

## **Venezuelan Oil and Politics – A Chance to Transform OPEC**

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EDGE – Winter 2003

As the 5th largest oil exporter in the world Venezuela's oil is exceptionally important not only to the country itself, but to the rest of the world. . As the founding member of the Organization of the Petroleum Exporting Countries (OPEC), Venezuela holds a powerful role in the organization. Hugo Chávez, the president of Venezuela, through his attempt to play a more and more active role within OPEC, could potentially bring about great change to his country and the organization.

Venezuela regards its oil industry as of extremely important value, both to itself and the rest of the world. There is no better example than this than the regular use of the army to protect output by defending installations, tankers, and refineries. Venezuela is the 5th largest oil exporter in the world, behind Saudi Arabia, Norway, Russia and Iran. Oil accounts for roughly 50% of the total government revenues and a third of the Gross domestic product. This is from the roughly 3 million barrels per day produced, three fourths of which is exported. Of the 3-4 billion in annual foreign investment, nearly all is channeled into the energy industry.

The success of energy industry in Venezuela dates back to the early 1970's, when an oil boom brought great wealth to Venezuela. Quickly the oil and steel industries were nationalized. After the initial boom a bust occurred where various economic problems were accompanied by national strife and attempts to overthrow the government. 25 years later, after many ups and downs in the country, Hugo Chávez, the leader of a failed coup attempt in 1992 was elected president in 1998 in a landslide victory.

Running on promises to transform Venezuela brought him great popular support, Chávez called himself the leader of “the peaceful revolution.” Restructuring the government of the country and creating a new constitution in line with the ideals of Simon Bolivar were his first tasks.

**Article 1.** *The Bolivarian Republic of Venezuela is irrevocably free and independent and supports its moral patrimony and liberty values, equality, justice and international peace, according to the doctrine of Simon Bolivar, the Libertador. Independence, liberty, sovereignty, immunity, territorial integrity and national self-determination are mandatory rights ."*

*-Asamblea Nacional Constituyente*

*-Constitución Bolivariana de Venezuela , 1999*

A voter turnout of 35% put the new constitution into place by a referendum in April 1999. In addition to replacing the old document, Chávez’s constitution called for the establishment of a Constituent Assembly to replace the old Congress. Initial elections to the assembly, influenced by a huge voter education drive, produced a 96% pro-Chávez majority. Chávez initially enjoyed approval ratings in the 80% range.

In his rise to power, Chávez brought about the downfall of the major political parties, as well as the dissolution of organizations that were traditionally believed to safeguard Venezuela’s democracy. Many became concerned about the apparent ease which the new constitution gave Chávez for transforming the nation into a dictatorship. Furthermore, his promises of reform quickly alienated the country’s traditional business and political elite. He promised “revolutionary” social policies, and constantly abused those who he called “predatory oligarchs” of the establishment. At one time he described

the oil executives as living in “Luxury chalets where they perform orgies while drinking whisky”. Although he still enjoyed widespread popular support, those at the top did not hold the same opinion.

*... almost everyone is either passionately for Chávez or against him, a Chavista or an anti-Chavista. The poor who feel embraced by Chávez worship the Venezuelan president as their redeemer: "Hugo the Messiah!" His equally zealous foes see him as Hurricane Hugo, with the power to transform Venezuela into a Communist backwater like Cuba or, alternatively, a violent, riven republic like Colombia.*

*NYT Magazine – June 2002*

The United States remains heavily dependent on Venezuelan oil, with Venezuelan oil accounting for 13% of daily oil import of the US. Removal of Venezuela’s oil will certainly squeeze prices higher around the world. The US in particular is left scrapping for alternative sources of Crude as well as refined products such as gasoline, jet fuel, and diesel. In today’s world with ongoing uncertainty about war in Iraq and supply from the middle east, secure supply is especially important.

Reforms in Venezuela, however, have caused problems. Controversies over Chávez’s actions against the established business elite led Pedro Carmona Estranga, backed by right-wing generals to lead a coup on in April of 2002. This temporarily ousted Chávez from power, and upon the false announcement of Chávez’s resignation, accepted the provisional presidency and began dissolving the National assembly and dismissing the Supreme Court. Word got out that Chávez had not truly resigned and

forces loyal to him recaptured the palace. Chávez's presidency was re-established. In his quest to gain popular support, Chávez has awoken a vengeful mood in the nation's poor. Although the nation is very rich, the majority of the people are very poor. Chávez has exploited this fact and created a polarity in the country that the elite feel threatened by. Time will show the effects of Chávez's revolution.

Venezuela was the founding member of the OPEC oil cartel. The goal of this group was to control prices by regulating the amount of oil pumped onto the market by member countries. Since his election, Chávez has asserted himself as a leader within the organization. In a key address held at a 1999 OPEC conference held in Caracas, he argued for a fair price of oil. At the time, a barrel of oil cost \$14-15. Citing prices of 'barrels' of other commodities, he argued that it is not right that the price of oil is so low. What is important in the industry as a whole is finding a fair price, one that is convenient for everyone, consumers and producers. The goal of this is to of course incorporate sustainability into the oil business, and to protect the economies of oil dependent nations.

Chávez created a new system to encourage balance. Called the "Bands" System, the price of oil is restrained within a floor and ceiling price. Originally met with skepticism from the more developed nations, eventually, there was an understanding that a balance between supply and demand of crude oil was important to all nations.

This policy incurred the wrath of many developed countries such as the US and Britain. Chávez has lobbied hard, speaking with leaders from around the world – Blair, Chirac, Putin, Bush and more. His goal has been to explain the importance of balance in the market, that it is important to avoid price volatility. The developed world has gained

some understanding of the reasons for OPEC's practices. However, OPEC still does not enjoy a good reputation in most developed nations around the world. There is potential to change this conflict.

Chávez too has recently seen problems. Centering around his inability to come through on his promises of nationwide reform and prosperity, Chávez has lost much of his popular support that led to his landslide election. As Chávez grew more powerful, his critics said he was leading Venezuela towards a Cuban-style authoritarian government. He was also criticized for courting countries that attract US or international disapproval, namely Cuba, Iraq and Libya. In late 2001 he introduced controversial economic measures, which gave rise to mass protests and strikes. His approval rating dropped from a high above 80 down to a range in the 30's. For the lower class, problems were rooted mainly in the lack of promised prosperity in the country. In addition, the business sector has been alienated by pro-Cuban rhetoric, expropriation of private property, and increased state intervention in the economy.

Opposition pressure intensified in 2002, with more protests and a prolonged general strike. At the beginning of December, an indefinite national strike in Venezuela began to adversely affect oil shipments. Labor unions and business groups called for the work stoppage to demand a referendum on whether or not Chávez should be allowed to stay in office. During the strike, Venezuela's production dropped to as low as 150,000 barrels per day from the usual level of nearly 3 million barrels per day as key staff walked off their jobs. A total of around 35,000 workers abandoned offices and oil fields in an effort to force Venezuela's President Hugo Chávez to resign. In order to lighten the adverse effects on the country's population, Brazil shipped in skilled workers as well as

gasoline. After many months of strife, violence and major economic impact, the strike abated, and Chávez remained in power.

In the most recent developments, OPEC has questioned Venezuela's oil output figures since the end of the strike in early February 2003. Currently the Venezuelan Oil Minister claims an output of 2.65 million barrels per day, and states that they will be up to the OPEC output target of 2.819 million barrels per day. They also claim that output could be pushed as high as 3.5 million barrels per day in the event of a US led war in Iraq. OPEC however is very skeptical of these figures and estimated goals. Following the lead of reports made during the strike regarding the ability to restart the refineries and oilrigs, OPEC is questioning the ability of the country's oil industry to recover so quickly. OPEC went so far as to ask whether or not a figure of 2 million barrels per day is even a reasonable expectation at this point.

Perception of OPEC nations by the developed world remains poor. Regulating the supply of oil on the world market allows OPEC to control world oil prices, however these higher prices are sharply criticized by non-member nations. By charging these higher prices, OPEC nations enjoy large profits in their oil industries, often claiming a majority of the national GDP through the oil industry. In most member nations, these profits remain solely in the hands of the upper ranks of the nationally controlled oil corporations. While large profits pour into these nations, little if any is applied to the betterment of the nation as a whole. Chávez has the potential to bring together his stated Bolivarian policies with his goals for OPEC, and produce a favorable world opinion for OPEC and its member countries.

Chávez's goals follow Bolivarian ideals and improving the livelihood of the nation's people. Using his "Bands" system, and attacking the harshest of criticisms by the developed world of OPEC's price fixing, the profits from the higher priced barrels could easily be reinvested in the OPEC member countries. Rather than struggling for improvement of the countries' schools, roads, hospitals and other essential services through foreign direct investment, a system of National direct investment based on the OPEC profits could be facilitated.

This system could take the form of an OPEC-wide regulation mandating that a certain percentage of a country's profits from oil must be reinvested into the development of the member nation. A national fund could be set up for the distribution of these funds. Some power could be wrested from the heads of the oil corporations, and profits could be handed down to the rest of the country. Oil prices and percentages of profits placed in the national fund for development would be regulated to maintain the stability of the oil industry in each country. Alternatively, a single fund could be set up for all the nations of OPEC. A council of all member nations would be set up to control the distribution of funds and to ensure that the funds were going to the appropriate people.

Chávez often speaks of strengthening the economies of South American nations, vouching for further cooperation amongst each other according to his Bolivarian ideals. Expanding these goals for South American nations to OPEC, Chávez can use his leverage within OPEC to create support for the establishment of a profit reinvestment program. This would allow the OPEC member countries to develop their basic services, helping them become established nations on the world scale. World opinion on the OPEC nations may improve due to their efforts to further develop.

A wave of reform governments is being elected in developing nations throughout the world. Most relevant to Venezuela and drawing many ties to Chávez's election is the newly elected government in Brazil. The recent election of Luiz Inacio Lula has brought around expectations of a transformation of Brazil from one of the world's most unequal societies into that of a modern democracy. Lula hopes to bring great reform, but seeks to avoid the chaos of Chávez's "Bolivarian Revolution." Questions over the economic viability of Lula's plans are being raised, and given today's world economic situation, investment will be harder to come by.

In a situation as dynamic as that in Venezuela, things could change drastically in a matter of days. Following the region's past history, a coup could be held in the near future which overthrows Chávez's regime. Or Chávez could continue on his agenda of Bolivarian reform. The country's oil industry is on the mend, but may soon be pressed hard to raise production in the event of war in the Middle East. During Venezuela's strike, Brazil provided gasoline and skilled workers to help ease the problems that country was facing. Will these policies of regional cooperation continue? Time will tell. If Chávez's policies of cooperation and development can be brought to OPEC, there is great potential for the further development of member nations, as well as a greater level of respect by the developed world. The possibilities are endless.



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