



Venezuela's New Crypto-Oil Money

OE Watch Commentary: Venezuela's President Nicolás Maduro recently announced the creation of a new cryptocurrency called the "Petro." As the first accompanying passage notes, this new cryptocurrency is to be backed by oil and mineral reserves. It did not take long for threads of critical Internet commentary to grow. The responses to the announcement of the new currency were cynical. It appears that some Venezuelans think the Maduro regime is wanting to try out digital currency to escape international financial sanctions, launder money or work an exchange rate scheme.

The second reference is an opinion from a former Venezuelan opposition legislator who makes a central point. He notes that Maduro has not explained exactly how the new currency could be exchanged by the public for something with more palpable value. (Even Bitcoin finds some of its viability in its potential convertibility to a hard currency, the US dollar.) The comment thread attached to the second article is also quite insightful, one participant noting the seemingly oxymoronic nature of the Venezuelan crypto-oil money launch. As he points out, a columnar idea of a cryptocurrency is that the specification of its value is not based on that of gold or any other tangible thing. It is made valuable as an exchange vehicle because of the difficulty of fraudulent manipulation of the transaction record, an immutability provided by complex computer computations and democratically distributed, time fixed packets of digital evidence.

Providentially perhaps, at almost the same time Maduro announced this hybrid concept of a cryptocurrency backed by oil and mineral reserves, he had to react to news that executives in the Venezuelan State oil company PVDSA had been caught in a huge embezzlement scheme. The third accompanying passage notes his reaction, expressing "disappointment" with those who "used their positions to commit crimes."

The fact that the Venezuelan cryptocurrency launch has some observers concerned is not surprising. We might consider the consequence and power of a blockchain-based currency by looking at three components: Who controls the machines (the computational computer equipment)?; who has access to the computation (in the effective sense of physical access to the machines plus knowledge of operation)?; and what were the original purposes of the currency's creation? As the fourth passage intimates, Russians and Chinese are well positioned to have set the purposes of the "Petro," provide and control the participating computers and effective access to them. These actors have considerable control over the Communist Party of Cuba and United Socialist Party of Venezuela, the two groups that control Venezuelan territory. That influence owes both to ideological compatibility and financial debt. Indeed, the responses suggest suspicion. Considering the geopolitical assertiveness in the fourth accompanying reference (in a Bolivarian sponsored outlet), could it be that the "Petro" will provide a medium for converting the value of natural resource solids into financial accounts within a closed non-dollar system of participation by anti-US parties?

There is also the issue of "mining." Mining, in the vocabulary of the hopeful cryptocurrency "ecosystem," refers to the contributions of computer-savvy participants who help to computationally validate transactions. Creating a broadly distributed, publicly transparent ledger provides an enhanced degree of immutability as to the occurrence of a given transaction, its timing and allocations. People with the necessary computer capacity and a modicum of computer savvy might "mine" after agreeing to the registration and computational protocols of a given blockchain community. Within some of these systems, the miner can receive a small fraction of a transferred amount as a transaction fee or commission -- as an incentive. This is mining. We will have to wait to see who is doing the Petro mining. **End OE Watch Commentary (Demarest)**

"...What is all this about a cryptocurrency using petroleum reserves as a guarantee if one cannot... [exchange] it?..."

Source: Editors, "Maduro anunció la creación de sistema de criptomonedas para Venezuela (Maduro announces the creation of a system of cryptocurrency for Venezuela)," *La Nacion*, 3 December 2017. http://www.el-nacional.com/noticias/gobierno/maduro-anuncio-creacion-sistema-criptomonedas-para-venezuela_213991

"He detailed that the value of this new digital money would, called 'el Petro', would be backed by reserves of gold oil, gas and diamonds...."

He affirmed that this system would allow citizens to carry out distinct transactions."

Source: Satya Toro, "José Guerra: 'Arranca mal la petromoneda' (José Guerra: 'Petromoneda gets off to a bad start)," *El Nacional*, 3 December 2017. http://www.el-nacional.com/noticias/economia/jose-guerra-arranca-mal-petromoneda_214013

"José Guerra, representative in the National Assembly (disbanded and delegitimized by the Maduro regime) questioned the decision of the president of the Republic, Nicolás Maduro in having initiated the development of a system of cryptocurrency using oil reserves as a guarantee. 'What is all this about a cryptocurrency using petroleum reserves as a guarantee if one cannot alienate [exchange] it?'..."

Jesus Rojas Bolivar [site commenter]: Virtual money or Bitcoin doesn't have its backing in petroleum or gold or in anything, it is for that reason virtual, depending on the confidence that the country has in it, its value calculated by gigantic computers and extremely complicated mathematical systems that translate into numbers and which are what sets for each virtual currency its value [but] only confidence gives it worth...."

Source: Editors, "Maduro se siente "traicionado por un grupo" que usó sus cargos para hacer "chanchullos" en Pdvsa (Maduro feels 'betrayed by a group' that used its government positions to run a scam in PDVSA [the government petroleum company])," *La Patilla*, 5 December 2017. <https://www.lapatilla.com/site/2017/12/05/maduro-se-siente-traicionado-por-un-grupo-que-uso-sus-cargos-para-hacer-chanchullos-en-pdvsa/>

"The President Nicolás Maduro:...I feel disappointed by a group of ex-companions who used their positions to commit crimes... Pain- the only cure is justice.'..."



Continued: Venezuela's New Crypto-Oil Money

Source: Editors, “¿Qué es ‘El Petro’, la nueva criptomoneda de Venezuela? (What is ‘The Petro’, the new Venezuelan cryptocurrency?),” *Misión Verdad*, 5 December 2017. <http://webcache.googleusercontent.com/search?q=cache:SmWgOIBddhAJ:misionverdad.com/la-guerra-en-venezuela/criptomonedas-venezolanas-geopolitica-y-sanciones-gringas-investigacion+&cd=4&hl=en&ct=clnk&gl=us>

“The year 2017 has been key in the transition toward an emerging financial system distanced from the dollar, where Russia and China have become protagonists in the construction of payments, investments and commercial interchange architecture at the regional level in national monies, novel factors that are not necessarily inconsistent with cryptocurrency. In the framework of that offensive, as regarding Latin America, Venezuela has the vanguard role in that geo-economic projection that defies the spinal column of US political power at the global level: dependence on the dollar.”

Gold Mining in Venezuela

OE Watch Commentary: In the previous article (“Venezuela’s New Crypto-Oil Money”) the word “mining” is used in the context of the new cryptocurrencies. Here mining is of the old kind, especially of gold. It is nevertheless connected to the digital currency in that Venezuelan President Nicolás Maduro claims the new virtual currency, the “Petro,” will be backed by the country’s oil and mineral reserves. Neatly contrasting with the virtual currency are the gold speckles and nuggets, taken directly from the ground, which ostensibly are to guarantee the incorporeal stuff. The accompanying report is quite a revelation of economic reality in Venezuela. In a country whose economy suffers from fixed prices and wages in a text book exercise of centralized socialist control, the goldfields are let loose and producing wild-west style. Potential earnings in the goldfields and their boomtowns are far higher than the official state wages. The author does not mention the specific mechanism connecting the Petro to mined gold, but he points out that many of the miners receive pay in the form of electronic transfers rather than cash. The ancient legend of El Dorado, of Sir Walter Raleigh’s desires, was supposed to exist almost exactly where the (mostly informal) mining claims now exist, even as a new El Dorado rises in virtual form. **End OE Watch Commentary (Demarest)**



Map of Lake Parime, Location of El Dorado (1625).

Source: By Hessel Gerritsz via Wikimedia, https://commons.wikimedia.org/wiki/File:Guaiana_ofte_de_Provincien_tusschen_Rio_de_las_Amazonas_ende_Rio_de_Yuiapari_ofte_Orinoque.jpg, Public Domain.

Source: Luis Pico, “Minería en Venezuela, un submundo sin escasez y con millones en efectivo (Mining in Venezuela, an underworld without shortages and with millions in cash),” *El Nacional*, 5 December 2017. http://www.el-nacional.com/noticias/sociedad/mineria-venezuela-submundo-sin-escasez-con-millones-efectivo_214125

“Because of the difference between what miners get in comparison with salaried employees, Hurtado assures that thousands of people are living together who preferred to abandon the cities and offices in exchange for jungles and ravines in which adolescents up to adults even older than 60 have come together.”

“Because of the difference between what miners get in comparison with salaried employees... thousands of people... preferred to abandon the cities and offices in exchange for jungles and ravines.”