The Politics of Oil

"*Standard Oil (now Exxon-Mobil) and Shell seat and unseat kings and presidents, finance palace plots and coup d'etats, have innumerable generals, ministers and James Bonds at their command.....make decisions about peace or war in every field and every language.*"
- Eduardo Galleano, Open Veins of Latin America

Crude Despots
It was dictator Juan Vicente Gómez who set the pattern. Gómez ruled Venezuela between 1908 and 1935 and was perfectly placed to benefit when the country's remarkable oil wealth began to flow in the 1920s.

Gómez used this new wealth to underpin his regime, enriching family, friends and supporters alike - the archbishop who gave a special dispensation allowing the dictator to eat meat on Fridays, was handsomely rewarded with oil shares.

The Gómez regime, a US diplomat wrote approvingly, was characterised by a "benevolent despotism", which the diplomat felt was infinitely preferable to "anarchical democracy."

Unfortunately, that benevolence did not extend to the majority of the Venezuelan populace, which saw little of the country's new found wealth. This pattern was to persist for the next seventy years.

Although the oil industry was nationalised in the 1970s - as Petroleos de Venezuela, SA (PDVSA) - the vast profits continued to defy gravity and trickle upwards into the pockets of a minority. Today, Venezuela is the world's fifth largest oil producer and, crucially, supplies the United States with 14 percent of its oil needs.

Reserves are said to be in excess of 74 billion barrels, along with 146 trillion cubic feet of gas. Oil provides the government with over half its revenues.

But that figure masks a truly corrupt reality. When PDVSA was established in the 1970s, it kept 20 percent of the oil revenue and passed the remainder to the state.

By 1990 the ratio had fallen to 50:50. By 1998, when President Chavez was elected, the process had been reversed: PDVSA kept 80 percent of revenues and passed a mere 20 percent to the state.

It was now little more than a private fiefdom, a vast bloated cash cow for a small, privileged elite.

Redistribute the Wealth
A central platform of Chavez' overwhelming electoral success in 1998 was reform of PDVSA and a redistribution of oil wealth.

Chavez saw the oil income as a natural source of funding for his ambitious social programmes, particularly with regard to health and education.

This ran counter to the plans of those who ran PDVSA. They saw privatisation - for which plans had been laid at least five years previously - as the means to guarantee their privilege in perpetuity.

They were joined by others made uncomfortable by such plans - the Venezuelan Chamber of Commerce (Fedecamaras), the union federation CTV, and the privately-owned media.

In 1999, the Chavez government submitted a new constitution to the people. It was overwhelmingly endorsed by popular vote. A key provision forbade the privatisation of PDVSA.

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In the international arena, Chavez also moved to rebuild and revive the Organisation of Petroleum Exporting Countries (Opec), thereby ensuring Venezuela received a better price for its oil abroad.

As a result, the price of oil virtually doubled to over $20 a barrel and a Venezuelan - Ali Rodriguez - became the new head of Opec. Washington was less than enamoured by these developments. The Administration's ties to the US oil industry - in the form of National Security Adviser Condoleeza Rice, vice-president Dick Cheney and President Bush himself - have been well documented.

Washington's hostility towards Venezuela became more pronounced, with senior officials questioning President Chavez' 'commitment to democracy' – this from a US administration that required the intervention of the Supreme Court to enjoy 'electoral' success!

Nonetheless, President Chavez' domestic opponents - driven by the kleptocracy that ran PDVSA - had found new friends abroad.

After the coup, it would emerge that the National Endowment for Democracy (NED), an agency of the US government, had quadrupled its funding for Venezuelan 'democrats' (the opposition) in the year leading up to the coup. NED funding of the opposition totalled $877,000.

In January 2002, the Venezuelan government gave legal expression to its plans to radically reform PDVSA by passing the Hydrocarbon Law. This law also doubled the royalties charged to foreign oil companies in Venezuela, chief among them US giant Exxon-Mobil. It was to take effect on January 1, 2003.

On December 10, 2001, the Venezuelan opposition launched a 'general strike' as part of their campaign to oust the democratically elected President – a strike in which the employers were the key organisers.

Venezuela's well-heeled elite duly took to their well-appointed barricades.

Whatever plans for a coup were already underway, it is certain they were given added impetus by the Hydrocarbon Law and a reinvigorated Opec.

Indeed, the opposition made it abundantly clear that they would privatise PDVSA, ignore Opec production limits and repeal the doubling of royalties for foreign oil companies.

US Oil Supply Threatened
But it was events in the Middle East that may well have compelled the coup plotters to act when they did. Israeli actions in Occupied Palestine, during the early months of 2003, resulted in widespread international condemnation and anger. Attention focused on the United States – Israel's chief source of financial and political support.

Boycotts of US goods were proposed throughout the Middle East, but never took hold. But what caught the public imagination was a proposed oil embargo of the US, by key Arab countries, a proposal that reportedly panicked the Bush administration. If the embargo became a reality, a steady supply of Venezuelan oil would be vital to the United States. A similar embargo in 1973 had only been broken when Venezuela stepped in to make up the shortfall in the US supply.

Days before the coup, Opec head Ali Rodriguez contacted President Chavez and warned him that the proposed embargo meant his opponents would move sooner rather than later.

Rodriquez said it was likely they would choose April 11, the day the opposition planned a major demonstration in Caracas. His prediction proved correct.

Would you buy a used coup from these people?
The opposition had failed to overturn the electoral result of 1998, by way of a 'strike' and then the coup of April 2001. However, undeterred by this catalogue of failure, they launched a second 'general strike' in December 2002.

The strike was supported by such luminaries of the democratic process as the local McDonalds franchise, Subway de Venezuela (sandwich franchise), supermarkets and private schools.

The timing was important. On January 1, 2003, the Hydrocarbon Law would take effect, paving the way for the dismantling and reconstitution of PDVSA and the doubling of royalties on foreign oil corporations.

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In this instance, the opposition sought to cripple the country economically, by halting output at PDVSA. Venezuela stood to lose $50 million per day, if they succeeded. (To prevent profiteering, President Chavez introduced price controls on basic foods, medicines and rents).

The opposition strategy was similar to that enunciated by then US Secretary of State, Henry Kissinger, who warned in the early 1970s that the US would "make the Chilean economy scream".

In 1973, following a prolonged period of destabilisation and 'strikes' the elected government of Salvador Allende in Chile was overthrown in a coup, ushering in the brutal regime of General Augusto Pinochet. Up to 3,000 people 'disappeared' or were murdered during his rule. Pinochet has since faced charges for crimes against humanity.

However, despite persistent attempts by the privately-owned media in Venezuela, it was clear from an early stage that the supposed 'general strike' was far from general and a long way short of popular.

At an early stage, workers from a Pepsi plant in Aragua, west of Caracas, ignored the orders of management to close, and occupied the plant.

Their response to the strike was breathtakingly clear: "If you close the factories - We'll take them over!" ("Fabrica Cerrada - Fabrica Tomada"). By January 2003, the 'strike' was dead on its feet.

Update February 27 2003
US State Department brands Venezuela "an unreliable oil supplier."

A judge orders the arrest of seven former PDVSA executives for their role in the most recent 'strike' (5,300 staff at PDVSA were sacked as a result of the strike, including 700 senior executives)

Venezuelan oil production has returned to pre-strike levels of three millions barrels per day. Ironically, the US push for war in the Gulf has sent the price of oil close to $40 a barrel - almost twice what it was before the April 11 coup. ■