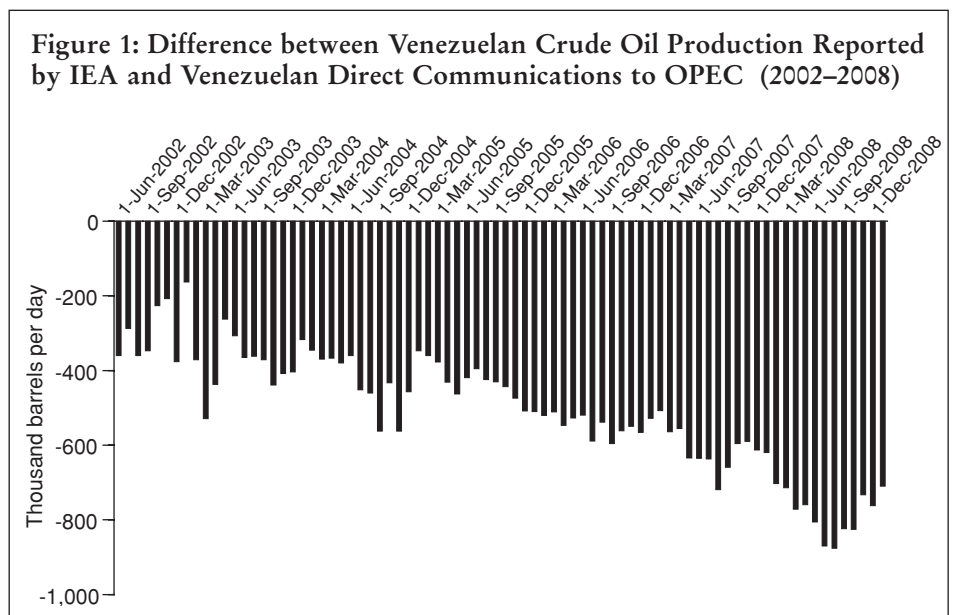
From 1990 onwards, thanks to the terminal decomposition of Venezuela’s political system, this country became the weak link within OPEC. With immense enthusiasm, the top management of the national oil company, PdVSA, did their best to weaken OPEC. Their efforts in this direction were ultimately responsible for the 1998 collapse in the oil price which, in turn, paved the way for the rise to power of President Hugo Chávez. Under Chávez, of course, Venezuela has rejoined the OPEC coalition. However, much in the same way that one can still hear the echo of the Big Bang in a television set, it is possible to detect traces of the old Venezuelan-led attempt to dismantle OPEC in the difference between the crude

oil output figures published by the Venezuelan government, on the one hand, and the production estimates for the country published by the International Energy Agency (IEA), as well as other secondary sources, on the other.

As can be appreciated in Figure 1, starting in 2002, there began to develop a serious difference between the two sets of figures, and nowadays this difference amounts to around 700 thousand barrels per day. Clearly, such a divergence cannot be a statistical error, which means that one of the two parties involved has to be taking some major liberties with the truth. Could the mendacious party in this controversy conceivably be the IEA? The answer to this question is by no means straightforward. To start with, all other trade journals and market watchers, to a greater or lesser extent, broadly agree with its production figures for Venezuela. Moreover, the IEA is considered to be a reputable bureaucracy. Granted, the IEA and its *modus operandi* might not necessarily be held in universally high esteem by some sections of the oil market watching fraternity, but even in those quarters, the outright fabrication of data is not the first sin that most people would be ready

to lay at the IEA’s door. Rather, pride of place in any account of the IEA’s shortcomings would be given to its hubristic overconfidence in the infallibility of its models and assumptions, which translates into an inability (at times comical) to react quickly to developments and incorporate new information in its forecasts. A good recurrent example of this trait is the yearly spectacle of the IEA publishing an overtly bullish estimate for non-OPEC production, and then proceeding to stick to its forecasting guns come hell or high water, only to have to eat large doses of humble pie in the form of *ex post* revisions that make a nonsense of its original figures. And who can forget the unedifying episode of the missing barrels? On that occasion, the IEA’s overenthusiastic estimates of worldwide oil production led it to conclude, with impeccable logic, that since vast amounts of oil necessarily had to be going into storage, and since there was no evidence of a stock build of the necessary magnitude taking place in the usual locations, therefore stocks had to be accumulating in mysterious places where the barrels were difficult to trace.

It might be thought that, due to the very inflexibility of its approach



to modeling, the IEA's assessments would at least be reasonably free from political distortions and bias. Unfortunately, the reverse appears to be true, with the IEA somehow managing to combine methodological dogmatism, on the one hand, with ideological bias, on the other hand. And nowhere does this combination reveal itself more clearly than in the aforementioned case of Venezuelan production figures. But in order to appreciate this, it is necessary to tackle the issue piecemeal, focusing on it from a slightly wider historical perspective.

First of all, what explains the magnitude of the gap? The output of extra-heavy crude from the Orinoco Oil Belt tends to move in unison with this gap to such an uncanny degree that it is obvious that the IEA is simply not including Orinoco volumes in its assessments of Venezuelan production. Such an assertion, however, begs three further questions. Firstly, why would the IEA not want or choose to report this extra-heavy crude? Secondly, how and why would other secondary sources go along with the IEA in misrepresenting Venezuela's production figures? And thirdly, how could all of them possibly fail to spot these huge unreported volumes, and where indeed are these volumes ending up?

Let us address each one of these questions, but in reverse order. The example of the missing barrels fiasco shows that, as long as one is sufficiently blinkered, it is easy to overlook the patently obvious. Back in 1998–9, some neutral and objective observers suggested that, even if there did exist mystery locations replete with the alleged missing barrels (whose volumes, incidentally, were far in excess of the Venezuelan volumes not being reported today), these elusive barrels would nevertheless have had to be taken there somehow, and would inevitably have left tracks in chartering and shipping data. No such evidence along these lines ever materialised, of course, but that did not prevent the IEA and others from vigorously continuing to argue for the reality of these missing barrels. Quite simply, the will to ascertain

that the missing barrels were an accounting discrepancy was lacking. Incidentally, this episode also suggests that stock level statistics are invested by the market at large with a degree of precision that they do not have (not least because they are residual magnitudes where error terms tend to accumulate). The inherent inaccuracy of stock data would make it quite easy for the unreported Venezuelan barrels to be lost among all the statistical noise. In this regard, it is worthwhile to point out that the spread between the highest and the lowest estimated stock build figures for 2009 in the major market tracking publications is currently running at the equivalent of a million barrels per day.

As to the agreement of the figures reported by other trade journals and industry watchers with those of the IEA, that is not at all difficult to explain. The IEA is quite rightly perceived by these other sources to be the chorus leader in this regard. In any case, all of these sources talk to one another, and none among them wants to be seen publishing figures which are at radical variance with those of the others. Also, there are some sources who recognise that they have no particular insight on Venezuelan issues, and are quite happy to go along with the conventional wisdom, for lack of better alternatives. And last but by no means least, there is the crucial fact that many of the secondary statistical sources upon which the oil market at large relies for information have maintained their political sympathies for, the PdVSA old guard.

Indeed, this last reflection brings us to the very crux of the matter: namely, that the information that the IEA and other secondary sources appear to be using in order to arrive at their production estimates is being obtained from 'tertiary sources' consisting of individuals who belonged to this PdVSA old guard, and who choose not to give these secondary sources information on Orinoco crude output, partly as a matter of political expediency, but also on grounds of ideological principle.

The political expediency dimension is easy to explain. These individuals use

the data published by the IEA and other secondary sources (and, paradoxically, legitimised by OPEC itself, through its use of the production estimates of six of these secondary sources to calculate the quota baselines of its member countries) as 'proof' that the Chávez administration has been responsible for a calamitous collapse in Venezuelan oil output. Most usefully for their political action, these accusations are then, in turn, echoed by many of these secondary sources, who – in much the same way as they refused to believe that the missing barrels never existed – dismiss out of hand the idea that Chávez's populist government could have somehow managed to overcome the damage done to the Venezuelan oil industry in November 2002.

As for the ideological principles at stake, these have to do with the long-term strategy by PdVSA's former top management to make Venezuela withdraw piecemeal from OPEC. At the time that this strategy was conceived, it was obvious that Orinoco Belt volumes would, in time, account for the bulk of Venezuelan oil output. If oil from the Orinoco Oil Belt were exempted from being considered as part of the Venezuelan quota (due to its allegedly non-conventional nature), then as its production rose, a progressively smaller proportion of Venezuela's output would be covered by the country's quota. The IEA, of course, enthusiastically supported this plan: up until early 2006, it openly stated that it did not consider Venezuela's extra-heavy crude output in its 'crude target compliance calculation' for the country. At this point, the Venezuelan oil minister personally visited the IEA to inform its Director at the time that the Venezuelan government did consider these crudes as part of the country's quota, and his representations led to the IEA increasing its estimates of Venezuelan production in March 2006. Nevertheless, after only a couple of months, the figures reported by the IEA and other secondary sources had not only returned to their previous levels, but had actually resumed a downward trend (which they maintain to this day). The whole situation was now

further muddled by the insistence on the part of the IEA and other sources that their figures *now included* output from the Orinoco Belt.

The IEA and other secondary sources maintain that they prepare their production estimates with due care and, above all, in good faith. In the light of the statistical anomalies that we have underlined above, such assertions ring somewhat hollow. After all, this would imply accepting that these well-meaning organisations have, for a very long time, been led astray by unscrupulous informers pursuing a hidden agenda. In any case, the secondary sources are sophisticated enough organisations for the rule of *caveat emptor* to apply in their dealings with sources of information. Finally and most tellingly, just as was the case with the missing barrels, it would be quite easy for the IEA to ascertain the true situation regarding Venezuelan output, if only the will to do so were there. After all, Venezuelan domestic consumption is a fairly well-known quantity, and the totality of Venezuelan petroleum exports has to leave the country through only seven marine terminals. Thus, to get a reasonable proxy for Venezuelan crude production, all that would be required is to tally Venezuelan sea-borne exports – surely well within the reach of organisations that make much of their prowess at ‘tanker tracking’ – and add the resulting figure to the

domestic consumption estimate.

Starting in November 2008, and acting upon the assumption that the IEA did not have the slightest interest in clearing up the uncertainty surrounding Venezuelan production figures, the Ministry of Energy and Petroleum retained an international inspection firm to quantify the monthly gross and net volumes of oil being exported from the country, on the basis of the bill of lading (or discharge certificate) issued for each and every cargo. The results of this exercise for the month of January 2009 are shown in Table 1 (the results for the other months are similar). As can be appreciated, net Venezuelan oil *exports* for this month amounted to 83.1 million barrels or 2.7 million barrels per day (this figure includes some volumes of LPG obtained from condensates and natural gas liquids). In that same month, by way of comparison, the IEA put total Venezuelan crude *production* at 2.18 million barrels per day.

The contents of Table 1 support two, mutually exclusive, conclusions. Either the Venezuelan crude oil output figures from the IEA and other secondary sources are a complete nonsense, or else the Venezuelan government is engaged in a Madoff-style and scale of deception, complete with falsified documentation and other trappings of sophisticated financial fraud. We would like to leave it to the reader to decide which

one of these conclusions is the more likely, but not before pointing out that the latter alternative implies not only that cars and trucks in Venezuela are being run on a miracle fuel made from coffee rinds and banana peels, but also that Venezuela holds a very large inventory of oil somewhere, which it is drawing down month by month, with no apparent sign of the stock being exhausted (perhaps these might be the same barrels that so famously went AWOL in 1998). In passing, one should also say that if the former conclusion were true, then that would raise questions about the IEA’s avowed desire to contribute to stability in the oil market by furthering transparency and data reliability, as embodied in the Joint Oil Data Initiative (JODI).

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Table 1: Certified Venezuelan Oil Exports – January 2009

Loading Port	Exports					Imports			Net Exports
	Crude Oil	Products	Total Volume	No of Vessels	No of BOLs	Products	Total Volume	No of Vessels	
FSO Nabarima	788,658	0	788,658	1	1	0	0	0	788,658
La Salina	3,089,287	0	3,089,287	9	9	0	0	0	3,089,287
Bajo Grande	598,810	0	598,810	2	2	0	0	0	598,810
El Palito	0	2,059,556	2,059,556	7	7	478,267	478,267	2	1,581,289
Pto Miranda	4,472,120	0	4,472,120	13	14	0	0	0	4,472,120
Cardón	0	3,714,338	3,714,338	17	29	154,321	154,321	3	3,560,017
Amuay	0	10,026,500	10,026,500	31	37	451,382	451,382	4	9,575,118
Guaraguao	15,740,093	2,569,562	18,309,655	47	66	191,403	191,403	2	18,118,252
Jose	26,021,544	15,379,645	41,401,189	71	80	0	0	0	41,401,189
Total (Barrels)	50,710,512	33,749,601	84,460,113	198	245	1,275,373	1,275,373	11	83,184,740