



By DEEPAK BHOJWANI

Venezuela: A New Beginning?

India needs to watch the political developments in Venezuela closely and enhance its engagement with the eventual dispensation

On December 6, Venezuela underwent a transformation. A coalition of opposition parties – the Democratic Unity Roundtable (MUD) – won 109 of the 167 seats in elections to the National Assembly, the unicameral parliament. The ruling Socialist Unity Party (PSUV) won 55. Some 15 million, 75 per cent of the electorate, voted.

President Nicolas Maduro, anointed as successor by Hugo Chavez before his death in 2013, has fallen in public esteem. Elected for a six-year term by a narrow margin of just over 1 per cent in April 2013, he has ruled by decree for most of his presidency, backed by a Parliament dominated by the PSUV. With its two-thirds majority of 112, the non-PSUV legislators can amend the Constitution promulgated by Hugo Chavez in 1999.

The MUD, formed in 2008, is not a cogent entity. It comprises parties of varying sizes and histories without a unified leadership and common programme. Abhorrence for and resistance to the current regime won them the election. Chavismo will not

fade away easily.

Venezuela's economic problems are greater. The IMF has projected GDP to contract by 10 per cent in 2015 and 6 per cent in 2016. It estimates consumer inflation at 159 per cent in 2015 and over 200 per cent in 2016. The currency – the Bolivar – pegged by the government at 6.3 to the US dollar, is quoted at 12 for select industries and 200 for most other transactions.

With oil reserves greater than even Saudi Arabia, Venezuela is a strategically important country. The crash in prices of oil, which accounts for 95 per cent of its exports and over half its GDP, precipitated the economic crisis. With no recourse to the IMF and World Bank, with which Chavez suspended relations in 2007, Venezuela has hypothecated its increasingly cheaper oil against \$50 billion of Chinese loans over the past few years.

Implications for India

Chavez's state visit to India in March 2005 set the stage for serious Indian investment in Venezuela. In 2008, ONGC Videsh Ltd

(OVL), with a 40 per cent share, partnered Venezuelan national oil company PdVSA in the San Cristobal field, producing over 30,000 barrels per day (bpd). In 2010, OVL, Indian Oil and Oil India Ltd took a combined share of 18 per cent in the gigantic Carabobo oilfield, projected to eventually produce 400,000 bpd. These concessions were awarded on political considerations, although OVL is highly respected in Venezuela as much for its technical expertise as for being a state company.

Reliance Industries Ltd and Essar together are believed to be currently importing around 600,000 bpd of oil from Venezuela. In 2014, Venezuela was India's third largest crude supplier and largest trading partner in Latin America.

India's principal export to Venezuela has been pharmaceuticals. Companies like Dr. Reddy's and Glenmark have however faced problems over payments. Venezuela's Commission for the Administration of Currency Exchange (CADIVI) has restricted release of hard currency.

With the Bolivar sinking, importers have no recourse except to official channels.

Venezuelan foreign policy has been overtly friendly to India. Its confrontation with the US and most of Europe, and its wooing of Russia, China and Iran have circumscribed its international relations. Venezuela's oil wealth makes it a natural partner for India's energy security. Political instability and economic problems have, however, held back potential cooperation in infrastructure and hydrocarbon investments.

For several years, the Venezuelan market has been off bounds for many Indian companies, given the difficulties of operating and repatriating profits. The Venezuelan private sector has been decimated or seen as colluding with the establishment. The political order has for the past 15 years emphasised state programmes financed by oil revenues. A change may help stabilise the economy, even if oil prices do not rise significantly. India needs to watch developments and enhance engagement with the eventual dispensation. ♦

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