# GEOPOLITICS OF OIL: A CASE STUDY OF VENEZUELA

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*in partial fulfilment of*

## MASTER OF PHILOSOPHY

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## DECLARATION AND CERTIFICATE

### DECLARATION

I declare that the dissertation entitled **"Geopolitics of Oil: A Case Study of Venezuela"** submitted by me for the award of the degree of **Master of Philosophy** of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this University or any other university.

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### CERTIFICATE

We recommend that this dissertation be placed before the examiners for evaluation.

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I alone owe the responsibility for any mistakes, omissions or lacunae if any in this dissertation.

Khichar

(Jasveer Khichar)

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# ABBREVIATIONS

| | |
|---|---|
| ALBA | Bolivarian Alternative for the Americas |
| CCL | Communal Council Law |
| ECA | Economic Cooperation Administration |
| EIA | Energy Information Administration |
| FTAA | Free Trade Area of the Americas |
| GDP | Gross Domestic Product |
| GNP | Gross National Product |
| HGO | Heavy Gas Oil |
| IEA | International Energy Agency |
| IMF | International Monetary Fund |
| MBR | Bolivarian Revolutionary Movement |
| NAFTA | North American free trade area |
| NATO | North Atlantic Treaty Organisation |
| OAS | Organization of American States |
| OECD | Organisation of Economic Cooperation and Development |
| ONGC | Oil and Natural Gas Corporation |
| OPEC | Organisation of Petroleum Exporting Countries |
| OVL | Oil Videsh Limited |
| PDVSA | Petroleos de Venezuela, S.A |
| PPP | Purchasing power parity |
| SAIC | Science Applications International Corporation |
| U.N. | United Nations |

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CHAPTER ONE

# INTRODUCTION

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## Introduction

Till 1990, most violent conflict was assumed to be a sign of the global rivalry between the United States and the Soviet Union. With the end of the Cold War, it has become more difficult to explain the crisis and wars that have erupted in various parts of the world. Many theories have been advanced to answer this dilemma, most of them revolves around identity politics and the "clash of civilizations." In some cases, these explanations have proved useful in identifying the sources of particular conflicts. But they often fail to provide an adequate explanation and it seems that other sources are at work. Of these, the competitive pursuit of valuable resources like oil, water, land, minerals, diamonds, old-growth timber, deep-sea fisheries—is the main reason.

The pursuit of valuable resources, of course, has long been recognized as a major source of international conflict. Indeed, relations among the major European and Asian powers right from the Fifteenth Century to World War I were largely governed by the competitive drive for control over resource-laden colonial territories. World War II also entailed resource-driven struggle of this sort, particularly in the oil-rich Caucasus and Dutch East Indies, the first a major target of Germany's 1941 invasion of the Soviet Union, the second the principal objective of Japan's 1941 foray into Southeast Asia. But material interests of this sort were accorded second place to ideological struggle during the cold war era, when a nation's alliance to Moscow or Washington was considered the major determinant of its role in world affairs. Now, with the cold war a memory, the scenario ahs changed once again, and resource competition has assumed its historic role as a major source of international friction and conflict.

Today, we are witnessing the emergence of an increasingly complex and volatile interplay of regional and domestic struggles over control of vital resources. On one side of this equation are the major powers—the United States, Russia, China, Japan, and Western Europe—that seek dominance over critical resource-producing areas, such as the oil and natural gas fields of the Persian Gulf and Caspian Sea basins. On the other side are local factions—warlords, tribal chieftains, militia leaders—that aim to monopolize the revenues generated by particular resource deposits especially oil, while enjoying the continued protection and support of their great power patrons. The result, all too often, is the accelerated intrusion of arms, advisers, troops, and mercenaries into areas that are already unstable due to constant conflict. In this background, the present work seeks to study the emergence of Venezuela as a stalwart production hub for oil when the world oil market was undergoing one of its major disruptions caused by the Persian Gulf instability.

## Energy security

Access to cheap and affordable energy has become essential for the functioning of modern economies. However, the uneven distribution of energy supplies among countries and the critical need for energy has led to significant vulnerabilities. Threats to global energy security include the political instability of major energy producing countries, the manipulation of energy supplies, the competition over energy sources, attacks on supply infrastructure, as well as accidents and natural disasters. It is also the limited supplies of the most common forms of primary energy, i.e. oil and gas that changes perceptions on this topic. Although plenty of coal, up to 155 years worth, is readily available, coal is not the fossil fuel of choice for many developed countries because of its highly polluting nature. The potential need to change our primary energy sources in the foreseeable future is the crux of the energy security question, leading to higher prices, more limited access to sources of energy, competitions and political troubles, which in turn make the threat even larger. Although in the developed world the usual definition of energy security is simply the availability of sufficient supplies at affordable prices, different countries interpret it differently. Energy exporting countries focus on maintaining the "security of demand" for their exports, which after all generate the overwhelming share of their government revenues. For Russia, the aim is to reassert state control over "strategic resources" and gain primacy over the main pipelines and market channels through which it ships its hydrocarbons to international markets. The concern for developing countries is how changes and fluctuations in energy prices are affecting their balance of payments. For China and India, energy security now lies in their ability to rapidly adjust to their new dependence on global markets, which represents a major shift away from their former commitments to self-sufficiency. For Japan, it means offsetting its scarcity of domestic resources through diversification, trade, and investment. In Europe, the major debate centres on how to manage dependence on imported natural gas. The United States must face the uncomfortable fact that its goal of 'energy independence'- a phrase that has become a mantra since it was first articulated by Richard Nixon after the 1973 embargo was put in place- is increasingly at odds with reality.

The current energy security system was created in response to the 1973 Arab oil embargo to ensure coordination among the industrialized countries in the event of a disruption in supply, encourage collaboration on energy policies, avoid bruising scrambles for supplies, and deter any future use of an -"oil weapon"- by exporters. Its key elements are the Paris-based International Energy Agency (IEA), whose members are the industrialized countries; strategic stockpiles of oil, including the U.S. Strategic Petroleum Reserve; continued monitoring and analysis of energy markets and policies; and energy conservation and coordinated emergency sharing of supplies in the event of a disruption. The emergency system was set up to offset major disruptions that have threatened the global economy and stability, not to manage prices and the commodity cycle. Since the system's inception in the 1970s, a coordinated emergency drawdown of strategic stockpiles has occurred only twice: on the eve of the Gulf War in 1991 and in the autumn of 2005 after Hurricane Katrina. Experience has shown that to maintain energy security, countries must abide by several principles. The first and most familiar is what Churchill urged more than 90 years ago, diversification of supply. Multiplying one's supply sources reduces the impact of a disruption in supply from one source by providing alternatives, serving the interests of both consumers and producers, for whom stable markets are a prime concern. But diversification is not enough. A second principle is flexibility, a "security margin" in the energy supply system that provides a buffer against shocks and facilitates recovery after disruptions. Flexibility or resilience can come from many factors, including sufficient spare production capacity, strategic reserves, backup supplies of equipment, adequate storage capacity along the supply chain and the stockpiling of critical parts for electric power production and distribution, as well as carefully conceived plans for responding to disruptions that may affect large regions. Hence the third principle: recognizing the reality of integration. There is only one oil market; a complex and worldwide system that moves and consumes about millions barrel of oil every day. For all consumers, security resides in the stability of this market. Secession is not an option. A fourth principle is the importance of information. High-quality information underpins well-functioning markets. On international level, the IEA has led the way in improving the flow of information about world markets and energy prospects. That work is being complemented by new International Energy Forum, which seeks to integrate information from producers and consumers. Information is no less crucial in a crisis, when consumer panics can be instigated, obscured by accusations, acrimony, outrage, and a fevered hunt for conspiracies, transforming a difficult situation into something much worse. In such situations, governments and the private sector should collaborate to counter panic with high-quality timely information. The U.S. government can promote flexibility and market adjustments by expediting its communication with companies and permitting the exchange of information among them, with appropriate antitrust safeguards, when necessary.

At the same time, a new range of vulnerabilities has become more evident. Al Qaeda continuously threatens to attack what Osama bin Laden calls the 'hinges' of the world's economy, that is, its critical infrastructure- of which energy is one of the most crucial element. The threats are not only limited to terrorism, political turmoil, armed conflicts and piracy but also include natural calamites, which directly effect the energy security. In August and September 2005, Hurricanes Katrina and Rita delivered the world's first integrated energy shock, simultaneously disrupting flows of oil, natural gas, and electric power.

The energy security issue once again came in the forefront with the Russian-Ukrainian natural gas supply dispute to Europe and rising tensions over Tehran's nuclear program. The later one brought threats from Iran, the second largest OPEC producer, to "unleash an oil crisis". Therefore, one of the leading threats to energy security is the significant increase in energy prices, either on the world markets – as has occurred in a number of energy crises over the years – or by the imposition of price increases by an oligopoly or monopoly supplier, cartel or country. In some cases the threat might come from a single energy superpower – those states able to significantly influence world markets by their action alone. Rather than just manipulating prices, such suppliers might go beyond this by suspending or terminating supplies. This has been done to apply pressure during economic negotiations - such as during the Russia-Belarus energy dispute - or to apply political pressure, for example by OPEC in response to Western support for Israel in the Yom Kippur War. Suspension of supplies may also come about as a result of world-wide international sanctions against a country.

Energy plays an important role in the national security of any given country; it plays the role of fuel in the economic engine. Hence, threats to energy security can also result from physical damage to the energy infrastructure either of the supplier, or of the importer as an outcome of natural events, terrorism, or warfare. The political and economic instability caused by war or factors such as strike action can also prevent the proper functioning of the energy industry in a supplier country as is the case of Iraq. In recent years, new threats to energy security have emerged in the form of increasing competition for energy resources among countries. This is mainly true for countries like China and India which are experiencing faster rates of industrialisation. Although still a minority concern, the possibility of price rises resulting from the peaking of world oil production is also attracting the attention of the countries. In the future it is possible to envisage threats to energy security emerging not as a result of energy prices, but as a result of increases in the price of carbon emissions within carbon emissions trading schemes, or from international political pressure to reduce emissions. Increased competition over energy resources may also lead to the formation of security compacts to enable an equitable distribution of oil and gas between major powers. However, this may happen at the expense of less developed economies. So we can say that the energy security remains most debatable and conflicting issues for the countries of the world in present and in future also.

## Geopolitics

Historically, international competition of this sort, aimed at the control or occupation of critical geographic features such as rivers, harbours, islands, and vital resource sites, is regarded as geopolitics. Once a respectable analytical term, geopolitics fell into disregard when employed by Hitler and others to justify Germany's pursuit of *lebensraum* in Central and Eastern Europe. The term further lost legitimacy during the Cold War when noble principle- and not material interest- allegedly governed the behaviour of both super powers. But it is geopolitics that best describes the behaviour of the United States, Russia, China and other major powers in the Caspian basin and other areas of mutual interest.

"Geopolitics as an approach to the study of international relations stresses the importance to locations among nations. Thus, geopolitics emphasizes geographic factors as important determinants of government policy and major dominants of the relative power positions of states."

Although the importance of geographic factors changes with development in many areas with the passage of time, advances in technology, the need for access to raw materials and changes in national and international political goals and judgments as to legitimate means of pursuing international objectives. Moreover, geographic and locational factors vary in importance with changes in the international system itself; there are new international actors (new nations as well as MNCs, international organizations and regional, economic and military organizations): the legitimacy and adequacy of the traditional actors, of nation states themselves is a subject for debate. Power becomes more widely dispersed; super powers often find themselves confounded by lesser states to find room for manoeuvring within the stalemate created by nuclear weaponry. This continuously changing international environment that access to raw materials will evolve geopolitics. Are there geopolitical factors related to energy and raw materials that suggest the outline of new international relationships for the decades ahead? Which areas by dint of their control over which geographic factors will be strategically and economically important in the future? What combination of states is made likely by these geographic factors? These are the questions will be answered in this research work to understand the global geopolitical dynamics. The competitive pursuit of geopolitical advantage by the major powers and its interplay with local power dynamics can take many forms and generate myriad repercussions. While cataloguing all of these would prove a nearly impossible task, it is possible to glimpse the larger picture by examining one of the most striking features of current and emerging geopolitical rivalry: the global race to devise, build and operate oil and natural gas pipelines.

## Geopolitics of Oil

Oil and food differ from other commodities as they are indispensable for the functioning of society. Food shortages can trigger social and political instability with startling swiftness. It does not take long to starve to death. Oil has a less-immediate—but perhaps broader—impact. Everything, including growing and marketing food, depends on energy; and oil is the world's primary source of energy, particularly in transportation. Oil and grains, where the shortages hit hardest, are not merely strategic commodities. They are geopolitical commodities. All nations require them, and a shift in the price or availability of either triggers shifts in relationships within and among nations. Since the end of World War II, we have lived in three geopolitical regimes. These are:

1) As we know during the Cold War, the areas of greatest concern to military planners were those of confrontation between the U.S. and the Soviet blocs (Central and South Eastern Europe and Far East). Since the end of the Cold War, however, these areas have lost much strategic significance for the United States (except, perhaps, for the demilitarized zone between North and South Korea), while other regions - the Persian Gulf, the Caspian Sea basin, and the South China Sea - are receiving increased attention from the Pentagon. There is clear cut evidence of U.S. policies based on the famous geo-political theory of Rim land by Spykman, that's why middle-east became the biggest conflicting ground for both countries and the importance of this region arose because of the rich oil resources and geo-strategic location. It gave the way for furthering the oil related rivalries in world and later due to the dominance of OPEC countries over the oil supply. Behind this shift in strategic geography is a new emphasis on the protection of supplies of vital resources, especially oil and natural gas, whereas Cold War era divisions were created and alliances formed along ideological lines, but now economic competition drives international relations - and competition over access to these vital economic assets has intensified the geopolitical relations. Because an interruption in the supply of natural resources would lead to severe economic consequences, the major importing countries now consider the protection of this flow a significant national concern. In addition, with global energy consumption which is rising by an estimated two percent annually, competition for access to large energy reserves will become more intense in the years to come.

2) The period from the fall of the Berlin Wall until 9/11 incident in the States, when the primary focus of the world was on economic development. This was the period in which former communist countries redefined themselves, East and Southeast Asian economies surged and collapsed, and China grew dramatically. This was the same period in which politico-military power was

secondary and economic power became main and in that oil became most important factor for the development of the economies.

3) The period from 9/11 incident until today has been defined in terms of the increasing complexity of the U.S.-Jihadist war and oil dominated economy—a reality that supplanted the second phase and redefined the international system dramatically.

Economic power creates political and military power, just as political and military power can create economic power. The rise in the price of oil is triggering shifts in economic power that are in turn creating changes in the international order. Obviously, the winners in this game are those who export oil, and the losers are those who import it. The victory is not only economic but political as well. The ability to control where exports should go and where they should not creates political power. The ability to export in a seller's market not only increases wealth but also increases the ability to coerce, if that is desired. However, the game is somewhat more complex than this. The real winners are countries that can export and generate cash in excess of what they need domestically. So countries such as Venezuela, Indonesia and Nigeria might benefit from higher prices, but they absorb all the wealth that is transferred to them. Countries such as Saudi Arabia do not need to use so much of their wealth for domestic needs. They control huge and increasing pools of cash that they can use for everything from achieving domestic political stability to influencing regional governments and the global economic system. Indeed, the entire Arabian Peninsula is in this position. The big losers are countries that not only have to import oil but also are heavily industrialized relative to their economy. Countries in which service makes up a larger sector than manufacturing obviously use less oil for critical economic functions than do countries that are heavily manufacturing-oriented. Certainly, consumers in countries such as the United States are hurt by rising prices. And these countries economies might slow.

For the United States, the situation is largely a push. The United States is an oil importer, but its relative vulnerability to high energy prices is nothing like it was in 1973, during the Arab oil embargo. De-industrialization has clearly had its upside. The shifts will not change the status of the United States, but they might create a new dynamics in the Gulf region that could change the framework of the Iraqi war. East

Asia has been most affected by the combination of sustained high oil prices. Japan, which imports all of its oil and remains heavily industrialized (along with South Korea), is obviously affected. But the most immediately affected is China, where shortages of diesel fuel have been reported. China's rapid industrialization is directly effected by high energy prices as it is not self-sufficient in its oil resources. This dilemma is found throughout Asia. But just as Asia is the big loser because of long-term high oil prices, Russia is the big winner. Russia is an exporter of natural gas and oil. Russia has been very careful, under Vladimir Putin, not to assume that energy prices will remain high and has taken advantage of high prices to accumulate substantial foreign currency reserves. That puts them in a very strong position. Economically, they are becoming major players in global acquisitions. Politically, countries that have become dependent on Russian energy exports — and this includes a good part of Europe — are vulnerable, precisely because the Russians are in a surplus-cash position.

Competition for access to oil and gas has sharpened the competitive struggle between rival powers, making international relations much more volatile. High energy prices have strengthened Putin's regime, as well as that of Chavez in Venezuela and of Morales in Bolivia (where the government has nationalised the gas industry). In Venezuela's case, oil products account for almost 90% of exports, and its unconventional oil reserves require imported state-of-the art technology. During the past two years, Venezuelan oil exports to the United States have declined 8.2%. Exports to China have spiked since and diplomatic efforts are at pace. Venezuela is trying to use this geopolitical resource endowment for its economic development and security. Venezuela is using its oil resource to counter the United States hegemony and is also trying to make the world aware of United States hegemonic pretensions. Chavez is riding high due to his popularity in his country, his hard voice and anti United States policies and visionary step towards multi-polar world. Venezuela is largest oil producing country in South America and is trying to use this to make regional blocks against United States.

## Review of Literature

Geopolitics is an interaction between the natural, geographical and political phenomenon. It sets out to examine the interrelationship between political actors and spatial environment. Because of its natural shape, the globe is divided into certain number of spaces, which are the sites of struggle among the states. This fact conditions politics to space, with its own specific and constant rules that permanently affect the people in that area, as seen throughout the history (Cohen, 2003).

The internal and external importance of oil has heightened the interest of politicians, diplomats, bankers, military officers, and members of the business community in petroleum-poor and petroleum-rich nations, with the latter category (led by Mexico and Venezuela) commanding the most attention. Consequently, scholars concerned with politics, economics, political economy, international relations, and geopolitics have found oil to be an intriguing thread in pursuing their own intellectual interests. One fascinating aspect of oil is that it defies academic pigeonholes a study that begins with a political orientation invariably confronts questions traditionally considered to fall within the domain of a half-dozen other social sciences as well as within disciplines as diverse as geology, engineering, law, and philosophy. As in so many other areas of social inquiry, country-specific case studies have dominated the recent literature on the role of oil in Latin American countries. Although sometimes lacking either working hypotheses or rigorously formulated categories that would facilitate comparative analyses and theory building, these works often advance significantly general knowledge of the role played by petroleum in a given nation.

Petras, Morley & Smith in their book "*The Nationalization of Venezuelan oil* (1977)" written from the Marxist-Leninist perspective. Its basic thesis is that, although nationalization of oil industry has undoubtedly made the state the overwhelmingly most powerful element in the Venezuelan economy, it has neither undermined capitalism nor made Venezuela less dependent internationally. The authors look at the Venezuelan experience within a broader context of what they call "state capitalism," which they define "as a social system in which the principal sources of surplus production are owned and directed by the state and in which the state becomes the principal source of capital accumulation within a market economy.

The authors argue that with state capitalist nationalization of something like the Venezuelan oil industry, the result is "state ownership of profitable enterprises that serve to capture the surplus for financing the state and national private investment. The expropriation of raw materials, banks, insurance companies, and basic industries provides substantial sources of new capital towards strengthening the internal (private and state) forces of accumulation. This type of nationalization usually occurs in the third world and usually affects foreign-owned enterprises. They contrast this kind of nationalization with three other types: "private capitalist nationalization" involves the state taking over unprofitable enterprises that the private sector doesn't want but the economy needs; "bureaucratic collective nationalization" they say, occurs in the context of total transfer to the means of production, foreign and national, to the state within a bureaucratically controlled and planned economy and serves to finance the expansion of national state enterprises. This has been the experience in Eastern Europe and the USSR, and finally, "socialist nationalization" is described as part of total transformation in which the direction and the ownership of the processes of production are under workers control. This has appeared in varying forms in Yugoslavia (prior to the advent of the market) and perhaps is present in China.

In the book entitled *'Oil and Politics in Latin America: Nationalist Movements and State Companies'*, G. Philip (1972) sketches the world oil environment in respect to two arguments. Firstly, by the market economists, who have tried to explain the oil industry in terms of the familiar logic of cost and price, supply and demand but have always found it necessary to bring the concept of oligopoly into their explanation? Oligopolies are rarely popular and some writers appear to have believed that by denouncing OPEC, they could persuade them to go away. Others have tried to demonstrate that the oil market is inherently unstable unless controlled for a time by some form of cartel, even though cartels themselves may collapse in the long term. In any case, it is clear that there is a political as well as an economic aspect of oil which limits, although it does not invalidate, the usefulness of narrow economic analysis.

Another group of writers, generally to be found on the political left has seen the oil industry as a classical example of the 20th century imperialism. The development of the oil industry in the under developed countries has clearly responded to the needs of the richer countries, which at times searched for market outlets but more usually were concerned with sources of supply. The book further aims to provide an account of the conflict that has been played out within the Latin

American oil industry between the claims of international capitalism-in the shape of semi-oligopolistic transnational companies with variable support from their parent governments and more recent claims of national sovereignty and state control..

The first part considers the choices or lack of choice faced by Latin American governments at different times in this century as a result of both the technical and political conditions prevailing in the international market place. To what extent have international conditions operated systematically or in sinister fashion to close off avenues to Latin American governments and to what extent are present market conditions within the continent are the result of freely made choices? The second part considers the internal political implications of international oil investment by focusing on some of the major conflicts which have resulted – those which ended in nationalism. It will consider the motivations of most governments which extended state control over their oil industries and will examine their basis of internal political support. The third part discusses the development of state oil companies in six key Latin American countries in order to see how these have coped with the complex pressures surrounding oil operations in these countries.

C.T. Smith (1962) in his article *"Venezuela" explains the* dependence of the economy on oil is compactly and shrewdly explained both in terms of external trade and in terms of government revenue and investment. The embellishment of Caracas, the ambitious public works and projects of the Jimenez regime are properly put into their political and social context, and so too are the fundamentally more valuable policies of 'sowing the oil' and of developing services of health and education. In the process of stimulating development through its use of oil revenues, Government has invested heavily in many branches of the economy, so that it has become the largest banker, the largest farming corporation, and is deeply involved in a variety of manufacturing industries, from steel to textiles and food processing.

J. Ewell (1982) in her article *'The Development of Venezuelan Geopolitical Analysis since World War II'* discusses contradictions of Venezuela's complicated location, economy, resources, population, and political system with respect to its geopolitical objectives. The most apparent contradiction is between a global view of military and economic security and the narrow view that Venezuela must retake frontier territory lost to neighbours in the past. The major geopolitical theme unique to Venezuela is a belief in a Mediterranean destiny that is both offensive and defensive and that is linked to the national memory of continental leadership during the Wars of

Independence. Venezuelan spokesmen hope that their nation can politically and economically integrate the continent and the Caribbean states. In terms of population size and geographical extension, Venezuela is a giant in the Caribbean and can most easily extend influence in the region as long as the economic resources to support such an active role exist. Conversely, on the international scene in general, Venezuela must seek international allies or a regional coalition to augment national prestige. An "Israel-like" strategy could also be important in enlisting world support in the event of an attack by either of the superpowers. Geopolitical strategies appear to have had a steadily increasing influence on Venezuelan policy, although the influence is hardly unitary and coherent for some of the reasons mentioned. The future importance of geopolitics may well depend both on the political influence of the military officers most associated with geopolitical analyses and on the extent to which civilian politicians can successfully attract voters with nationalistic "living frontiers" appeals.

The article *'Petroleum and Political Pacts: The Transition to Democracy in Venezuela'* by T. L. Karl (1987) discusses the tentative re-emergence of democracy in Latin America in the first half of 1980's with respect to Chile, Uruguay and Venezuela. He opines that Venezuela should not be expected to provide a formula for those who seek paths to democratization. Yet its experience of regime transformation in 1958 yields important lessons. He argues this theory from a new perspective focusing on the interaction between petroleum and political pacts and states that this relationship should be the focus of central debate in political analysis.

L. Randall's (1987) *The Political Economy of Venezuelan Oil* seeks to show how a small nation has taken advantage of its petroleum patrimony to transform itself from a producer of raw materials into a highly developed country boasting self-sufficiency in a wide array of manufactures and services. She traces the evolution of Venezuela's oil sector from domination by foreign firms attracted by dictator Juan Vicente G6mez in the 1920s to mounting state control of the transnationals led by Standard Oil's Creole Corporation, then to the 1976 nationalization of the foreign companies and the post-nationalization era in which Petroleos de Venezuela, S.A. (PDVSA) functions as a holding company for four competing state entities. Political expediency and macroeconomic policy sabotaged the goal of using oil earnings to diversify an economy that depends on oil for 50 percent of government income and 85 percent of its foreign exchange. Notwithstanding politicians' cant about guaranteeing PDVSA's economic vitality, they siphoned funds from the state firm to meet short-term needs for social demands and balance of payments. PDVSA's technocratic, elitist image as "latter-day Jesuits" also contributed to the company's vulnerability. Moreover, an overvalued *Bolivar,* buoyed by oil earnings, militated against the industrial diversification to which every Venezuelan politician has paid lip service. The author explains some of the externalities, good and bad, which came with foreign corporate ownership, then the criteria for nationalization, which was long expected and arrived in 1976, then pay and perquisites for workers and managers. The latter fared well because they were part of an international labour market; the former, poorly because they were no longer "the nation" versus foreign capitalists, but public employees comparable with all others. Two chapters then deal with the supply of services and of capital goods for the national company Petroleos de Venezuela (PDVSA) and its component firms. The pressure to buy Venezuelan has been resisted, but not enough, and protectionism has had the usual results in cosseting local industry into inefficiency. A chapter on planning is the closest one comes to looking at Venezuelan oil as part of a worldwide industry, responding to supply, demand, and control by the OPEC cartel. On the eve of the 1976 nationalization, Venezuela was widely regarded as a played-out old province. Stagnant production was due to the restraint on imports into the United States; production limits then became those imposed by the cartel. But there was also mutual company-government stultification of which Randall is well aware. Randall's conclusion with respect to nationalization reflects mounting scholarly enthusiasm for market mechanisms rather than statistic solutions in the petroleum sector.

Wirth alludes in his introduction to *"Latin American Oil Companies,"* Latin American countries-typically following Venezuela's initiative-have explored or embarked on multilateral energy ventures keyed to technical assistance to state firms (ARPEL), policy consultations (OLADE), pooling of managerial, technical and marketing resources (Petrolatum), and aid to poorer countries of the Caribbean Basin (the 1980 Venezuelan-Mexican San Jose Accord). These multilateral undertakings, which have endured more failures than successes, would be useful subject for a book on international organizations and energy relations in the Western Hemisphere.

T. L. Karl (1997) in his book *'The Paradox of Plenty: Oil Booms and Petro-States'* explains why, in the midst of two massive oil booms in the 1970s, oil-exporting governments as different as Venezuela, Iran, Nigeria, Algeria, and Indonesia choose common development paths and suffered similarly disappointing outcomes. Meticulously documented and theoretically innovative, this book illuminates the manifold factors--economic, political, and social--that determine the nature of the oil state, from the coherence of public bureaucracies, to the degree of centralization, to patterns of policy-making. Karl contends that oil countries, while seemingly disparate, are characterized by similar social classes and patterns of collective action. In these countries, dependence on petroleum leads to disproportionate fiscal reliance on petrodollars and public spending, at the expense of statecraft. Oil booms, which create the illusion of prosperity and development, actually destabilize regimes by reinforcing oil-based interests and further weakening state capacity. Karl's incisive investigation unites structural and choice-based approaches by illuminating how decisions of policymakers are embedded in institutions interacting with domestic and international markets. This approach--which Karl dubs "structured contingency"--uses a state's leading sector as the starting point for identifying a range of decision-making choices, and ends by examining the dynamics of the state itself.

In 1935, after the death of Dictator General Juan Vicente Gomez, Venezuela consolidated its position as the world's major oil exporter and began to establish what today is South America's long lasting democratic regime. Endowed with the power of state oil wealth, successive presidents appeared as transcendent figures who could magically transform Venezuela into a modern nation. During the 1974-78 oil boom, dazzling development projects promised finally to effect this transformation. Yet now the state must struggle to appease its foreign creditors, counter a declining economy, and contain a discontented citizenry.

In critical dialogue with contemporary social theory, Fernando Coronil (1997) in his book entitled *'The Magical State: Nature, Money and Modernity in Venezuela'* examines key transformations in Venezuela's polity, culture, and economy, recasting theories of development and highlighting the relevance of these processes for other postcolonial nations. The result is a timely and compelling historical ethnography of political power at the cutting edge of interdisciplinary reflections on modernity and the state.

B. E. Munk (2005) in his article, *'The End of Cheap Oil, Once Again: Geopolitics or Global Economics'* asserts that the oil shocks in 1973 and 1979-80 made "geopolitics of oil" the byword to describe the sources of uncertainty surrounding oil supplies and prices. Today, while geopolitics is not absent from the current oil shock, it is global economics that drives oil prices. In a world oil economy highly influenced by national oil companies, there are inevitable boundary issues, and, in that sense, geopolitics still has a role to play. However, it is only a partial role, secondary to the fundamental economic drivers of the global economy. In this respect he compares the geopolitics and the global economics of oil with respect to the metrics of oil pricing and evidence of the oil changing oil price paradigm, supply adequacy, movements of spare capacity and its control, relationship between higher prices and shortages, present and past policy approaches and the current U.S energy dilemma. He argues that, the economics has pushed geopolitics to the sidelines in understanding the current world petroleum economy. This oil shock is demand driven, which makes treating it different and in some ways more difficult than treating the shocks of the 1970s. It also involves concerns over the adequacy of the world supply because of insufficient spare capacity related only in part to political restrictions. This combination of demand and supply factors makes this oil shock more comprehensible in terms of economics than prior shocks with political roots.

The author concludes that the distribution of hydrocarbons around the world is part of the world's geography. Washington can't change that, but it can provide incentives to produce oil and reduce the growth in the demand for oil. Focusing on geopolitics is oftentimes a useful method of analysis. In this case, it is more fruitful to focus on the fundamental economics and the political economy. The fact that the world economy has not collapsed while the price of oil has virtually tripled ought to suggest that the law of supply and demand has not been repealed.

Juan Carlos Boue's *"Venezuela: The Political Economy of Oil"* provide a broad description of the oil and gas sectors of the country concerned, highlighting those features which give each country a physiognomy of its own. The analysis is set in context of history, economic policy and international relations. It also seeks to identify the specific challenges that the exporting country studied will face in the future in developing its wealth to the best advantage of the economy.' As an analyst in the international trading affiliate of PEMEX, succeeds in delineating the Venezuelan upstream sector, Orinoco oil belt, natural gas, and downstream sectors, as well as the markets for Venezuelan petroleum and PDVSA's refining interests overseas. Boue is strongest on description of oil fields and reserves. He admits the well known fact that the Chicontepec reserves in Mexico may be hard to recover at current costs - a point implicitly admitted by PEMEX which has listed them separately from other reserves.

He nonetheless states that 'From a purely economic standpoint, however, Venezuela's quantification of her reserves is a bit more suspect' because it is still doubtful whether, at present, crude from existing wells in the Orinoco area can be produced and sold . He says that Venezuela overstates reserves in order to obtain a larger OPEC production quota; to obtain better treatment in world financial markets; and to improve its bargaining position with its most important client, the USA. This discussion would be more valuable if it were extended to note the fact that the issues Boue raises are not confined to Venezuela, Moreover, the rapid shift in technology and cost of various stages of recovery of oil make it necessary to revise earlier reserve estimates. The chapters on historical background and institutional set-up, and oil and the Venezuelan economy, and the future of Venezuelan oil provide a brief introduction to the subject, but ignore most of the literature in the field.

Burggraaff, a historian, has written an account of military participation in government from 1935 to 1959. He is at his best describing in detail the various coups, attempted and successful, in which elements of the military participated, especially those coups of 1945, 1948, and 1958. Except for Perez Jimenez, the military leaders generally fit a pattern that is common in Latin America. Perez Jimenez was running the country and were fed up with the tarnishing of the name of the military because of his personal indulgence.

H. A. Trinkunas's (2005) *'Defining Venezuela's Bolivarian Revolution'* starts with the history of U.S.-Venezuelan relations when tensions between the two countries have been worse than at the present time is difficult. The Bolivarian revolution has produced a new constitution, a new legislature, a new Supreme Court and electoral authorities, and purges of Venezuela's armed forces and state-owned oil industries. Still, the geopolitics of oil makes it difficult for the United States and Venezuela to escape their traditional economic and political partnership. The United States is Venezuela's most important consumer of its main export—oil. As a market, the United States possesses key advantages for Venezuela, such as geographic proximity, low transportation costs, and an ever increasing demand for energy. Access to large Venezuelan oil deposits across short, secure sea lanes of communication is undoubtedly a strategic asset for the United States. Also, the United States and Venezuela have often found common political ground after Venezuela democratized in 1958, particularly as the rest of Latin America moved away from authoritarianism during the 1980s and 1990s. Nevertheless, friction between the United States and

Venezuela on trade policies, human rights, and regional politics is not new. What is different today about Venezuela's Bolivarian foreign policy is that it seems to be increasingly at odds with the United States precisely in the areas that once brought the two countries together—oil and democracy. Secondly the author writes about the Venezuela's new alliances with Russia and China which are unlikely to produce much in the way of military advantage for this country vis a vis its neighbours, particularly in light of Colombia's growing strength. Even the development of alternative markets for Venezuelan oil exports seems difficult to justify on anything other than political grounds since the economics of oil so strongly favour a U.S.-Venezuelan trade relationship.

The literature reviewed helps in the conclusion that oil represented anything but a panacea and has distorted the economies of every Latin American country boasting sizable reserves. Whether governed by military men or civilians, these nations have undergone "petrolization." This neologism connotes an overheated economy fueled by oil revenues, and overvalued currency, mounting dependence on external credits to import escalating amounts of food , capital, and luxury goods, a stagnant agriculture sector, and above all, outsized budget deficits spawned by prodigious government spending. Even as petrolization has made Latin American nations more vulnerable to international creditors, the condition of "have-nots" compared with "haves" in individual countries has worsened as a result of policies fashioned during boom years. Political conflict, mounting socio-economic headaches, ubiquitous corruption, and a penchant for short-term expedients by Latin American leaders have all militated against fashioning prudent oil policies, which benefit from careful resource assessment, long range planning, technical competence, as well as political stability.

A final question still remains? Will Venezuela's new political model be emulated across the region? The Bolivarian revolution, which is not a coherent ideological model that can be replicated in other countries, depends on Chavez's personality, charisma, and drive. The Bolivarian revolution increasingly depends on distributing large amounts of oil income to serve key constituencies in Venezuela. Other Latin American countries lack such resources, and in the past have not had much success at redistributing wealth. This does not mean, however, that the underlying sources of political volatility in Latin America, such as poverty, extreme income inequality, and poor economic policies, will soon disappear. Much to the consternation of Washington, governments that sympathize with some elements of the new Venezuelan foreign policy will emerge, particularly in the Andean region where democracy seems most vulnerable.

## Definition, Rationale and Scope of Study

The long, recently abandoned period of armed forces rule in South America, especially in the major Southern Cone states, increased scholarly attention to the way military governors thought about international politics. Particularly revealing were the geopolitical assumptions underlying their foreign policy decisions and actions (and, ominously, domestic matters as well). The old school of organic concepts does not offer a serious theory of international relations or a satisfactory basis for policy; the military regimes were discredited largely because of the national security rationale for brutal repression at home. But it does serve as an interpretive guide for the analyst to comprehend the actions of military men and their civilian allies who subscribed to it.

In the South American context three basic approaches to geopolitics can be identified such as: the impact on foreign security policies of geographic features, such as locations, distances, terrain, climate, and resources; as the relationship between power politics and geography and as a deterministic organic-state imperative. These perceptions have collectively influenced the thinking and actions of both military and civilian policy makers. The uniqueness of Venezuela as a unit of analysis and the importance of geopolitical thinking to policy makers becomes apparent as South America lacks a continent-wide geopolitical image and that the application of geopolitical concepts is fragmented. Geopolitics as a concept focuses upon the location of states and its political significance. Using this concept as an analytical tool, the dynamics of Venezuela will be examined to understand the issues of oil crisis and energy dynamics. Interests of great powers in the region will also be looked at to comprehend how the great power rivalry has influenced the emergence of Venezuela as a major player in the world oil market. The U.S interest in the region because of oil resources and changing relationship between the two countries and its affect on world geopolitics is of special significance.

## Research Questions

In the course of this research work, several questions will be raised such as:

1. What are the factors that led to the surfacing of Venezuela as a key player in the World oil market?
2. To examine, historically, the changes witnessed by Venezuela in its political state of affairs?
3. How these changes have influenced the economic scenario of the country?

## Hypotheses

As a means to answer these questions, following hypotheses will be tested:

1. The geopolitics of oil and policies of Chavez is the pivot around which Venezuelan diplomacy revolves.
2. Emergence of Venezuela as a result of growing instability in the Middle-East after the Arab oil embargo in 1973 and Gulf War.

## Research Methodology

This research is based on the inductive approach, where the dynamics of Venezuela are examined by the application of the theory of geopolitics. Firstly, an elaboration will be made of the theory of geopolitics as given by Kjellen and other geographers. This theory has been made operational with regard to Venezuela. In terms of method, this study follows historical method in studying the issue. The theoretical approach followed here is a realist one where an analysis has been done on the interests of the actors involved such as United States, Russia, Brazil, Columbia, Middle –East and the Caribbean countries.

Secondary sources form the basis for the study which includes international publications (articles, books, commentaries, reports). These sources are complemented with other research techniques. Since the nature of the topic is contemporary, help has been taken of newspaper reports, websites and other such tools. Geographical and statistical data available on the related issues has been utilized to explain the issue. Maps are also used for better explanation.

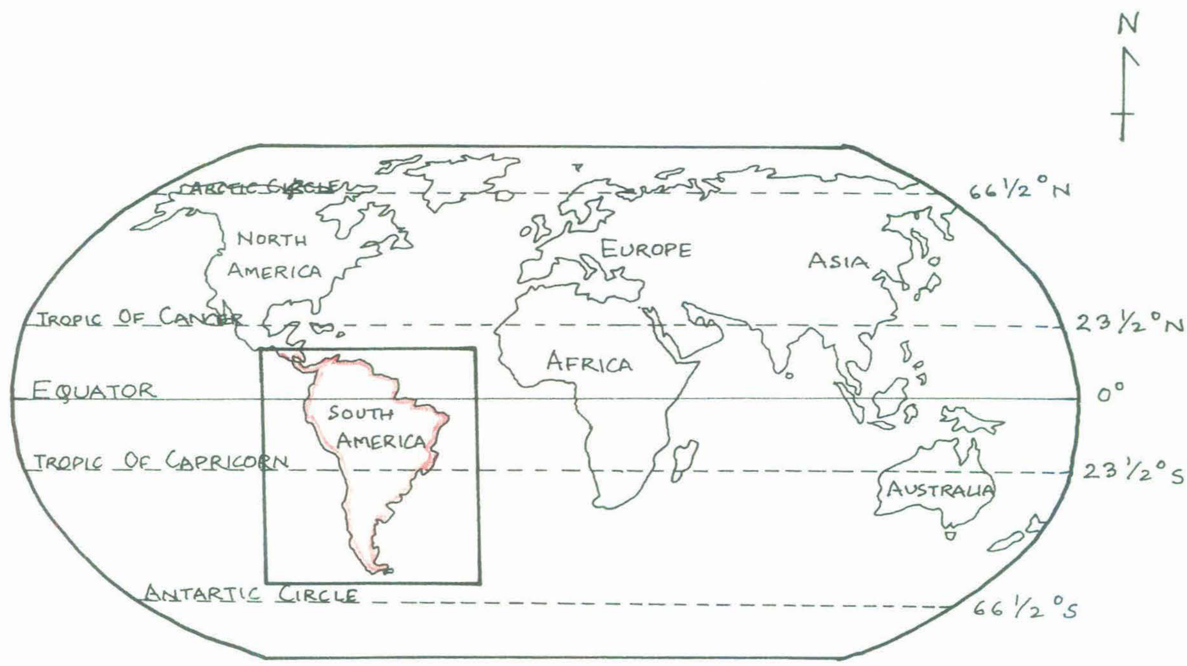
## Research Design

This research work is divided in five substantive chapters. In the first chapter i.e. introductory chapter, the research problem is outlined and the objectives and the research methods are explained. The second chapter will cover geography and history of Venezuela which will include the historical background mainly the political and economic shifts and the geographical location and significance of the region .Chapter three will discuss the importance and role of oil in Venezuelan economy and how political shifts have influenced the political economy of oil over time in Venezuela. After analyzing the political economy of oil in Venezuela, the fourth chapter will deal with the overall view of world politics of oil and will examine the role of Venezuela in the Geopolitics of oil in the world with special reference to United States. The final chapter will put forward the conclusions which the study will derive from the above mentioned investigations.

CHAPTER TWO

# PHYSICAL SETTING AND HISTORICAL BACKGROUND OF VENEZUELA

## LOCATION OF SOUTH AMERICA




## LOCATION OF VENEZUELA

# Chapter Two

# PHYSICAL SETTING AND HISTORICAL BACKGROUND OF VENEZUELA

## Location and Physiography

The country of Venezuela lies in the northern part of South America. The country borders with Guyana in east, Colombia in west, Brazil in south and south east and with Caribbean Sea in the north and Atlantic Ocean in north-east. The country lies between 1° N and 12° 26' N. latitudes and 60° W and 73° W longitudes. It covers an area of 912,050 square kilometres of which 882,050 square kilometres comprise of the land area while remaining 30,000 square kilometers are covered by water bodies. The coastline of the country stretches over an area of 2,800 kilometres. Its coastline, starting from the Columbian frontier to that of British Guyana, has an extension of 2000miles. Pico Bolivar situated 5,007 meters above sea level is the highest point of the country while the lowest point lies in Caribbean Sea.

The South American continent has three major types of landforms— the lofty Andes or Cordilleras on the west,, mountains of Archaean rocks in the east- chiefly granite, gneiss and slates covered with sandstones ,and extensive plains called Llanos or Pampas. The Llanos separate the Cordilleras from the older mountains and extend along the river Orinoco. The Andes in the west, from the mouth of the Yaracuy to the frontier of the Republic, are known as the Cordillera or Sierra de Medierra and running from south-west to north-east, they rise above the snow-line. They are however indications of volcanic activity have been identified to occur, possibly as late as the Cretaceous period. The fossil remains of huge animals are found including variety of horses in diluvial formation—the megatherium, glyptodon, and toxodon. The elevated zone lying between the Llanos and the Caribbean Sea is the most populated part of the country, containing almost all the large towns, and industrial centres of the country. The slope of the Llanos is not uniform either in degree or in direction. It does not follow the direction of the Apure and Orinoco which are towards the Atlantic. The lowest part of these plains is found along the line of the rivers Cojedes and Portuguesa. The only lake with any importance in the country is the Tacarigua or Lake of Valencia. The great abundance of iron deposits are found as a result of either to the formation of swamp ironstone in the stagnant waters of the plains or due to the denudation of the mountains of Guiana which are rich in iron.

Up till 1886, when the export of-gold had just commenced, copper was the only mineral exported. The best-known mines are those of Aroa, between Tucacas and Barquisimeto. They yielded largely for a considerable time, but of late have been less productive. Iron appears to be abundant in the Cordilleras near Trujillo, but is not worked out. The coal of Barcelona gives great promise, as it lies near the coast. Probably it is of the Cretaceous or Tertiary period, as the Carboniferous formations do not occur in Venezuela.

The great mineral wealth of Venezuela lies in the gold fields of the Yuruari, the possession of which is disputed with Great Britain. Gold was first discovered in this country by a Brazilian in the year 1842, but no great progress was made until the discovery of the gold fields of Caratal by Friedrich Sommer in 1856. Soon a number of mines were started, of which El Callao was the richest, yielding most of the gold. Subsequently the output decreased, and in 1893 El Callao was considered to be exhausted. There is, however, plenty of gold in the country. Improved means of transport and better methods of extracting the ore would make it profitable especially the abandoned mines.

Venezuela's petroleum wealth is known from the pre-Colombian era, when the indigenous peoples made use of oil and asphalt seeping to the surface. It was then mainly used for medicinal purposes. Some of the oil was also used for home heating in areas where it surfaced. In 1912 the first oil well was drilled.

## Historical Background

Human habitation of Venezuela dates back to 15,000 years. Late Pleistocene hunting artifacts, including spear tips have been found at sites in north-western Venezuela. In the 16th century when the Spanish colonization began in Venezuelan territory the population of indigenous peoples such as the Mariches, descendants of the Caribes, declined. Indian caciques (leaders) such as Guaicaipuro and Tamanaco attempted to resist Spanish incursions, but were ultimately subdued. Venezuela was colonized by Spain in 1522. In what is now known as the city of Cumana, Spain established their first permanent South American settlement. At the time of the Spanish arrival, the indigenous people were mainly agriculturists and hunters living in groups along the coast, the Andean mountain range, and along the Orinoco River.

By the middle of the 16th century, there were still few more than 2,000 Europeans. The opening of gold mines at Yaracuy led to the introduction of slavery, at first with the indigenous population, then with the imported Africans. The first real success of the colony was in the raising of livestock in the grassy plains of Llanos. During the 16th and 17th century, the provinces which constitute today's Venezuela were relatively neglected. The Viceroyalties of New Spain and Peru (located on the site formerly occupied by the capital cities of the Aztecs and Incas) were more interested in their nearby gold and silver mines than in the agricultural societies of Venezuela. Responsibility for the Venezuelan territories shifted between the two Viceroyalties.

## Venezuelan War of Independence

Venezuelans started resisting the colonial power towards the end of the eighteenth century. The first organized conspiracy against the colonial regime in Venezuela occurred in 1797 which was organized by Manuel Gual and Jose Maria Espana. This was directly inspired by the French Revolution, but was put down with the collaboration of the *mantuanos (white elites)* because it promoted radical social changes. A segment of the *mantuanos*, among them specially a 27-year-old Simon Bolivar-the future Liberator, saw the creation of the Junta as a step toward Independence. Venezuela needed, or at least that's what the mantuanos believed, a veteran and prestigious military leader, later which was found to be in Francisco de Miranda. Miranda was one of the distinguished products of the 18th-century Caracas enlightenment, who had been away from the colony for decades and had served in the French Revolutionary armies. He had lately been residing in Britain, from where he tried to instigate Venezuela's independence. It was at this time that Miranda began to dream of creating an independent South American republic, for which he gave the name Colombia, in honour of Columbus. He personally designed the yellow, blue, and red flag, which are now the National Colours used by Venezuela, Colombia, and Ecuador. The Caracas Junta sent a mission, which included Bolivar and Andres Bello, to negotiate for Britain's recognition. Back in Venezuela, Miranda and Bolivar pushed for independence, which was declared on 5th July 1811 by Congress of the Venezuelan provinces. The situation in Venezuela, though seemingly closer to independence, was much more fraught. The captaincy-general had nine provinces, of which three: Coro, Guyana, and Maracaibo, were not in favour of independence at all. (This bit of Venezuelan history was revised by Chavez historians who decided that Guyana had not really opposed independence, for this reason they added an eighth star to the seven on the blue middle stripe of the Venezuelan flag, representing the number of provinces that had favored independence.) And particularly there were no signs that the pardos anywhere in Venezuela were enthusiastic about independence. In 1819, Bolivar proclaimed the creation of Great Colombia with Venezuela and New Granada. Volunteers arrived in Venezuela, though most, like those who preceded them, were in essence mercenaries, under the illusion that there were fortunes to be made in Venezuela, which was hardly the case. There is no evidence that the British government was backing them, but since Spain was no longer a British ally, it wasn't hindering them either. In Europe, Bolivar had the sympathy and support of all the liberal-minded people, as was the case in the independence of Greece, then at that time in the process of emancipation.

Although Bolivar's political ascendancy was never disputed, in 1828 he faced political opposition both in Venezuela and New Granada. Looking that his Great Colombia was coming apart, Bolivar named himself dictator. He escaped an assassination attempt. The Peruvians invaded Guayaquil but Bolivar repulsed them. Bolivar pleaded for unity and, though he had offered to resign various times during his career, this time, when Great Colombia had a new constitution (not Bolivar's Bolivian one) and a president, Joaquin Mosquera, Bolivar finally resigned in 1830. At that point, Paez not only declared the second independence of Venezuela but promoted a campaign against Bolivar. Seeing the state of things, Quito followed suit, under Venezuelan general Juan Jose Flores. A downcast Bolivar rode to the coast with the intention of leaving the country. He died in Santa Marta, Colombia, at the age of 47.

Venezuela experienced an era of political downfalls and resurgences after its independence in the 19$^{th}$ Century. The same geographical reasons that had made possible the formation of Venezuela as a distinct national entity separate from New

Granada, during the colonial period also made Venezuela a difficult country to govern. Venezuela had various regions: the Andes, the plains that stretched from the borders with New Granada to the Orinoco delta, Guyana, the Maracaibo basin, the Coro region, the Barquisimeto region, central Venezuela (formed by the axis Caracas-Valencia) and its surrounding areas. The llanos were further subdivided into the eastern part which included the Cumana region (and the island of Margarita by extension), the Apure llanos; and the central, and western llanos. Except for the llanos, where there were no geographical barriers between them, the other regions were separated by either lofty mountain ranges or rough mountainous terrain.

The 19th century history of Venezuela can be divided into the following periods:

(1) Jose Antonio Paez ascendancy (1829-1847), during which he had the support of Carlos Soublette

(2) Monagas ascendancy (1847-1858)

(3) The Great War of the Caudillos (1858-1863)

(4) The Federalist period (1863-1870)

(5) The Antonio Guzman Blanco ascendancy, whose main caudillo supporter was Joaquin Crespo (1870-1887) and

(6) The civilian presidencies and the Crespo ascendancy (1887-1899)

Paez was a pardo, but he won his spurs during the War of Independence and nobody in Venezuela could contest his right to govern, especially because the white oligarchy in Caracas supported him warmly. Soublette was an honest but lackluster president, in some ways a foil to Paez, and he was not able to prevent the election of Jose Tadeo Monagas to the presidency in 1847. It is the accepted wisdom that all the elections that are mentioned in the Venezuelan 19th century were indirect elections. This tradition of indirect elections through local councils lasted in Venezuela until 1945. There were three Monagas presidents: the elder Jose Tadeo, the younger Jose

Gregorio and Jose Ruperto son of Jose Tadeo, but he was not president during the Monagas ascendancy but during the Federalist period.

## War of the Caudillos

The two Monagas brothers were at first respectful of the central Venezuelan oligarchy. But then they dissolved congress and succeeded each other by decree. During his presidency, Jose Gregorio abolished slavery. A reaction against the Monagas was led by Julian Castro from Valencia. He was the first military ruler who had not fought in the War of Independence. Castro was a creature of the Caracas-Valencia oligarchy and not very sharp, effective or experienced. During his presidency, there was a proliferation of aspiring caudillos in Caracas itself and he exiled them all. This was what provoked the Great War of the Caudillos, called in Venezuelan historiography the Guerra Federal or the Federalist War, although federalism was not what these men really had in mind. Castro was not competent either as president or as soldier and he handed power to the civilians of the oligarchy, who were soon being overwhelmed by insurrections in the central and western llanos. Paez, who had been exiled by the Monagas, was called back from the USA, but he was no longer the caudillo he once was and he had to surrender to the leader of the federalists, Juan Crisostomo Falcon. One result of the War of the Caudillos was that the official denomination of Venezuela was changed from republic to the 'United States of Venezuela', a national name it had, as well as the motto 'God and Federation', until a dictator in the mid-20th century changed it back to 'republic'.

Falcon had been an excellent caudillo but was not that good president. He was succeeded by weak presidents from central Venezuela. Jose Ruperto Monagas tried to save the federalist government, but he was no match for the greatest of the guerrilla leaders, Antonio Guzman Blanco, who had spent much of his public life as Venezuelan ambassador. Venezuela was a country of peripheral enclaves, defined by ports through which international commerce was carried on. These enclaves were the source of revenues, which with some foreign loans, were the main fiscal resources of the Venezuelan government. Caracas had its port of La Guairá, to which it had been connected by a railroad. Valencia was linked to Puerto Cabello. Maracaibo constituted an enclave in itself. It was the outlet for coffee, mostly by river and lake Maracaibo from Tachira, in the Venezuelan Andes and from Colombia. The eastern llanos had an excellent natural harbour near Lecherias, but its potential was not discovered until 20th century.

Guzman Blanco was the most sophisticated Venezuelan president during the 19th century. He was also the most charismatic of the caudillos. He was good at contracting loans for Venezuela, from which he amassed a small fortune. Guzman Blanco was very ambitious and keen for Venezuelan progress. He wanted to make Caracas a mini-Paris but the projects started were of very minor scale. He was also good at progressive legislation. He declared education free and obligatory for all Venezuelans, but Venezuela still had no roads, so his decree was wishful thinking. He did build the railroad from Caracas to Valencia and tried in other ways to modernize the country, and the facts were stacked against him in a country of over one million square kilometers with a wild and inhospitable topography, and its some 1,200,000 inhabitants living mostly in rural areas. The political stability of Venezuela was principally the doing of his principal lieutenant, Joaquin Crespo, a pardo from the central llanos.

Guzman Blanco probably got bored of ruling Venezuela and he decided to retire to Paris in 1887 at the age of 59. He died there in 1899. He left behind statues of himself and other reminders of his prolonged direct and indirect rule. Blanco left the country in relative peace. His appointed successor, Hermogenes Lopez, was a colourless caudillo, who inaugurated some of the projects Guzman Blanco had started, among them a submarine cable to Curazao, which linked Venezuela to the rest of the world, and the Valencia-Puerto Cabello railroad. Lopez was replaced by the civilian Juan Pablo Rojas Paul with Guzman Blanco's far-away blessing. Crespo, who thought he should have been chosen president, went into exile and started planning his own revolution. Ambitious but unassuming, Crespo ruled until 1898 and handed power to Ignacio Andrade, but Crespo was the military mainstay of the government. In suppressing a serious threat to the government he was killed in action.

Of all the regions of Venezuela, the Andes and Guyana had not participated actively in the many insurrections that had plagued the other parts of Venezuela. The llanos had been the great battleground for most of the confrontations between caudillos, whose struggles over-spilled into Barquisimeto. Coro had been the favorite landing site for most of the rebellions, especially during the Great War of the Caudillos. Maracaibo at one time tried to go autonomous and had to be taken by arms. Guyana was so under-populated it hardly counted. But the Andes had another story; it was the richest region of Venezuela due to export of coffee. It had a healthy, high-altitude climate. It probably accounted for perhaps half the total population of Venezuela in 1899, the Tachirense Cipriano Castro, a short-tempered and highly ambitious man, formed a real army with Andean recruits and with the support of his friend Juan Vicente Gomez. Castro met practically no resistance on his march to Caracas. There are two things about Castro who few deny: he was a debauchee with an insatiable taste for cognac and he was a daredevil in foreign relations defying Europe as if he had navy and adequate coastal defences. In 1908, Castro was too sick to be cured in Venezuela and he left for Germany leaving Gomez in Charge. This was the beginning of a regime that lasted until 1935 and is interwoven with the early development of the oil industry, the greatest influence ever on the history of Venezuela. One of Gomez's first measures was to start canceling outstanding Venezuelan international debts, a goal which was soon achieved. Under Gomez, Venezuela formed a regular national army staffed and officered almost entirely by Andeans. At the time, the country had a widespread telegraphic system. Under these circumstances, the possibility of caudillo uprisings was curtailed. He was a stickler for legal formalisms, which in essence meant that he introduced new constitutions any time it suited his political ends, although this was also the rule during the 19th century. During his dictatorship, Gomez appointed two figurehead presidents while he kept a tight hold on the armed forces from Maracay, his favorite city, west of Caracas, which he embellished and made the main Venezuelan garrison, a status which it retained until at least the 1960s.

## The Discovery of Oil

It did not take much geological expertise to know that Venezuela had large petroleum deposits, because the petroleum oozed out from seeps all over the country and there was even an asphalt lake which had formed naturally. Venezuelans themselves had tried to extract oil for a small hand-pumped refinery early in the 20th century. As the word spread internationally of Venezuela's oil potential two things happened: First, Representatives of large foreign companies came to the country and started lobbying for rights of exploration and exploitation and other, Gomez established the concessionary system. Venezuela had inherited from Spain the law that the ground surface presumably, as deep as a plow goes belong to individuals but everything under the soil was state property. Gomez began to grant huge concessions to family and friends. Gomez, who didn't trust industrial workers or unions, refused to allow the oil companies to build refineries on Venezuelan soil, so these were built on the Dutch islands of Aruba and Curacao. The one in Aruba was for a time the second largest in the world, after the one in Abadan (Iran). Although the Venezuelan oil boom started around 1918, the year oil first figured as an export commodity was when an oil well called Barroso blew a 200-foot (60 m) sprout that threw up an average of the equivalent to 100,000 barrels a day. It took five days to bring the flow under control. After that, there was no looking back. By 1927, oil was Venezuela's most valuable export and by 1929 Venezuela exported more oil than any other country in the world.

Gomez didn't tax the oil companies but to say that Ve3nezuela did not have the benefit from oil production is only a half-truth. The Venezuelan government derived considerable income from the concessions and taxes of one sort or another, but the original fiscal laws which applied to the oil companies were hammered out between the government and American lawyers. The laws were relatively lenient, but Gomez, who had an acute business sense, understood that it was necessary to create incentives for investors in the Venezuelan oil fields, some of which were very accessible but others were deep in jungles. Oil income allowed Gomez to expand Venezuela's rudimentary infrastructure and the over all impact of the oil industry on Venezuela was immense in the areas where it operated. But in a wider sense, the Venezuelan people, those who worked for the oil companies lived badly and benefited little from the country's oil riches. When Gomez took power, Venezuela was a very poor illiterate country. The white/pardos social divide was still very much in place. When Gomez died in his bed in 1935, Venezuela was still a poor illiterate country and if anything the social stratification had been accentuated. Population had grown from perhaps one million and a half to two million. Gomez himself was overtly racist.

Although Venezuela changed considerably under Gomez, it had radio stations in all the important cities, had two or three universities and in all this oil played the central role. Gomez was succeeded by his minister of war, Eleazar Lopez Contreras, a tall, thin, disciplined soldier with a solid education.

## Perez Jimenez

Delgado formed a triumvirate with Perez Jimenez and Luis Felipe Llovera Paez. With his death the remaining triumvirs chose a civilian president, Luis German Suarez Flamerich, who was dismissed by the military in 1952, and the ambitious Perez Jimenez became dictator with the consent of Llovera Paez. Perez Jimenez had developed a flare for fascist and boasting about his projects in making Venezuela the major power of South America. The greatest of Venezuelan writers at the time (and for a long time after that) was Arturo Uslar Pietri and he became famous on television with analytical biographies of great historical figures. Uslar Pietri has a felicitous phrase: "Sow the oil", which became a national slogan meaning that the state's oil income should be productively invested. But in Venezuela 'sowing the oil' implied 'sowers' and the country did not have too many of these. In fact, it was the undeclared understanding that 'sowing the oil' really meant give Venezuelans employment by creating government jobs.

Perez Jimenez as president, apart from becoming rich which he did like Gomez, with his own military and civilian supporters, was to build and build, and here too he was undeniably successful. By the time Perez Jimenez had all the power in his hands, which despite his uninspiring qualities he did manage to do. Perez Jimenez was so cocksure that he was doing a good job as dictator, so he scheduled elections for 1952. But the election results seemed to go against him so Perez Jimenez shut down the polls and the country and after a few days during which he probably was making sure that he counted with the loyalty of his generals, he published results that were so lopsidedly in his favor as to seem ludicrous. Perez Jimenez thus inaugurated himself for another five years as president, and just as he had intended from the beginning. He went on spending on infrastructure and way beyond this to gigantic industrial, agricultural, and power-generating projects. In foreign affairs, Venezuela was a faithful ally of the American government, by the end of 1957; it was time for a presidential election. Perez Jimenez who learned from the 1952 political debacle so instead of an election he decreed a plebiscite on his government. He probably knew he wasn't going to win this one either, so the results were foreordained. The people who queued to vote were civil servants and indirect employees of the government and its subordinate companies and institutions, who were instructed to show some proof that they had voted for the regime. What all the government needed was a turnout, and got it. Economically, Venezuela apparently was not doing so badly, but the signs of prosperity were mostly in the cities, and the countryside, where half of Venezuelans still lived, had social indexes way below what would have been expected from such a fiscally rich country.

Perez Jimenez's illegitimacy was so patent that some officers were conspiring to overthrow him but the coordination was not that good. However, this show of defiance did set off a sequence of events which eventually made Perez Jimenez fear for his political survival. Finally, with various suitcases stuffed with dollars, Perez Jimenez took off in his private DC-3 and sought refuge in the Dominican Republic, where his resilient colleague, Rafael Leonidas Trujillo, had been ruling since 1930.

What followed the flight of the dictator was as amazing an incident as the history of Venezuela contains. Perez Jimenez had been unsure of whom to trust. He was arbitrary and authoritarian but there is no evidence that he was particularly courageous. Like Guzman Blanco, he possibly considered that hanging on to power was not worth the effort, especially considering that his fortune would allow him to live royally outside of Venezuela. He fled the country leaving it in a complete mess. The people of Caracas had no leader. A military committee was functioning in the military academy. When these officers received word that Perez Jimenez had left, they felt reasonably enough that it was up to them to exercise authority. Thus it was Wolfgang Larrazabal, an admiral who owed to Perez Jimenez his rise in the services and who had never manifested any disaffection to him, was chosen to lead the country solely because he outranked every one else. Larrazabal was made head of a civilian-military junta. Overnight, without having lifted a finger to deserve it, Larrazábal became the idol of Caracas.

## Democracy in Venezuela

1958 was a crucial year in Venezuelan history. Larrazabal was a fluke. He had no more legitimacy than Perez Jimenez and no sooner was the new government installed, committed to democratic elections before the end of the year, than the question of who really had overthrown Perez Jimenez, the military uprising or the Caracas masses became a disquieting issue. The original rebellious officers felt that they were entitled to rule and started brewing their own conspiracies. But Larrazabal was generally accepted as the leader of the armed forces. Most importantly, the political parties, which were busily rebuilding their national organizations, gave him their total support, including the few but vociferous communists. As the elections approached, the parties initiated talks to form a united political front in defence of democracy, which implied, if not a single candidate chosen among them, at least an understanding for future cooperation in ruling Venezuela democratically. The really significant pact that emerged during 1958 was the unspoken one by which, mainly Betancourt, agreed not to mess with the military in any way and let them run their own house. The military in their turn pledged that they were not to allow politicization within their ranks to the extent that they renounced even the right to vote, which was made compulsory for the rest of Venezuelans. The foxy Betancourt, who sometimes is referred to as the 'father of Venezuelan democracy' (much less in recent times than before), insisted that the communists were not to be included in the political talks, and excluded they were but took it very calmly. The chances of one candidate were slim and nothing came out of the negotiations except a well-meaning consensus that the parties would stick together in the defence of democracy from whatever threats might arise in the future. This meant that the electoral process was on and that each party had to look itself. When the results came in, Betancourt was elected.

Betancourt inaugurated his presidency as a moderate, except on the issue of dictatorships, for which he applied the idealistic foreign policy that Venezuela would not recognize dictatorial government anywhere, particularly in Latin America including the USSR, which was an USA pleaser. The "Betancourt doctrine" was un-realistic, for Venezuelan democratization occurred in the midst of a marked tendency in the rest of Latin America towards authoritarianism. He was also un-realistic in reviving Venezuela's claim on British Guyana to the Essequibo river and he had all maps of Venezuela show this large territory as part of the country albeit as disputed. The point is that when British Guyana became independent Guyana in 1966, the Venezuelan claim became an undecipherable legal tangle, but Venezuelan maps to this day still look as Betancourt had drawn them. In other things, Betancourt was very realistic. He respected the virtual autonomy of the armed forces and he did all he could to keep on the good side of Washington. Perez Jimenez had left in place the basic plans and projects for the further modernization and for the heavy industrialization of Venezuela. The infrastructure for exploiting them was laid as well as the complementary huge steelworks. Communications had been a priority and Venezuela was endowed with a network of roads and bridges that covered the territory where over 90% of the population lived. Half or more of these were improved surface and all they lacked was the asphalt paving. These had been traced for exploration and exploitation, but they also served for the general population and were linked to the national highway system. Perez Jimenez had built motorways begun the construction of a coherent railway system, although he had not had time to go further than the railroad from Puerto Cabello to Barquisimeto. Perez Jimenez had also created government subsidiaries, called autonomous institutes—the "autonomous" was supposed to mean non-political, but its real function was to allow them to negotiate foreign loans—that were to build waterworks and electric power plants in all important urban centers. Betancourt's government adopted the plans and the administrative system for carrying them out that the dictatorship had left in place.

But the politics of repudiation had to have its pound of flesh and Betancourt and his cabinet also cancelled some crucial public works merely because they were initiatives taken by Perez Jimenez. The railroads were scrapped with the argument that Venezuela did not need them having so much asphalt it could expand the road network at a lower cost. In addition to the government–financed development projects, Perez Jimenez was not averse to protectionism and incentives to local industries, but the Betancourt government made a fetish of import-substitution and instead of allowing the free importation of industrial goods for which Venezuela did not have the training, it tried to force foreign suppliers to build plants in the country for the assembly or packaging of finished products that were allowed tariff-free into the country. The government had opted for "guided planning" and what this meant was that businesses were strictly regulated through a system of controls that went from the permission to start one to limits on where and on how they should operate. The author of this "developmental strategy" was Jose Antonio Mayobre, a former communist and Betancourt's economic guru. All of this required more government employees and again, as after 1945, the Venezuelan bureaucracy bloomed, as it would go on doing with each new president until it reached a paroxysm under Carlos Andres Perez, Betancourt's personal secretary and future president.

## Leoni and Caldera

In the elections of 1963, the adeco Raul Leoni, a long-time ally of Betancourt from the times of Gomez, won handily, Caldera came in second. Leoni's government was unexceptional, but it was Leoni who had to liquidate the remnants of the communist insurrection, for which he put the army in charge of the country with carte blanche to be as ruthless as it had to. But in fact it was the communist guerillas themselves who brought about their own liquidation. They had no rural support whatsoever. Unlike guerrillas all over the world, they did not control villages and lived from hand to mouth. They knew they were no match for the army and avoided confrontations. Fidel Castro had been hoping that Venezuela would be the second act of the Latin American revolution and he tried to supply the guerrillas. This was in keeping with the theory of what could be called the "permanent agrarian revolution", Castro sent a trusted officer, Manuel Ochoa, to assess the Venezuelan guerrillas and the report that he brought was thumbs down, which effectively ended Cuba's intervention in Venezuelan affairs. By then the Venezuelan leftists had given up on violence and were seeking legalization, but Leoni was not ready for it. The elections of 1968 proved conclusively that Venezuela had an indisputably working democracy. This time Caldera's perseverance paid off and he won against runner up Barrios. Caldera became president by the skin of his teeth. Democracy functioned but it was not fulfilling everybody's expectations. The democratic Venezuelan government wasn't even respectful of Venezuelan civil liberties as was shown when Caldera had a highly disrespectful magazine with a respectable circulation called Reventon shut down by the military with the unlikely charge that it had insulted the armed forces. In his political past, Caldera had been pro-business, but in his incarnation as president he increased government intervention in the economy. He was hamstrung by Congress, which was controlled by the adecos, so bureaucracy was kept at the same level it had been, but the new government applied unabashedly the "to the victors belong the spoils" practice. The leftist parties whose membership increased than it was in 1958 were legalized. Towards the end of his government, oil prices increased sensationally but fiscal revenues came into the state's coffers too late for Caldera to use them to shape up his party's muscles.

## Carlos Andres Perez

Carlos Andres Perez won the elections and a spike was sure to occur in the economy, which had been stagnating. Many people were skeptical that Venezuelans would choose such a controversial figure as Perez, but when the results were in they showed he had won a clear a victory. Perez proclaimed that the oil wealth would not be squandered and founded a huge fund for productive investments. This fund exhausted very quickly and Congress had to surrender its power of fiscal oversight, one of the historical bases of democracy. The Bolivar Venezuela's currency was so over-valued that almost anybody in Venezuela with a minimum of initiative could go to Miami and bring a suitcase load of goods which were sold to customers, usually friends or neighbours. Perez's credentials as a nationalist leader were not soiled, in fact for many they were enhanced, because in 1975 he nationalized the iron industry and in 1976 he jumped further and nationalized the oil industry (Karl, 1987). One thing that can be credited to Perez is that he introduced legislation to protect the environment, whereas Caldera had tried to build a road into the vast southern area of Venezuela known as Amazonas which his government wanted to settle and exploit. As soils there are barren, all that could have been achieved would have been the destruction of forested areas where only Amerindian tribes and missionaries, both Catholic and Baptist, lived. By the time Perez was through with Venezuela, it was palpable that its society was more unequal than it ever had been.

During Luis Herrera Campins time oil prices rose dramatically in 1983. Venezuela had increased its indebtedness beyond the levels attained by the Perez government. The government policies of high-spending, high-bureaucracy, and a stateside economy led to the formation of Bolivarian Revolutionary Movement (MBR) and it was led by then Captain Hugo Chavez. The Venezuelan economy stagnated and the country at the end of Lusinchi's regime was reportedly bankrupt.

When corruption flourished as never before, Perez was elected once again. Venezuelans of all hues simply remembered that during Perez's first term there had been a lot of money in circulation, things over-all had not been so dismal, and somehow they figured that Perez could perform the miracle of making Venezuela prosperous again.

Perez was not the hand-out king he had been before. He had become a closet liberalizer and globalizer. His economic adviser was Moises Naim, and he defined the presidential economic agenda, which included no price controls, privatizations, and laws or their elimination to attract foreign investments. Unfortunately, Naím began at the lowest rung of economic liberalization, which was freeing controls on prices and a modest increase in that of gasoline. In February 1989, barely into his second term, Perez faced a popular uprising, which failed. Chávez then was working on a political sciences degree at the Simon Bolivar University, where he was not likely to imbibe revolutionary ideas, for its rector had written a doctoral dissertation on the German philosopher Edmund Husserl and anyway the staff had many adecos.

Perez and Naim went on with their reforms, which had the full backing of the International Monetary Fund (IMF), and the Venezuelan economy started picking up, but liberalization programs takes time to yield results and Venezuelans who were not very keen on private initiative, were resentful. Rightly or wrongly, Perez, who after his first presidency was a rich man, was singled out as Mr. Corruption himself. The MBR officers started plotting seriously and on 4th February 1992 they struck. Chávez was a lieutenant-colonel, but generals were involved in the coup attempt. Its immediate objective was to capture Perez. They almost had him, cornered in the presidential palace, but he managed to escape. On 27th November 1992, officers of higher rank than Chávez tried to overthrow Perez but this time around the conspiracy was easily put down. Perez's downfall came when a legal process was begun to force to him reveal how he had used a secret but legal presidential fund, which he resolutely resisted. With the Supreme Court and congress ranged against him, Perez was imprisoned, for a while in a detention center, and then under house arrest. He handed the presidency in 1993 to Ramon J. Velasquez, an adeco politician/historian who had been his presidential secretary. Once back in the presidential palace, Caldera re-imposed exchange control, which had been lifted under Perez, and started ruling as if re-living his undistinguished presidency of 1979-1983. The economy plummeted and when Caldera decided to backtrack, and chose Petkoff to do the job, it was too late, although the state steel corporation, Sidor, was privatized. The most significant thing he did was to release Chavez and pardon all the military and civilian conspirators during the Perez regime. In 1998, Hugo Chavez Frias was elected President, definitely crushing the traditional political establishment.

## Chavez

Chavez was sworn in as president on February 2, 1999. Among his first acts was the launching of Plan Bolivar 2000, which included road building, housing construction, and mass vaccination. Chavez also halted planned privatizations of among others the national social security system, aluminium industry holdings, and the oil sector. Chavez also overhauled the formerly lax tax collection and auditing system especially regarding major corporations and landholders. The Constitutional Assembly drafted the 1999 Venezuelan Constitution, which included an increase in the presidential term from five to six years, a new presidential two-term limit, a new provision for presidential recall elections, renaming of the country to Republic Bolivarian de Venezuela, expanded presidential powers, conversion of the bicameral National Assembly into a unicameral legislature, merit-based appointments of judges, and creation of the Public Defender, an office authorized to regulate the activities of the presidency and the National Assembly.

General elections were held on July 30, 2000. Chavez's coalition garnered two-thirds of seats in the National Assembly while Chavez was re-elected with 60% of the votes. After the May and July 2000 elections, Chavez backed the passage of the 'Enabling Act' by the National Assembly. This act allowed Chavez to rule by decree for one year. In November 2001, shortly before the Enabling Act was set to expire, Chavez enacted a set of 49 decrees. These included the Hydrocarbons Law and the Land Law. Unexpectedly, Lucas Rincon, commander-in-chief of the Venezuelan armed forces, announced in a broadcast to a nationwide audience that Chavez had tendered his resignation from the presidency. While Chavez was brought to a military base and held there, military leaders appointed Pedro Carmona, as Venezuela's interim president. Carmona's first decree reversed the major social and economic policies that comprised Chavez's 'Bolivarian Revolution', and dissolved both the

National Assembly and the Venezuelan judiciary, while reverting the nation's name back to Republic de Venezuela.Carmona's decrees were followed by pro-Chavez uprisings and looting across Caracas. Responding to these disturbances, Venezuelan soldiers loyal to Chavez called for massive popular support for a counter-coup. These soldiers later stormed and retook the presidential palace, and retrieved Chavez from captivity. The shortest-lived government in Venezuelan history was thus toppled, and Chavez resumed his presidency on the night of Saturday, April 13, 2002. Following this episode, Rincon was reappointed by Chavez as Commander of the Army, and later as Interior Minister in 2003. On August 15, 2007, Chavez called for an end to presidential term limits and called for referendum. The referendum was defeated on December 2, 2007, with 51% of the voters rejecting the amendments proposed by Chavez. He stated that he would step down at the end of his second term in 2013.

CHAPTER THREE

# THE OIL ECONOMY OF VENEZUELA

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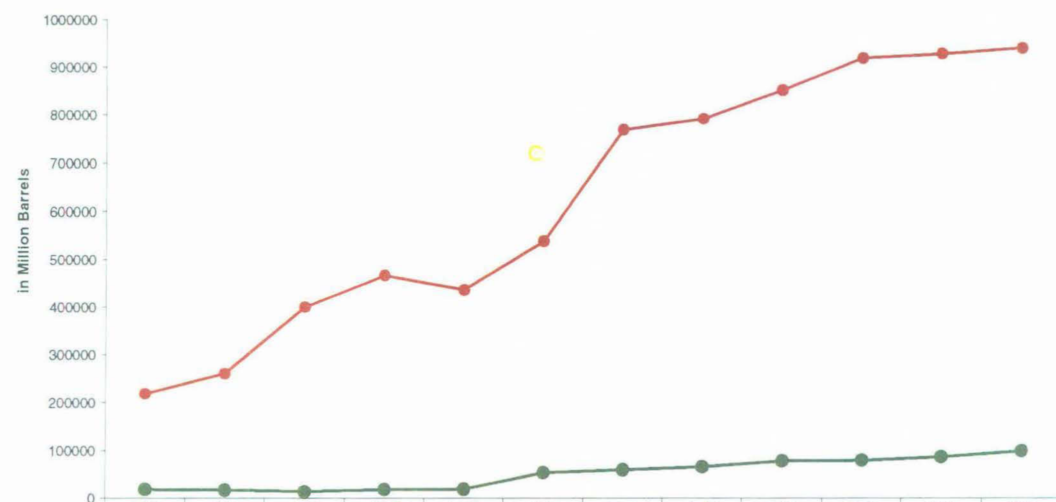
## Oil Explorations and Overview of the Economy

Venezuela's petroleum wealth was known from the pre-Colombian era, when the indigenous people made use of oil and asphalt seeping to the surface. It was then used mainly for medicinal purposes and some of the oil was used for home heating in areas where it surfaced. In 1912 the first oil well was drilled. Shortly thereafter, first Shell and then Rockefeller's Standard Oil became major oil producers in Venezuela. By 1929 Venezuela had become the world's second largest oil producer, after the US, and the world's largest oil exporter.

Venezuela had 80 billion barrels ($13\times10^9$ $m^3$) of conventional oil reserves as of 2007, the largest oil reserves of any country in South America. In 2006, it had net oil exports of 2.2 million barrels per day ($350\times10^3$ $m^3$/d), the sixth-largest in the world and the largest in the Western Hemisphere. In recent years, crude oil production has been falling, mostly due to depletion of existing oil fields and as many of its oil fields have suffered decline in their production (nearly 25 percent per year). Industry analysts estimate that Venezuela must spend about $3 billion each year just to maintain production levels. As a result of the lack of transparency in the country's accounting, Venezuela's true level of oil production is difficult to determine, but most industry analysts estimate that it produced around 2.8 million barrels per day ($450\times10^3$ $m^3$/d) of oil in 2006. This would give it 88 years of remaining production at current rates. The Venezuelan government claims that its proven oil reserves had risen to 100 billion barrels ($16\times10^9$ $m^3$). In addition to conventional oil, Venezuela has oil sands deposits similar in size to those of Canada (approximately equal to the world's reserves of conventional oil). It is estimated that at least 66 % of the world's petroleum reserves are preserved in oil sand form, with 32% (270 $km^3$ or 1.7 trillion barrels) of oil sand deposits in Athabasca deposits and 34% (286 $km^3$ or 1.8 trillion barrels) in the Orinoco deposits. The energy and oil ministry of Venezuela has certified that there are an additional 12.4 billion barrels ($2.0\times10^9$ $m^3$) of proven reserves in the country's Orinoco region. The Orinoco Oil Sands, also known as the Orinoco Tar Sands, are deposits of oil sands located near the Orinoco River in

Figure: 3.1

**CRUDE OIL RESERVES OF VENEZUELA AND OPEC (1960-2007)**




| | 1960 | 1965 | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| VENEZUELA | 18500 | 17250 | 14000 | 18398 | 19530 | 54454 | 60054 | 66329 | 78648 | 80012 | 87324 | 99377 |
| OPEC | 218160 | 260591 | 400686 | 466881 | 437064 | 538964 | 768859 | 791576 | 851076 | 918295 | 927435 | 939016 |

Years

Source: British Petroleum (2008), *Statistical Review of World Enery 2008*, London: BP

Venezuela. The Orinoco River originates near the Venezuelan-Brazilian border and eventually falls in Gulf of Paria, an extension of the Atlantic Ocean. Orinoco tar sands are less viscous than Canada's Athabasca oil sands and they can be produced by more conventional means, but they are buried deeper and cannot be extracted by surface mining. Estimates of the recoverable reserves of the Orinoco Belt range from 100 billion barrels ($16\times10^9$ $m^3$) to 270 billion barrels ($43\times10^9$ $m^3$). However, they are not generally considered proven reserves since Venezuela lacks enough technological expertise and capital to develop them on a sufficiently large scale. In addition to the Orinoco tar sands, some deposits are also found in the Maracaibo Basin and Guanoco Lake, near the Caribbean coast.

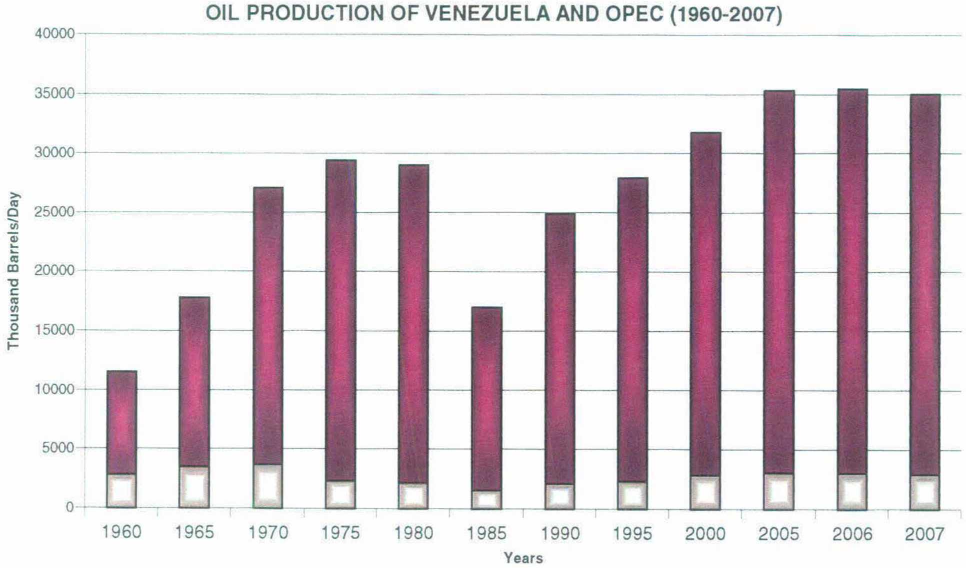
The economy of Venezuela depends on oil. Between 1920 and 1935 oil's share of exports went from 1.9% to 91.2%. This had an immediate impact on the economy, known as 'The Dutch Disease' or 'The Oil Curse'. The most important consequence of this was that agricultural production declined to almost nil and Venezuela fell behind in industrialising, relative to other Latin American countries. In 1943 Caracas came up with the Hydrocarbons Act, which made the state's income heavily dependent on oil. Previously oil income was based on concessions and customs, the new act tied oil revenues to taxes based on income from mining. The law established that the foreign companies could not make greater profits from oil than what they paid to the state.

Steadily rising oil income led to the state's increasing dependence on this source of revenue in lieu of income taxes. From the 1950s, however, the world had an oil glut due to increased output in the Middle East and imposition of import quotas in the US. The result was a chronically low oil price. In 1960 the world's main oil exporting states, mainly as a result of efforts of Venezuela, decided to form the Organisation of Petroleum Exporting Countries (OPEC). In 1960, Caracas created the Venezuelan Oil Corporation, which later formed the basis for the nationalisation of the oil industry (Vallenilla, 1975).

By 1974, when the Arabs imposed an oil embargo, world oil prices rose and as a result the Venezuelan state income started multiplying. This sudden rise in state income was historically unique in Venezuela and to the other OPEC states. Carlos Andres Perez, the then elected president, promised the Venezuelans that they will become a developed country within a few years. Perez's 'La Gran Venezuela' was to 'sow the oil', an attempt to fight poverty via price controls and import substitution.

Figure: 3.2

OIL PRODUCTION OF VENEZUELA AND OPEC (1960-2007)

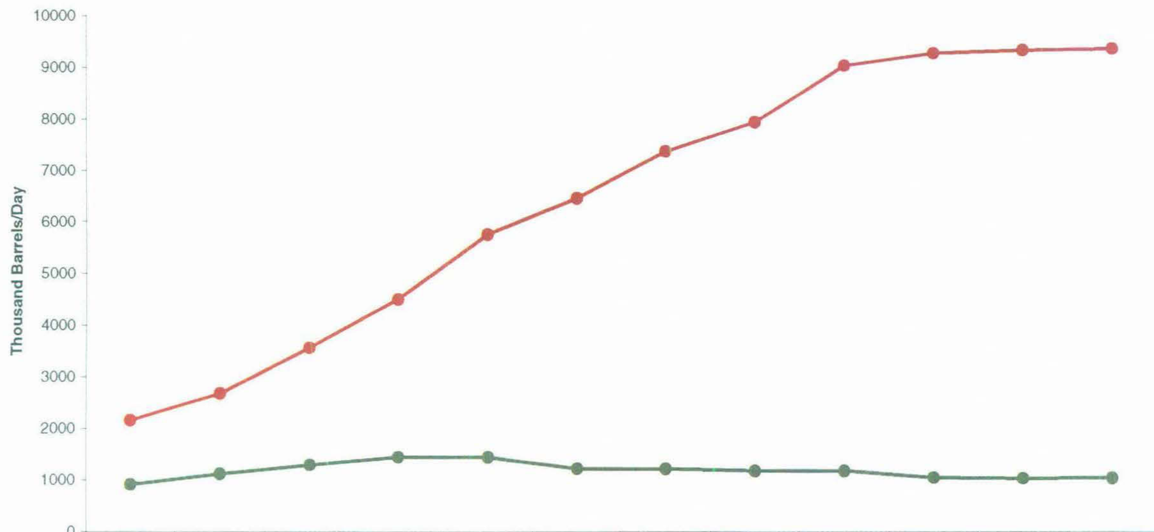



| | 1960 | 1965 | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OPEC | 8683 | 14325 | 23388 | 27095 | 26856 | 15433 | 22781 | 25588 | 28873 | 32306 | 32449 | 32077 |
| VENEZUELA | 2846 | 3473 | 3708 | 2346 | 2165 | 1564 | 2135 | 2349 | 2891 | 3067 | 3036 | 2950 |

Source: British Petroleum (2008), *Statistical Review of World Enery 2008*, London: BP

Figure: 3.3

**REFINING CAPACITY OF VENEZUELA AND OPEC (1960-2007)**



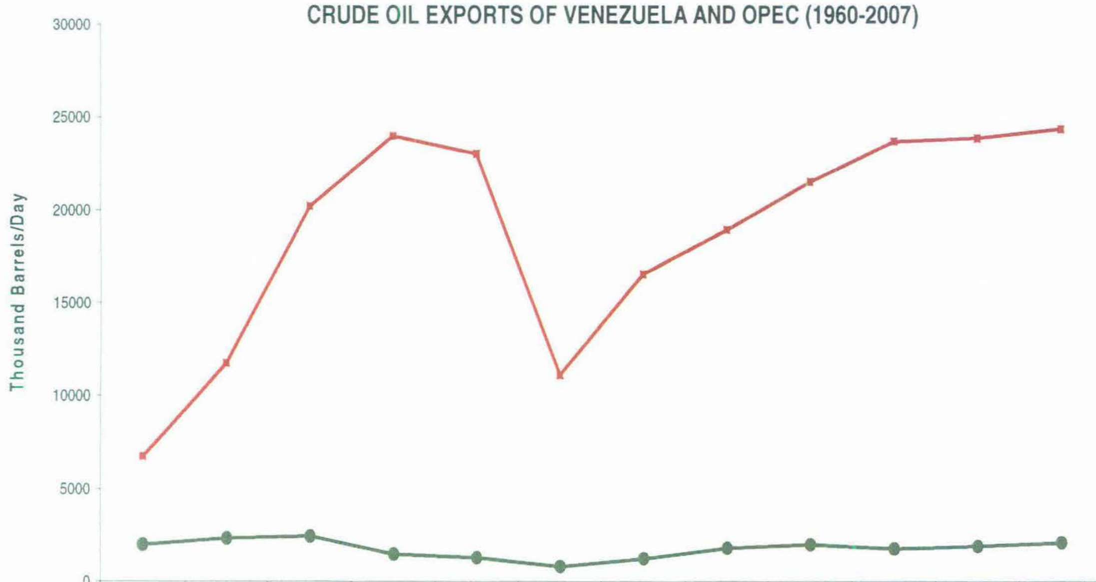

| | 1960 | 1965 | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| VENEZUELA | 914 | 1120 | 1289 | 1445 | 1445 | 1229 | 1224 | 1181 | 1183 | 1054 | 1040 | 1042 |
| OPEC | 2158 | 2676 | 3563 | 4503 | 5756 | 6459 | 7368 | 7927 | 9026 | 9264 | 9318 | 9345 |

**Years**

Source: British Petroleum (2008), *Statistical Review of World Enery 2008*, London: BP

Figure: 3.4

**CRUDE OIL EXPORTS OF VENEZUELA AND OPEC (1960-2007)**




| | 1960 | 1965 | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| VENEZUELA | 1997 | 2332 | 2435 | 1472 | 1287 | 826 | 1242 | 1820 | 2004 | 1788 | 1919 | 2116 |
| OPEC | 6732 | 11746 | 20226 | 24000 | 23051 | 11126 | 16536 | 18940 | 21527 | 23690 | 23867 | 24352 |

Years

Source: British Petroleum (2008), *Statistical Review of World Enery 2008*, London: BP

Part of his plan was the nationalisation of the oil industry, which took effect in 1976 with the creation of PDVSA (Betan, 1979, Wolfgang, 1980).

In August 1971, under the presidency of Rafael Caldera, a law was passed to nationalise the natural gas industry of Venezuela. The law of reversion was also passed in the same year, which stated that all the assets, plant, and equipment belonging to concessionaries within or outside the concession areas would revert to the nation without compensation upon the expiration of the concession. For all practical purposes, Venezuela was already well on its way to nationalization by 1972. It did not become official however until the presidency of Carlos Andres Perez who's economic plan, 'La Gran Venezuela'. The country officially nationalized its oil industry on January 1, 1976, and along with it came the Petroleos de Venezuela S.A. (PDVSA) which is the Venezuelan state-owned petroleum company (Gustavo, 1983).

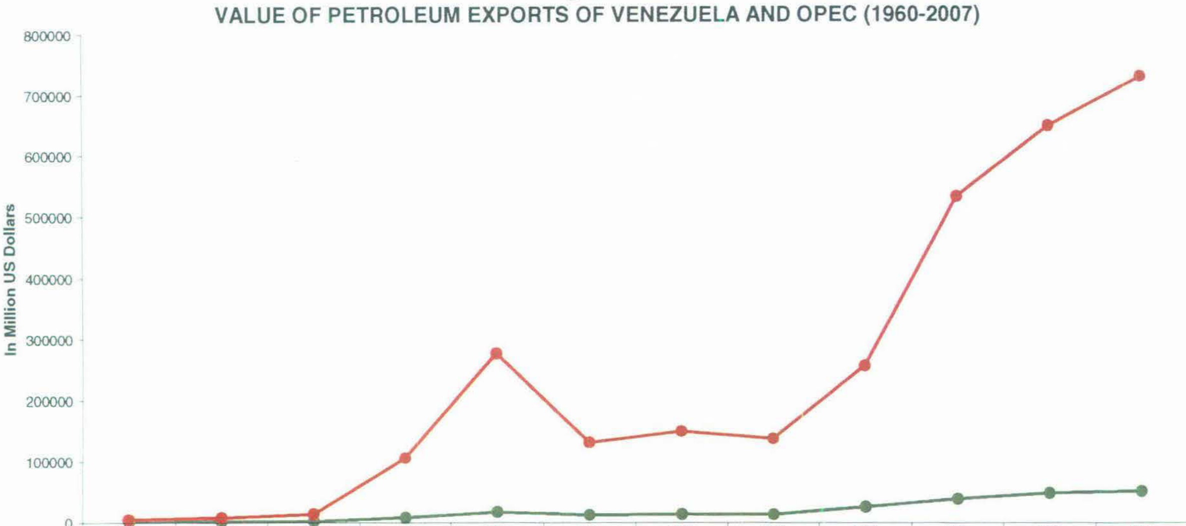
While the oil boom seemed to be a huge blessing, it had negative effects on Venezuela and other big oil exporters, such as chronic inflation. For Caracas and other OPEC capitals, it resulted in rise of indebtedness. These problems intensified in the mid-1980s when the price of oil began to fall due to OPEC's over-production. By 1998, the price of oil had fallen to \$3.19/barell. This had a devastating effect on Venezuela's economy, particularly on per capita income, which has declined since the mid-1980s. Venezuela's economy by mid-2003 had reached the point of collapse.

When Chavez got elected in December 1998, he had no particular plans for PDVSA. He did, however, have very clear plans for OPEC which, under the leadership of Ali Rodriguez (who then served as energy minister and later headed OPEC), was to be turned into a strong bloc once again. Until Chavez came to power, OPEC had become a shadow of its former self, with member-states regularly ignoring their output quotas. Venezuela, especially, had turned into one of the most unreliable partner. Production over allotted quotas, combined with the expanding of oil production in non-OPEC countries, such as Russia and Mexico, led to a steep decline in the price of oil. Chavez promised to put an end to this by organising OPEC's second summit in Caracas in September 2000. Chavez spent the first years of his presidency visiting the leaders of OPEC and non-OPEC states to convince them to adhere to production quotas in the case of the former and output cuts by the latter, so as to maintain an oil price band of \$22-28/b.

Chavez's efforts bore nearly immediate results as the price of oil rose for the first time since 1985 to over \$27/b (in nominal prices). Soon, however, Chavez ran

Figure: 3.5

**VALUE OF PETROLEUM EXPORTS OF VENEZUELA AND OPEC (1960-2007)**




| | 1960 | 1965 | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| VENEZUELA | 1983 | 2280 | 2371 | 8324 | 17562 | 12767 | 13912 | 13517 | 26153 | 39072 | 48391 | 51452 |
| OPEC | 5002 | 8430 | 14494 | 106927 | 279056 | 132567 | 151020 | 138007 | 258117 | 535631 | 650258 | 730434 |

**Years**

Source: British Petroleum (2008), *Statistical Review of World Enery 2008*, London: BP

into conflict with the management of PDVSA which for the past fifteen years had been producing as much oil as possible, regardless of OPEC quotas. The result was a steady rotation of PDVSA presidents which resulted in direct confrontation between Chavez and the oil industry. Chavez then argued that the industry needed re-nationalisation because it had become a 'state within a state'.

## Petroleos de Venezuela, S.A.

Petroleos de Venezuela, S.A. (PDVSA) is Venezuela's state-owned petroleum company. It oversees the exploration, production, refinement and export of oil as well as the exploration and production of natural gas. In 2002, Chavez moved to increase his influence over the company and redefined PDVSA's role to include the government's social priorities. Chavez defined the role of PDVSA in social sphere as it was made obligatory for the company to spend at least 10 percent of its annual investment budget on social programs. Chavez's gradual takeover of PDVSA has given him an enormous 'black box' to pursue his political and economic ambitions. PDVSA has been yielding around 3.1 million barrels/day. Venezuela has an estimated 78 billion barrels of conventional crude oil reserves and an additional estimated 235 billion barrels of unconventional extra-heavy crude oil in the Orinoco Belt region. If development in the region can turn this extra-heavy tar-like oil into a more marketable commodity, Venezuela's total reserves could rival those of Saudi Arabia.

## Oil and its impact on Venezuelan Economy

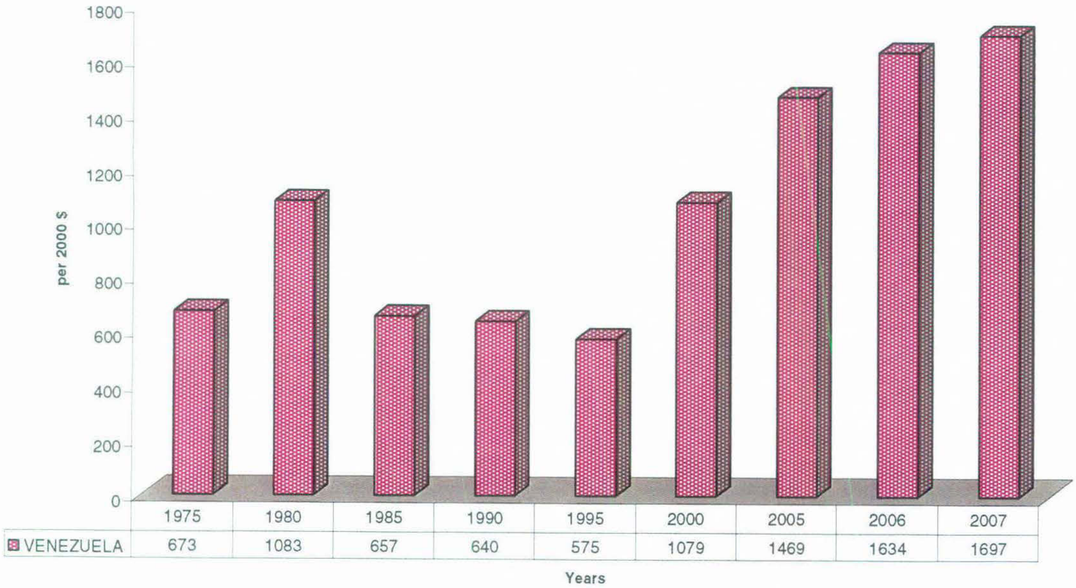
The Dutch Disease or 'The Oil Curse' occurs whenever a commodity brings a sudden rise in income in one sector of the economy which is not matched by increased income in the other sectors. The sudden sectoral surge causes severe problems in the other sectors, distorting growth in services and other non-tradable which cannot be imported, while discouraging production of tradable services that are imported. The reason for this disparity is that higher income rapidly increases the demand for imports, since domestic output cannot meet the demand quickly enough, and raises the demand for services which the local market has to supply because services cannot be imported as easily as tradable can (cannot understand what are you trying to tell). Oil curse in the Venezuelan economy due to high oil prices have pushed its GDP up. It is evident when one looks at the extent to which the rise in oil income was followed by a corresponding fall in agricultural output and delay in industrialisation. While agricultural output made up about one third of Venezuela's GDP in the 1920s, it shrank to less than one tenth by the 1950s and to less than 6% in present times. Industrial output fell from 50% of GDP in 1990s to 24% in 2003 (compared to the whole of Latin America, which declined from 36% to 29% of GDP in the same period). Constant devaluations of the national currency of Bolivar and subsequent rises in inflation have hit Venezuela's economy since the oil boom of 1979-81.

The sudden rise of oil income caused a serious problem in the government's fiscal policies. New revenues brought hope, that the oil income could be used to industrialise the country through massive infrastructural projects, to 'sow the oil', as Perez used to say. The quadrupled income helped the government to spend the money on the newfound revenues. When the oil income began to decline again, the state could not reduce its expenditure. As a result, the debt of the state started swelling. From 1970-94, foreign debt rose from 9% to 53% of GNP. While oil prices and revenues fell, so did the per capita income and the Venezuelan economy as a whole, which further increased the poverty levels. In 1996, Venezuela was one of the very few countries in the world where per capita income was lower than it was in 1960.

Reliance on oil has fostered a renter mentality among Venezuelans. The idea was that one could do well in Venezuela as long as one had access to its oil wealth. So rather than engaging in creative activity, Venezuelans were encouraged to ally themselves with the state, seeking either employment or contracts with PDVSA. Venezuela's oil wealth has helped the state to accomplish just about any feat with no burden on the population. Thus transformed into a petro-state, the Venezuelan state came to hold the monopoly not only of violence, but of the nation's natural wealth. By initiating impressive development projects that result in progress, the state casts its spell over audiences and performers alike. The government seizes its subjects by inducing a condition of being receptive to its illusions. The result of this nature of the state was that the government became very bureaucratic. Of the people employed in the public sector (about 50% of the total working population), about 45% are employed through the government.

The oil wealth turned Venezuela into a 'pacted democracy' (held together through an agreement among elite groups). It is a kind of truce among opposing sections of society to maintain their privileges. In Venezuela this came into being through the Punto Fijo pact, where the main parties had access to power in proportion

Figure: 3.6
**PER CAPITA NET OIL EXPORT REVENUE OF VENEZUELA (1975-2007)**



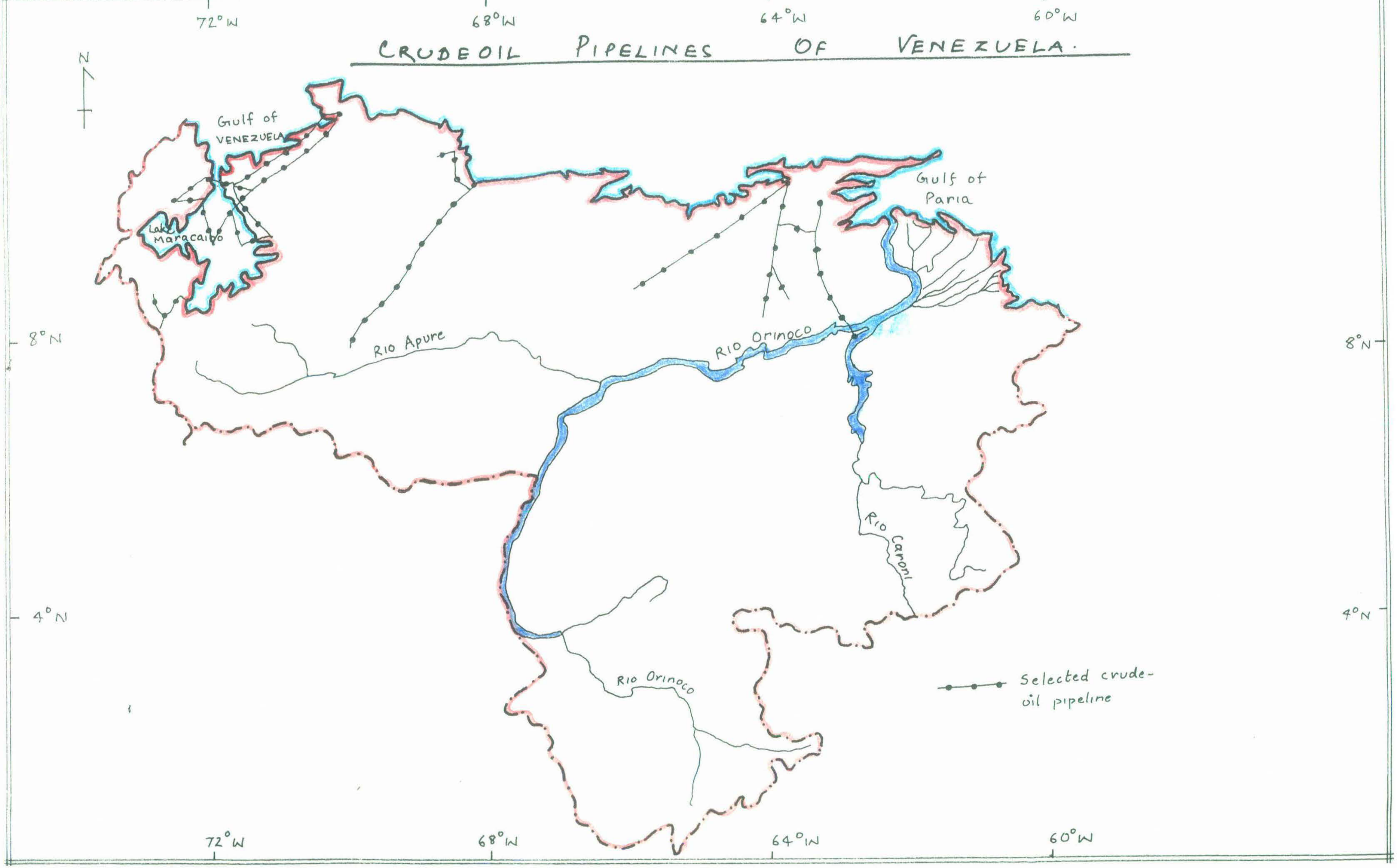

Source: British Petroleum (2008), *Statistical Review of World Enery 2008*, London: BP

Map No. 2

# MAJOR OILFIELDS AND REFINERIES OF VENEZUELA.

MAP No. 3

## CRUDEOIL PIPELINES OF VENEZUELA.



to their voting results. Even if one party won the presidential and legislative elections, it would still be obliged to share the benefits of the oil economy among the other parties, more or less according to the vote results.

The significance of petroleum in the shaping of contemporary Venezuelan society is profound, not only because of its importance in the composition of the economy, but also and even more importantly because of its unique influence on the social structure and the political process. The effect of petroleum exports is enormous, not just because of the benefits it brings, but also because of the way in which it is produced and the social connections that it creates. In Venezuela it is the property of the State, and although it employs less than 2% of the economically active population, it produces nearly 90% of the foreign exchange of the country. Petroleum revenue, therefore does not reach the society—that is, individuals or companies directly. Rather, it goes straight to the central government, since in Venezuela, underground petroleum, like all minerals, has always belonged to the State. Since 1975, this has been the case for the entire petroleum industry, because the nationalization law passed that year gave the State exclusive rights to exploit petroleum, excluding all other economic actors, whether domestic or foreign. Because it owns both the resource and the industry that exploits that resource, the Venezuelan State has its own income source and does not depend on the economic production or the resources of the rest of society.

In other words, the Venezuelan State, unlike the majority of Latin American States, does not need to levy taxes on companies or individuals in order to exist, to pay its employees, to fund the country's public infrastructure projects, or to carry out redistributive social policies. The Venezuelan State is an economically autonomous entity that can afford the luxury of ignoring or destroying private enterprise without jeopardizing its own existence. The State's perennial source of wealth, its major as well as its minor sources of income, depend on the fluctuation of petroleum prices on the world market, but never on the economic efforts of Venezuelan society or on the government's ability to collect taxes from taxpayers.

If the State has its own revenue-generating enterprises and does not need civil society, its connection to the rest of society and to the different social classes is completely different from the way that connection has been conceptualized by the classical theories of the State in capitalist society. The petroleum state is not subject to the pressures of large economic groups. Nor does it need to expropriate the means of production from the large factory owners and landowners in order to guarantee itself an income, since its economic capacity and its power derive from the control of the petroleum business, which is independent from the rest of the economy.

It is important to consider another significant point: the petroleum business has very little real impact on national economic activity, and the greater part of the value it produces is produced outside the country. The petroleum industry has a large economic impact during the exploration and preparation phases of production. These are very dynamic phases in which multiple chains of demand for industry services are being created, other companies are engaged, and many people are employed; that is to say, there is a production of real wealth in the country. However, once the industry begins regular operation and petroleum begins to flow through the pipelines to the ports, the demand for services and employment diminishes drastically.

Venezuela is a typical among Latin America societies. Till the 20th century, it was very similar to the rest of the countries in the region. It had a traditional society structure—with three million inhabitants; 84% of the population lived in rural areas and the literacy rate was less than 10%. Under semi-feudal conditions, Venezuela produced tobacco, coffee and cocoa, and exported its crops via trade exchanges, which distributed them to the capitalist world market. This situation changed in the middle of the 1920s when the massive development of petroleum production began and the value of fossil fuel exports surpassed that of coffee, becoming the primary export product of the country. Venezuela was the second largest petroleum exporter until the end of World War II. Then, because of the rapid growth of the North American economy during the post-war period, or 'the golden age of capitalism' United States became a net petroleum importer and Venezuela became the largest exporter in the world. This petroleum model of growth produced great economic, social, and political stability in the country, a stability that lasted until the 1980s. From the end of World War II until 1979, the gross domestic product increased at an annual rate of approximately 6%, with an average of over 8% in the 1950s and an average of 4% in the 1970s. Even though the rate of growth declined from one decade to the next, it remained positive until the 1980s.

## Oil and Democracy

In the 1970s and 80s, when there was a wave of military regimes, high inflation, social unrest, political terrorism, and exchange rate control in the region, Venezuela had a stable economy, a floating exchange rate, and an enviable degree of social harmony. However, at present time, the situation has changed: while Central and South America have democracies, civilian governments, and low inflation, Venezuela is characterized by great political instability, one of the highest inflation rates, tight control over monetary exchange and a government full of military personnel. In Venezuela the petroleum sector employs around 2% of the economically active population, and in 2003, after the petroleum strike, the government took the liberty of firing more than 18,000 petroleum industry workers. Nonetheless, even with so few employees, the industry can reap great benefits, since the revenue is obtained when the product is sold outside the country, in the world market, and that revenue returns to the country as foreign exchange in the hands of the central government.

Some may see this situation as advantageous or even ideal because it allows the State to act independently of the conflicting influences and powers within the country, not requiring the support of other influential sectors in the society. However, the real consequence is a weakening of democracy and the installation of a power with no counter-balancing powers and, in a society such as Venezuela that has little institutional development, a power free from civilian or political controls. The economic autonomy of the State is the basis of authoritarian and dictatorial governments, since they are accountable to no one. However, it also leads to extreme fragility, because such governments depend on fluctuating revenue that is based not on a solid, normal source of profits, but on an extremely fragile and exceptional source. Any drop in the price of petroleum means a crisis in the State and in the dependent society of Venezuela.

The income from petroleum allows the State to create new social classes. Primitive accumulation is the result of the transfer of petroleum income into private hands. The origin of wealth in Venezuela is not the exploitation of workers—which may well have existed, but rather the manner in which petroleum money was transferred and appropriated by individuals and companies, whether through legal means or illegal ones. In situations such as this the State is not a direct product of the social classes neither of their consensus nor of their irreconcilable struggle.

The political goal is to control the State in order to administer the resources that come from the petroleum rent. In the successive changes in political power in Venezuela, from Gomez to Chavez, one finds a recurring pattern in which the group in power attempts to produce economic success by making use of petroleum resources. Because the State is very powerful and financially autonomous, the problem of the State and the political sector in Venezuela has not been the extraction of money from society, from one social class or another. Rather, it is the opposite: how to spend money, how to distribute it in such a way that it benefits whoever wants to benefit from it, whether for political reasons, to gain loyalty and political power, or for strictly personal reasons of family or friendship.

In Venezuela, it was possible to create a bourgeoisie by providing credits and contracts to the private sector, by granting import rights or protectionist measures to shield producers from foreign competition, and by offering tax exemptions for rent-based earnings. During the 1940s, with contracts during the war; during the 1960s, with the import-substitution model; and during the following decade of decentralization policies, easy credits were made available with long grace periods, ridiculously low interest rates, and the option of effectively never being paid off, since what was important was to spend money, not invest it or recuperate it. In Argentina and Brazil, import substitution was carried out to save the country foreign exchange; in Venezuela, by contrast, it was done to spend it. This has created a greenhouse bourgeoisie which was born and survived because of the petroleum resources of the state and not because of the surplus value created by the exploitation of workers or the capacity to improve productivity and efficiency. The middle class grew because of the expansion of public employment. The State set about hiring people in order to be able to pay them a salary even though in many cases they were not really needed or had little work to do since this was a social policy and a mechanism for transferring the petroleum revenue to society. This is why, when proposals to reduce the immense Venezuelan bureaucracy came up on several occasions, they were always rejected; it was argued that it will result in high unemployment rates. Employment in Venezuela is fundamentally and increasingly based in the public sector: in 1960 the government had 28,000 employees, and the petroleum industry had 40,000; in 1998 the government had 1,390,000 employees (five times more) and the petroleum industry had the same 40,000. Public-sector employment and free education were the great sources of the Venezuelan middle class, and as is evident from the above statistics that both of these sources came from petroleum revenues and not from the employment provided by the petroleum industry.

A wide range of programs has been directed toward the poor. These include agrarian reforms and agrarian credits aimed at paying for the inefficient productivity of the peasant sector, multiple forms of gifts and hand-outs aimed at fostering political loyalty (tactics used by the political parties of the past as well as the current Bolivarian government), and subsidies for products of mass consumption from food products to gasoline. Upward social mobility was a very important collective experience in Venezuela because it facilitated a process of migration in which the population, over a period of 50 years, moved to the cities, began to attend school, and improved their life expectancy and their standard of living. Venezuelan's real wages increased steadily between 1950 and 1979 and were far above the wage rates, not only of the rest of Latin America, but also of many European countries.

Another very important mechanism for transferring petroleum revenues to individuals has been currency over-valuation. This process began in the 1930s, following the capitalist crisis that shook the world, when Venezuela overvalued its currency at the same time that the rest of the countries of Latin American were devaluing theirs in order to continue exporting. During the 1930s, exchange parity had been fixed at 3.35 Bolivar's per dollar. Since then Venezuela has maintained a level of over-valuation that has made non-petroleum exports impossible and facilitated imports, creating a market of artificial prices that encouraged consumption and gave the impression of progress and modernity. This rate was maintained until the beginning of the 1960s, when fiscal pressures led to the first devaluation and exchange parity was fixed at 4.30 Bolivar's per dollar, a rate that was maintained for the following twenty years. It is hard to imagine greater stability, but this was maintained in Venezuela for years. It created harmony despite the fact that it meant obvious over-valuation and a transfer to and subsidy for the consumer. From the 1950s onwards inflation was truly low: it remained at less than 5% per year until 1979, in the midst of the second great petroleum price increase, when inflation reached 20%, thus inaugurating a period of fluctuations that reached 103% in 1996 and 27% in 2003. This type of fiscal policies, that is very unusual in a capitalist society, bought continuous growth in both the real wages of workers and in the rate of profit of the business owners. This unique condition developed because the process was subsidized by petroleum income, making it possible to create social harmony that lasted for several decades, based on the distribution of those earnings to both business owners and workers. This model entailed a very unusual social arrangement in which the demands of the conflicting parties were taken into account, but the resolution of the conflict was determined and financed by the State.

## Venezuelan Economy under Chavez

The composition as well as the relevance of the Venezuelan political leadership changed during 1999, as Chavez levelled the political terrain, destroying some groups and parties and forcing the appearance of others. Nevertheless, Chavez did not destroy the traditional political parties in Venezuela; they had fallen from favour with the population much earlier, perhaps from the very moment Caldera won the election. What followed was the inability of the parties to position themselves as credible alternatives in the political arena, which led to a lack of organization and leadership. This vacuum was filled by Hugo Chavez.

Chavez began his term with more power than any president has ever had in Venezuela: extremely widespread popularity, a qualified majority in Congress, and the support of the Armed Forces. With no political opposition and no resistance from society, he was able to change the Constitution, the laws, and the name of the country completely at his own discretion. Yet, at the same time, he began a dispute with all the powerful groups in Venezuelan society: not only with the traditional political elite, but also with the Church, with the business leaders, with the unions, with the middle class, and with the media. Despite being retired from the military, he began using his military uniform, appearing regularly at public events in fatigues or in dress uniform, thus irritating the military and awakening fear within democratic society. He continuously threatened his real and potential enemies, repeating frequently that his revolution is 'peaceful, but it is armed'. This aggressiveness completely changed the language that the country was accustomed to hearing from its President, producing sympathy in some and rejection in others, but provoking the surprise of all. By speaking militaristically, Chavez became his own worst enemy in the eyes of a growing proportion of society, and even in the eyes of many of his allies in the left.

In the first election, in 1998, Chavez had broad support from the middle class and significant support from the poorer sectors the unemployed and those working in the informal economy. In the second election, his support from the middle class decreased, but it grew within the poor sectors. In the following years, this tendency continued, and Chavez lost the support of the middle class almost completely but gained broad support among those in extreme or critical poverty. These changes manifested in several ways: he lost support in the cities but gained it in the countryside; he lost support among organized workers but gained among the unemployed.

Two factors are at work in these changes, one relating to emotions and the other to welfare, but both have the same meaning in the language of politics. For the most destitute sectors of society, those whom classic Marxism called the 'lumpen proletariate' and who had felt excluded for economic or social reasons, the Chavez government represented hope. There have been two types of policy toward these sectors: the first, which is completely rhetorical, is the word of the President who speaks to them emotionally and didactically, saying 'you are now the ones with power, the petroleum money is now yours'. The other policy, which is more practical, is the distribution of the petroleum earnings among the poor who sympathize with the government, using an institutional apparatus parallel to that of the State. The government was unable to develop an adequate set of policies toward the country's poor during its first few years in power. It had no program proposals and it was unable to steer the bureaucracy of the State. Faced with this sort of institutional incapacity, the government created a parallel structure, referred to as "the missions." It answered directly to the President of the Republic, and its function was to attend directly to those with the least resources, without the formal or financial controls to which other institutions of the State are subjected.

Chavez's domestic policy relies heavily on the 'Bolivarian Missions', a series of political campaigns aimed at radically altering the economic and cultural landscape of Venezuela. The two first and most important missions were dedicated to literacy and to primary health care, both were contracted out to the government of Cuba for implementation, with personnel, equipment, textbooks, and medicines brought from Cuba. In 2004, there were more than 13,000 Cuban doctors working in the poor areas of Venezuela; these doctors were not under the supervision of the Ministry of Health of Venezuela, but under the direction of its Cuban counterpart. Next, a mission was established to increase the number of students in primary education; the government offered a student a plan of informal studies and also a $100 scholarship. A mission charged with reducing unemployment was also initiated. It was supposed to create cooperatives or a social economy, but in actuality it merely handed out cash grants to the unemployed. Regardless of their benefits or shortcomings, these aid programs won support for the government. The infant mortality rate fell by 18.2% between 1998 and 2006. The government earmarked 44.6% of the 2007 budget for social investment, with 1999-2007 averaging 12.8% of GDP. However, the Gini coefficient has risen from 44.1 to 48 in 2005, illustrating rising inequality.

In March 2006 the Communal Council Law was approved, whereby communities that decide to organize themselves into a council can be given official state recognition and access to federal funds and loans for community projects. This skips the local and state governments that are perceived as corrupt. Venezuela is a major producer of oil products, which remains the keystone of the Venezuelan economy.

Chavez has redirected the focus of PDVSA by bringing it more closely under the direction of the Ministry of Energy and Petroleum. He has also attempted to repatriate more oil funds to Venezuela by raising royalty percentages on joint extraction contracts that are payable to Venezuela. During Chavez's presidency from 1999 to 2004, per-capita gross domestic product (GDP) dropped 1–2%, but with the help of rising oil prices, the end of the oil strike, and strong consumption growth, recent economic activity under Chavez has been robust. GDP growth rates were 18% in 2004, 9% in 2005, and 9.6% in the first half of 2006, with the private sector growing at 10.3%. According to government figures, unemployment has dropped by 7.7% since the start of Chavez's presidency. It dropped to 10% in 2006, from the 20% high in 2003 during a two-month strike and business lockout that shut down the country's oil industry. According to the government, an unemployed person is a citizen above the age of 15 who has been seeking employment for more than one week. But, critics say that the government defines informal workers, such as street vendors, as employed, and excludes adults who are studying in missions from unemployment.

While the Venezuelan Government enjoys a windfall of oil profits, the business environment is risky and discourages investment. As measured by prices on local stock exchanges, investors are willing to pay on average 16.3 years worth of earnings to invest in Colombian companies, 15.9 in Chile, 11.1 in Mexico, and 10.7 in Brazil, but only 5.8 in Venezuela. The World Economic Forum ranked Venezuela as 82 out of 102 countries on a measure of how favourable investment is for institutions. In Venezuela, an investor needs an average of 119 days and must complete 14 different proceedings to organize a business, while the average in OECD countries is 30 days and six proceedings.

Although the economy is not very strong but due to high petroleum revenues, which are rising at a rapid pace due to the war in the Middle East, the economy has benefited in recent years. This substantial revenue received by the central government, which it distributes through public spending; the government hands out money right and left to the poor and to its supporters. That money is used to strengthen demand; the population decides to buy imported goods, which they use to meet their basic needs or to fulfil their desire to enjoy modern life like that of Western countries.

State corporations count is increasing, the government decides to create companies to produce and sell a wide range of products. Even in the midst of extremely high revenues, the government undertakes projects requiring deficit spending, and the country's external or internal debt grows. The party in government uses its power and public funds to constitute itself as a party and to guarantee its own continuity in power, and the President spends his time buying international prestige with the aid of petroleum money. This is a repetition of what occurred in the country between 1974 and 1983, the same as the 'Great Venezuela' policy of Carlos Andres Perez that later brought such negative consequences. Chavez announced Venezuela's withdrawal from the IMF and World Bank after paying back all his country's debts to both institutions; he charged them with being an imperial tool that aims to exploit poor countries. Chavez focused considerably on Venezuela's foreign relations via new bilateral and multilateral agreements, including humanitarian aid and construction projects. Chavez has engaged, with varying degrees of success, numerous other foreign leaders, including Argentina's Nestor Kirchner, China's Hu Jintao, Cuba's Fidel Castro, Iran's Manhood Ahmadinejad and Russia's Vladimir Putin. Chavez publicly declared that the US-backed Free Trade Area of the Americas (FTAA) was 'dead'. He stated that the neoliberal model of development had utterly failed in improving the lives of Latin Americans, and that an alternative, anti-capitalist model would be conceived in order to increase trade and relations

Nevertheless, the important changes that Venezuela needs, those that could signify a true revolution, have not been proposed. Venezuela should have as its goals: to become less dependent on petroleum revenues; to make the society less rent-based and more productive. Venezuela should wean itself from crude oil products, cultivate greater economic diversity, and rely more on the value added by domestic industry. Venezuelan society should invest less power in the State and more in the civil society. The president should have less power, with greater distribution of power among the different social sectors. The legislature and judiciary should become more independent from the central government and there should be greater participation of people in the government and the management of the country. None of this is happening in Venezuela at the outset of the 21st century; in fact what we see is the complete opposite.

In the midst of so many conflicts, the existence of high petroleum revenues and their distribution among the population will continue to create an illusion of progress and social improvement. In 1997 there were 1.1 million cellular phones; in 2003 this figure rose to 7 million in a population of 25 million- one for every 3.6 persons. But it is only an illusion of modernity and progress that will last only as long as the petroleum bonanza lasts.

Chavez has initiated a plan for Venezuela and named it as 'Oil Sowing Plan'. Venezuela power policy guidelines until the year 2030 are drawn up in the 'Oil Sowing Plan' which includes six developmental projects and consists of two stages: one to be executed in the period 2005-2012, and another, to be developed in the second stage, 2012 and 2030.

For the first period of this Plan, an overall investment of around US $56,000 billion has been estimated. 70% of this amount will be financed by the Venezuela state operator and the rest by the private sector. Oil Sowing Plan, 2005-2012 includes six fundamental axes-

1. Magna Reserve: Destined toward the quantifying and certifying of oil reserves in the Orinoco Oil Belt.
2. Orinoco Project: In charge of developing the Orinoco Belt. Twenty-seven blocks have been selected for development under this project with the cooperation of selected companies. Because of the strategic location of this hydrocarbon reservoir, it is considered of vital importance in reducing levels of overcrowding in some parts of the country and providing local employment. Services and housing will be developed to guarantee adequate oil exploitation.
3. Delta-Caribbean Project: Gas will be incorporated to the country energy supply. This project pursues offshore gas development in the Deltana Platform off the

coast of eastern Venezuela. Further projects are located in the Paraguayan Peninsula, to the north-west of the country.

4. Refinement: To increase refinement capacity in Venezuela is one of PDVSA's strategic goals. Oil Sowing Plan undertakes the creation of new refineries: Cabruta (with capacity for 400,000 extra-heavy crude barrels per day), Batalla de Santa Ines (50,000 barrels) and Caripito (50,000 barrels per day destined to asphalt production). With these three new refineries and the improvement of the existing ones, PDVSA's processing capacity on Venezuelan soil will be increased to 700,000 barrels per day (111,000 $m^3/d$).

5. Infrastructure: More filling centers and pipelines will be set up to guarantee fuel supplies to the whole nation. The agreement for the construction of the Transguajiro gas pipeline between Venezuela and Colombia has been signed in 2005.

6. Integration: According to Hugo Chavez's aims, oil is to be used as a geopolitical resource helping the integration of the people of Latin America and the Caribbean. Venezuela thus created Petrocaribe and signed the Petrosur agreement. A refinery was also to be built close to Petrobras in Brazil.

Petroleum, which was the foundation on which democracy was built, is also the tool that can bring about its destruction and lend support to an authoritarian regime. Stable democracy will only be possible in Venezuela when the economic autonomy of the State diminishes and more power is transferred to civil society. This is only possible with a reduced presence of petroleum in the society, or with a completely different way of producing and selling it between Venezuela, Argentina and Brazil. Chavez also stated his desire that a left-wing, Latin American analogue of NATO be established. In accordance with his foreign policy trends, Chavez has visited several countries around the world.

CHAPTER FOUR

# GEOPOLITICS OF OIL AND VENEZUELAN OIL DIPLOMACY

# Chapter Four

# GEOPOLITICS OF OIL AND VENEZUELAN OIL DIPLOMACY

## Background of the Geopolitics of Oil

Oil is the world's most important commodity. Without oil, today's industrial society can neither survive nor sustain. Oil and natural gas are the fuels for the engine of modern capitalism. Oil and gas are not only the source of 62 percent of the energy used in the world, they are integral in the production process of many goods and products that man consumes and utilizes. Oil and gas make up 65 to 70 percent of all the energy consumed by the three largest economies in the world- the U.S., Japan, and the European Union. Most of the developing countries of the Third World, like South Korea, China, Brazil, India and Mexico have witnessed sharp increase in their oil and gas consumption.Capitalism created a world market, but this world market is based on ruthless competition between rival national capitalist states. This struggle is dominated by successive superpowers, the imperialist powers of the day.

Before the First World War (1914-18), British imperialism intervened in the Middle East to secure control of countries with big oil reserves, like Persia (now Iran), Iraq and Saudi Arabia. Winston Churchill recognised the strategic importance of oil as fuel for modern warships. Together with France, Britain took control of the Suez Canal and sponsored puppet regimes in many of the strategically placed Gulf States (Beck, 1974). The United States emerged from the Second World War (1939-45) as the predominant western superpower. No longer self-sufficient in oil as it had been in the 19th century, US imperialism also followed a policy of strategic control of oil reserves and supply routes. The United States used the Marshall Plan (the U.S. aid program to rebuild Europe after the Second World War, officially known as the Economic Cooperation Administration) to take control of European energy markets and to open access to raw materials in Europe's colonial holdings. While the Marshall Plan actually blocked projects for European crude oil production and helped American oil companies gain control of Europe's refineries. All this was done without regard for the effects on domestic employment in coal or loss of internal self-sufficiency. The net effect of this aid was that petroleum replaced Europe's domestic coal as Europe's main source of energy (Anderson, 1981).

The post-war era saw an enormous expansion in petroleum's share of world energy usage. In 1929, oil and gas accounted for 32 percent, and in 1939, on the eve of the war, it accounted for 45 percent of all energy used in the United States. By 1952, petroleum's share had risen to 67 percent and by the 1970s it had gone up to over 70 percent and it remains same even today (George, 1982). Japan and Europe have shown a similar pattern of growth in the use of petroleum as source of energy, with Japan relying on oil and gas for 63 percent of its energy needs and Europe for nearly 65 to 70 percent today. The outbreak of war between Iran and Iraq in 1980 provided the perfect opportunity for the U.S. to not only contain Iran and cement its ties to the Gulf States, but to reinsert its military more fully in the Gulf (James, 1988). In 1990, Saddam Hussein, previously armed and backed by the US and Britain against the Iranian regime under Khomeini, invaded Kuwait, another major oil producer. The US saw this as a threat, not only to Kuwait but also to Saudi Arabia. By 1992, the situation in the Gulf had been stabilized. The Iranian Revolution had been contained, and Iraq was left decimated and hampered with economic sanctions which were to kill more than a half million Iraqi children in the next decade. But regimes hostile to the U.S. were still in power in Iran and Iraq.

The policy of US imperialism changed dramatically when George W. Bush became president in 2001. The Stalinist system in the Soviet Union and Eastern Europe had collapsed and was no longer an obstacle to US imperialism. America was now the world's unchallengeable superpower. Bush believed that the US should use its superior military might to enforce its interests globally, if necessary by military intervention and pre-emptive strikes against potential enemies. The right-wing faction around Bush in the Republican Party was closely connected with Big Oil, the handful of big oil and gas corporations that dominate the industry (Mitchell, 2001).

The attacks on the twin towers and the Pentagon on 11 September 2001 provided the Bush regime with the political pretext it needed to implement its policy of pre-emptive intervention. The neo-conservative hawks saw the invasion of Afghanistan to overthrow the Taliban regime as the first step of a series of regime changes throughout the region. First, Saddam would be smashed, and then US forces would move on to Iran, Syria, Saudi Arabia and perhaps other states. This was justified as a campaign to introduce western-style democracy throughout the region.

The real aim was to install pro-US puppet regimes throughout the region, to safeguard US and western oil interests and the strategic control of the region by US imperialism. Moreover, now Iraq is producing less oil than it did before the US invasion in 2003. This decline has been one of the factors which led to the recent shortage in world oil supplies (Klare, 2004).

## Latin American and U.S. Relations

During the Summit of the Americas held in Miami, an initiative called 'Energy Integration of the Americas' was installed. Its objective was to build an integrated energy data bank, evaluate existing interconnections among the countries, identify barriers for a larger integration (political hurdles, tariffs, quotas, logistics, etc) and eventually undertake reforms and agreements, with the ultimate objective of having a seamless energy platform that would benefit all countries, and in addition facilitate and improve commercial activities. The initiative, which involved the public and the private sectors of each one of the countries of the American hemisphere, was launched in Washington and was followed-up with working meetings in Santa Cruz, Bolivia and in Caracas, Venezuela. One of the relevant features of the existing network is that while North America has a large deficit of oil, Canada and Latin America has large surplus of energy resources, which if developed efficiently and effectively, can be a leading engine for regional development and an important contributor to global competitiveness. However, in the next few years the initiative lost momentum and eventually faded away.

The evolution of the energy landscape in the past few years has once again brought to the fore the importance of the subject. If geography is destiny the Americas are ripe for development of an energy partnership benefiting both suppliers and consumers, while linking the economies of the countries and increasing trade. The entire Western Hemisphere stands to gain if energy partnership is pursued, assuming the implementation of terms and conditions consistent with a market-based, and public-private approach to energy sector development. Beyond politics, the key questions centre on the ability to raise and utilise effectively the massive amounts of increased investment required to develop the resources that already exist. Fundamentally, unless investment climate will not improve in the energy sector and elsewhere, investors will continue to look to other markets as opportunities with greater interest than the Americas. Without necessary investment, reserves will be depleted, imports into the region will increase, and terms of trade will deteriorate. Along with other problems one main argument is that United States is dealing as a hegemonic power with south.

The old policy of divide and rule still holds for United States strategy planners in Washington. Yet, slowly, cautiously, Latin America is developing in unifying directions, today making it harder for Washington to get a handle on. Sceptics scoff at the Common Market of the South, Mercosur, which was constituted in 1991. Nonetheless optimists see it as the nucleus of a Latin American Common Market, today including Brazil, Argentina, Uruguay and Paraguay, while Bolivia, Chile, Colombia, Peru and Ecuador are associate members. Now, despite Chavez's charges that the Mercosur is "old, created by and for free market elites and not the peoples," rich Venezuela and its controversial president want to join for real. Chavez is not only joining Mercosur. He wants to inject new life into the struggling union. His aim is to construct a solid political block of Latin American nations to give the continent a real say in the world at large. Mercosur cannot exist without Venezuela on whose oil much of the economic development of Latin America depends. USA continues to be the big outside player. Many Latin American capitalists inside American Trojan horses resting comfortably in each Latin American country are among the traditional entrepreneurial elite that Chavez and more and more Latin Americans detest. A growing part of the continent today has rejected traditional US hegemony. That more autonomous part of Latin America favours striking out on new paths as Asian economies have done. Chavez's Venezuela, Brazil, Argentina, Chile, Bolivia, Ecuador, Nicaragua and, of course, ever active Cuba combine with that new spirit, with that new air, of aspirations for economic independence aimed at modifying familiar old Washington images of an acquiescent Latin America servile to US interests.

Traditional US hegemonic pretensions once again surfaced with plan Columbia the long term objective of Plan Colombia in the Andean region is to take over the oil and gas reserves located along the 'Bolivarian energy arc', which extends from Trinidad, passing through Venezuela, Colombia, and Ecuador to Bolivia. The most important reserves are on Venezuelan territory and represent a secure source of energy in the empire's 'back yard', and now even more so after the disaster of the military adventure in Iraq. Taking into account the recent military adventures of the US in Afghanistan with the aim of building a gas pipeline from the Caspian Sea to a loading terminal in Pakistan, and in Iraq to ensure 'cheap oil', one can assume with a great deal of certainty that Venezuela will be the next objective. In a geopolitical context, the best option for the future is a Latin American Energy Alliance using Petrosur or PetroAmerica, as a bulwark against the US hemispheric energy alliance.

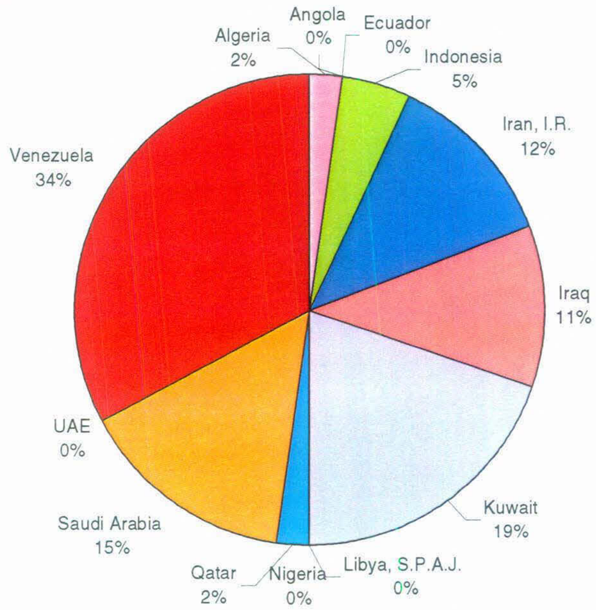
Today, as during the struggle for independence, the Bolivarian nations must vindicate their common destiny and their sovereignty over their energy resources. The US Empire wants to turn Colombia into another Israel, which is a mechanism to convert the Bolivarian countries. Plan Colombia is the most complete and genuine manifestation of contemporary capitalism. It is a neoliberal program combining political, military and economic intervention, but which is skilfully presented as a humanitarian plan to defend democracy and save the world from the menace of drug running. The objective of the US with Plan Colombia is to intervene in the internal social and political conflict in Colombia, to impose and favour the interests of important oil and coal transnationals, to promote the privatization of the main state industries, especially in the health, education and communications sectors, to protect private land owners in the livestock and agro-industrial sector, and above all, to take control of the enormous natural riches of Amazonia, without any real resistance. This is not a game. Latin America must take this very seriously. The US is reconstructing a cold war scenario in which Colombia could become the beach head for a future US invasion of Venezuela. It is difficult to believe that the US will leave Amazonia once having established itself there. Its natural riches and the nearby oil reserves are an attractive magnet for international capital. In general, for neighbouring governments, Plan Colombia will generate more violence due to technological changes in the conflict, a massive US presence in the region; will cause thousands of refugees, and probably the coca plantations will extend further into Amazonia itself.

The international rejection of the Plan against Colombia should in itself become a unifying component in the political struggle which the oppressed and exploited are waging against the hegemonic, military globalization of transnational capital, both from the US and Europe. This is the framework for these efforts to build a lasting peace in the world. In this way, the military application of Plan Colombia is being accelerated against Venezuela and at the same time could weaken the cohesion of the CSN. United States economic hegemony is more difficult to understand, the economists understand that the strength of the dollar does not merely rest on our economic output per se. The dollar posse's two unique advantages relative to all other hard currencies. The reality is that the strength of the dollar since 1945 rests on being the international reserve currency and thus fiat currency for global oil transactions (i.e. 'Petro-dollar'). The U.S. prints hundreds of billions of these fiat petro-dollars, which are then used by nation-states to purchase oil/energy from OPEC producers (except Iraq, to some degree Venezuela, and perhaps Iran in the near future). These petro-dollars are then re-cycled from OPEC back into the U.S. via treasury bills or other dollar-denominated assets such as U.S. stocks, real estate, etc. The 'old rules' for valuation of currency and economic power were based on flexible market, free flow of trade goods, high per worker productivity, manufacturing output/trade surpluses, government oversight of accounting methodologies, developed infrastructure, education system, and of course total cash flow and profitability. While many of these factors remain present, over the last two decades we have diluted some of these 'safe harbour' fundamentals. Despite imbalances and some structural problems that are escalating within the U.S. economy, the dollar as the fiat oil currency created 'new rules'. Chavez's 'barter deals' with 12 Latin American countries and Cuba are effectively cutting the U.S. dollar out of the vital oil transaction currency cycle. Commodities are being traded among these countries in exchange for Venezuela's oil, thereby reducing reliance on fiat dollars. If these unique oil transactions proliferate, they could create more devaluation pressure on the dollar.

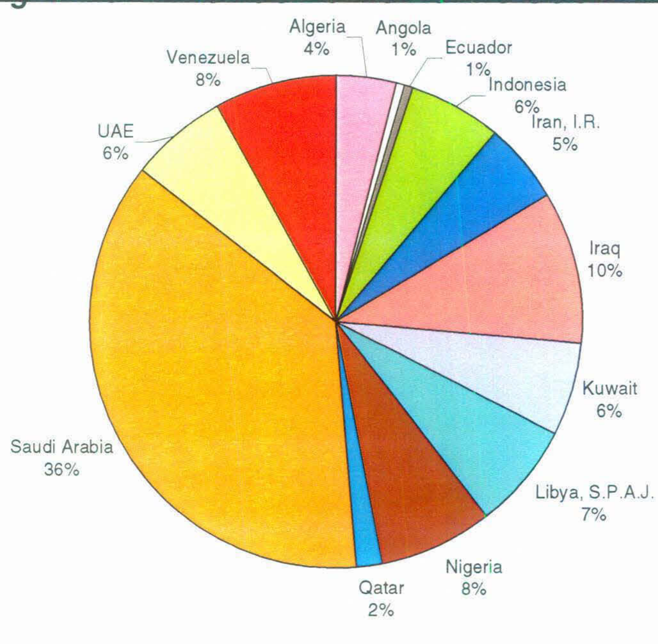
## OPEC and Venezuela

OPEC was founded in Baghdad in 1960 by Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela, and was later joined by Qatar, Indonesia, Libya, the United Arab Emirates, Algeria, and Nigeria. It was originally formed as a way for these countries to try to negotiate a better share than the 10 to 15 cents on every dollar of immense profits the giant oil multinationals were making from the marketing and sale of their oil. But soon, its member countries realized that they could coordinate the amount of

## Fig: 4.1 OIL PRODUCTION OF OPEC COUNTRIES-1960




## Fig: 4.2 OIL PRODUCTION OF OPEC COUNTRIES-1980




Source: British Petroleum (2008), *Statistical Review of World Enery 2008*, London:

Fig: 4.3 OIL PRODUCTION OF OPEC COUNTRIES-2000

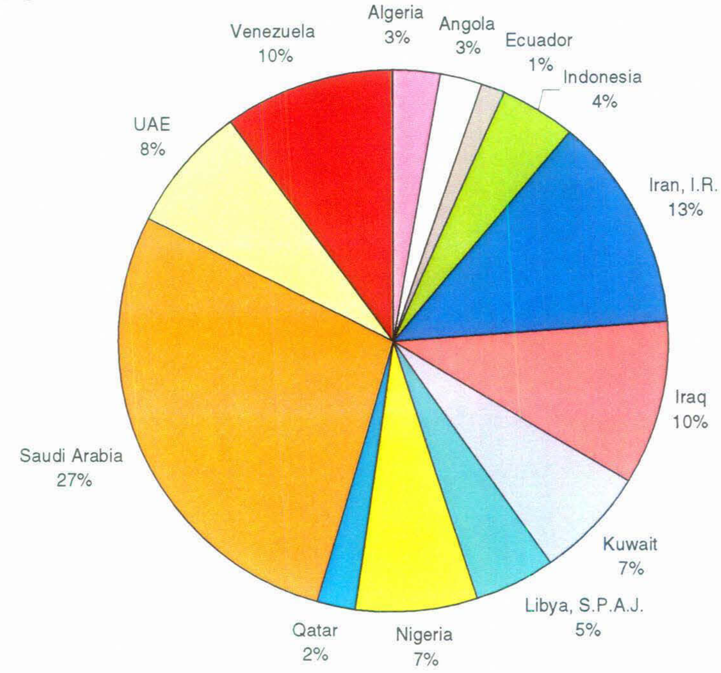
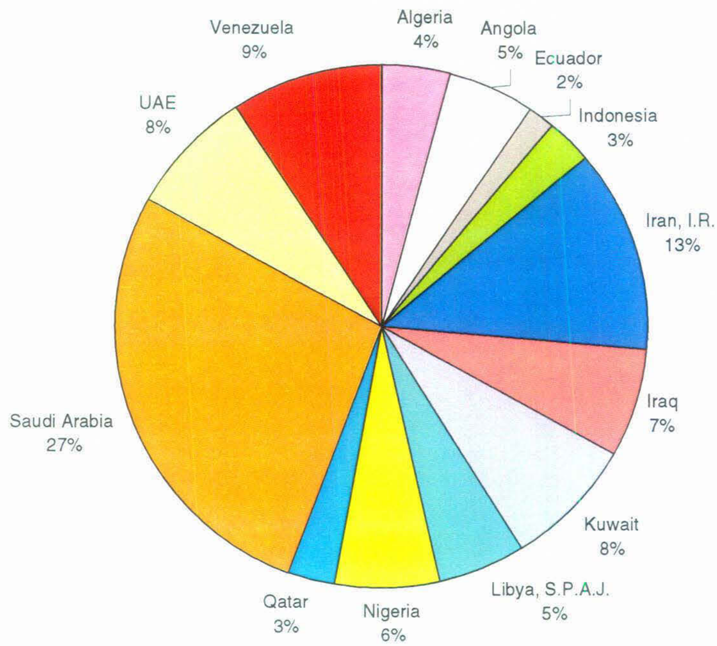



Fig: 4.4 OIL PRODUCTION OF OPEC COUNTRIES-2007




Source: British Petroleum (2008), *Statistical Review of World Enery 2008*, London:

oil exported, not only to get a larger share of their own oil revenue, but as a means to control the supply, and therefore the price of oil. Each country received a quota, negotiated within OPEC, of how much oil it could produce. If they would stick to these production quotas, OPEC countries could manipulate prices. Holding 40 percent of world's production and a 50 percent share of oil available for export, OPEC has had a great leverage on oil supplies worldwide. Moreover, OPEC also controls 90 percent of the world's excess oil production capacity-with Saudi Arabia holding more than half of that. While most other producers are nearly at the maximum of their production capacity, OPEC, limiting production through its system of quotas, is producing at about 80 percent of its full capacity. OPEC can easily ramp up production, to make up for shortages, in cases of emergency such as serious military conflicts.

OPEC's presence was especially felt during the 1973 oil embargo, organized by OPEC's Arab countries as a protest of Israel's war against Egypt and Syria. On October 6, 1973, Syria and Egypt launched a military attack on Israel starting the Yom Kippur War, also known as the Ramadan War or October War. The persistence of the Arab-Israeli conflict finally triggered pressure on the West over its support of Israel. Egypt and Syria, though not major oil-exporting countries, joined the latter grouping to help articulate its objectives. On October 17, 1973, Arab world imposed an oil embargo against the United States, Western Europe, and Japan for their support of Israel. By the early 1970s the great Western oil conglomerates suddenly faced a unified bloc of producers. OPEC cut production of oil and placed an embargo on shipments of crude oil to the West, with the United States and the Netherlands specifically targeted. The Netherlands had supplied arms to Israel and allowed the Americans to use Dutch airfields for supply runs to Israel. Also imposed was a boycott of Israel and price increases. The Arab-Israeli conflict triggered a crisis already in the making. The West could not continue to increase its energy use 5% annually, pay low oil prices, and yet sell inflation-priced goods to the petroleum producers in the Third World. This was stressed by the Shah of Iran, whose nation was the world's second-largest exporter of oil and the closest ally of the United States in the Middle East at that time. Since oil demand falls little with price rises, prices had to rise dramatically to reduce demand to the new lower level of supply. Anticipating this, the market price for oil immediately rose substantially. A world financial system already under pressure from the breakdown of the Bretton Woods agreement was set on a path of a series of recessions and high inflation that persisted until the early 1980s, and elevated oil prices persisted until 1986. The traditional flow of capital reversed as the oil exporting nation's accumulated vast wealth. Some of the income was dispensed in the form of aid to other underdeveloped nations whose economies had been caught between higher prices of oil and lower prices for their own export commodities and raw materials amid shrinking Western demand for their goods. Much was absorbed in massive arms purchases that exacerbated political tensions, particularly in the Middle East .OPEC-member states in the developing world withheld the prospect of nationalization of the companies in their countries. Most notably, the Saudis acquired operating control of Aramco, fully nationalizing it in 1980 under the leadership of Ahmed Zaki Yamani. As other OPEC nations followed suit, the cartel's income soared. Saudi Arabia, awash with profits, undertook a series of ambitious five-year development plans, of which the most ambitious one, begun in 1980, called for the expenditure of $250 billion. Other cartel members also undertook major economic development programmes (Al-Chalabi, 1980).

Meanwhile, the shock produced chaos in the West. Underscoring the interdependence of the world societies and economies, oil-importing nations in the non-communist industrial world saw sudden inflation and economic recession. In France, the oil crisis ended the 30 years of very high economic growth, and began the ensuing decades of permanent unemployment. The embargo was not uniform across Europe. Of the nine members of the European Economic Community (EEC), the Dutch faced a complete embargo for their support of Israel, the United Kingdom and France received almost uninterrupted supplies (having refused to allow America to use their airfields and embargoed arms and supplies to both the Arabs and the Israelis), while the other six faced only partial cutbacks. The UK had traditionally been an ally of Israel, and Harold Wilson's government had supported the Israelis during the Six Day War, but his successor, Ted Heath, had reversed this policy in 1970, calling for Israel to withdraw to its pre-1967 borders. The members of the EEC had been unable to achieve a common policy during the first month of the Yom Kippur War. The Community finally issued a statement on November 6, after the embargo and price rises had begun; widely seen as pro-Arab, this statement supported the Franco-British line on the war and OPEC duly lifted its embargo from all members of the EEC. The price rises had a much greater impact in Europe than the embargo, particularly in the UK (where they combined with strike by coal miners to cause an energy crisis over the winter of 1973-74, a major factor in the change of government). Despite being a target of the embargo Japan fared particularly well in the aftermath of the world energy crisis of the 1970s compared to other oil-importing developed nations. A few months later, the crisis eased. The embargo was lifted in March 1974 after negotiations at the Washington Oil Summit, but the effects of the energy crisis lingered on throughout the 1970s (Edward ,1983). The price of energy continued increasing in the following year, amid the weakening competitive position of the dollar in world markets. The Cold War policies of the Nixon administration also suffered a major blow in the aftermath of the oil embargo. They had focused on China and the Soviet Union, but the latent challenge to U.S. hegemony coming from the Third World became evident. U.S. power was under attack even in Latin America. A year after the unveiling of the 1973 oil embargo, the non-aligned bloc in the United Nations passed a resolution demanding the creation of a 'new international economic order' in which resources, trade, and markets would be distributed more equitably, with the local populations of nations within the global South receiving a greater share of benefits derived from the exploitation of southern resources, and greater respect for the right to self-directed development in the South be afforded by the North. Following the embargo, higher oil prices opened new avenues for energy exploration or expansion including Alaska, the North Sea, the Caspian Sea, and Caucasus (Breen, 1981).

With the oil producing countries of the Persian Gulf no longer exporting to the United States and oil prices rising steeply, Venezuela experienced a significant increase in oil production profits. Between 1972 and 1974, the Venezuelan government revenues had quadrupled. The oil embargo helped United States to diversify its source of energy and resulted in the emergence of Venezuela on the oil map of the world. In the 1990s Venezuelan neoliberal governments made plans to increase the nation's productive oil capacity, thus threatening to undermine OPEC's efforts to control output for the sake of price stability (Karl, 1997). Toward the end of the decade Saudi Arabia reacted to Venezuela's unrestrained violation of OPEC quotas by dumping even larger amounts of crude on the world market. Venezuela's posture both as a moderate and a strikebreaker changed abruptly with Chavez's advent to power. Saudi Arabia favorably viewed Venezuela's shift, thus ensuring the success of the decision at OPEC's March 1999 meeting to withdraw 2.1 million barrels a day from the world market. The new quotas signaled the beginning of price recovery after a two-decade slump. The following year, Chavez made a historic trip to all 10 OPEC countries to personally invite the heads of state to OPEC's second summit held in Caracas in September 2000. Never before had an OPEC government played such a proactive role on behalf of the organization. The summit approved Venezuela's proposal of a band in which prices were allowed to oscillate between $22 and $28 a barrel. When prices exceeded $28, OPEC nations were to increase production by 500,000 barrels a day, and to do the opposite when prices went below $22. Thus during his first two years in office, Chavez mainly challenged U.S. interests through his concept of a multi-polar world as applied to OPEC. Four events during these early years demonstrated Chavez's leadership capacity within OPEC and the respect he earned from the organization's other governments: First was his effort to shore up prices at the 1999 OPEC meeting; second, his trip to personally invite the heads of state to the OPEC summit; third, the unanimous approval by member nations of Venezuela's price band; and fourth, Venezuelan minister of energy Ali Rodriguez's appointment as OPEC secretary-general, three months after the 2000 summit. The latter was particularly significant as Iran, another OPEC radical, had unsuccessfully attempted to obtain the no. 1 OPEC position for more than 25 years. Fellow OPEC nations had blocked Iran's request on grounds that a polemical figure at the helm of the organization would undermine efforts to convince the world that its decisions are made on the basis of economic criteria rather than on political reasons. In this way Venezuela the country located outside the gulf started playing key role in the oil policies and decisions. Although Venezuela is facing hard hits from US and Saudi Arabia but due to its clear cut ideology and straight thoughts Chavez has managed to maintain the position of his country in OPEC.

## Venezuela and U.S. Oil Geopolitics

U.S.-Venezuelan commercial ties are deep. The United States is Venezuela's most important trading partner, representing about a third of imports and approximately 60 percent of Venezuelan exports. In turn, Venezuela is the United States' third-largest export market in Latin America, purchasing U.S. machinery, transportation equipment, agricultural commodities, and auto parts. Venezuela's opening of its petroleum sector to foreign investment in 1996 created extensive trade and investment opportunities for U.S. companies. As a result, Venezuela is one of the top four suppliers of foreign oil to the United States.

Venezuela remains the most important oil and gas country in the hemisphere, with 78 billion barrels of oil reserves, and some 220 billion barrels reserves of extra-heavy oil in the Orinoco Belt. After the sustained increase in production capacity to 3.5 million BD during the 1990s, the country has suffered a major setback resulting from political instability and arbitrary management of the oil industry (Mommer, 1998). In addition, frequent changes of the rules and several international arbitration lawsuits have instilled confusion and uncertainty in the international oil companies partnering with PDVSA in Venezuelan territory. As a result, oil production capacity has fallen to 2.6 million B\D (barrels per day), despite an increase of 1.1 million BD resulting from the contracts with private companies that were put in place in the previous administration. At present it exports at a rate of 1.4 – 1.5 million BD to the USA, in line with the tradition of many years of trade.

As part of the political agenda, President Chavez continuously threatens the USA government with suspending exports to the USA, and has indicated that those exports would most likely be diverted to China. The USA government does not own terminals, refineries, pipelines or distribution networks. In fact, it does not even buy oil, with the exception of the occasional program of royalties in kind. The 1.5 million BD of Venezuela oil imports into this country are the result of many dozens of contracts with clients in the USA that have been buying Venezuelan oil for decades. Many of those clients have refineries capable of processing sour and heavy feedstock, which constitute the largest portion of Venezuelan oil. The continuity of those exports to the USA is of utmost importance for Venezuela, despite anything that is contained within the political discourse of the Venezuelan government. Add to that the volumes that go to Citgo, a subsidiary of PDVSA and it is highly unlikely that there would be any disruption of Venezuelan exports to the USA. Nevertheless, in the unlikely event of a suspension of those shipments, Venezuela would have to sell the crude at other destinations, and oil being generally fungible, oil from other places would come to the USA shores. It would naturally generate logistical complications and at least temporary increased costs, but eventually the necessary adjustments would take place and everything would return to normalcy. It is true that imports of Venezuelan oil are very important to the USA, but it is a fact that Venezuela badly needs its exports of oil to the USA, especially the current government, in order to finance its huge expenses (Munk, 2005). Finally, the threat of a shut down of Citgo refineries, occasionally included in the political speech of the Venezuelan government is empty talk. Citgo operates through a network of some 14,000 retail outlets, but it does not own any of them. It only owns refineries, terminals and pipelines. An arbitrary shut-down of Citgo refineries would imply breaching thousands of contracts without justification, posing an unmanageable and costly legal situation for Venezuela (Luhnow, Millard, 2007).

The real risk represented by the present Venezuelan administration, concerning oil supplies to the USA is not recent. It relates to expectations of building-up new barrels in the future. For the past six years the Venezuelan government and PDVSA have been announcing ambitious expansion plans of the country's production and they are even working on that. In addition, plans and projects of expansion coming from private international companies are going on. Venezuela may be increasing tension in energy markets with decisions that are confounding international oil companies, but the government there says it is merely seeking more income and new markets for its oil. At this time of high crude oil prices worldwide and a shift in attention toward China, the Venezuelans are also trying to exert greater control over their resources and expand their range of buyers - as well as get more lucrative deals. Access to some of the most coveted oil reserves in the Western Hemisphere is at stake, with Venezuela exporting about 1.2 million barrels of oil a day to the United States, or nearly 15 percent of American imports. But the proposals to the Chinese, Russians and Iranians have added to worries among private oil companies that Venezuelan policies toward them are becoming increasingly unpredictable. Concern is also rising over the possibility that Venezuela may eventually divert shipments from the United States, which now receives more than half of Venezuela's total production. The Venezuelans say they still consider the United States their principal market, adding that only new production would be moved to China although this argument contradicts sometimes with Chavez statements.

Investors are focusing on the Venezuelan operations of Conoco Phillips, one of the largest international energy companies operating there, after its $480 million plan to develop an oil field off the eastern coast was put on hold amid feuding with Petroleos de Venezuela over the project's terms. Conoco gets about 7 percent of its worldwide production from Venezuela. American companies in Venezuela, including Conoco Phillips, Harvest and Chevron Texaco were the "main potential losers from the unpredictable situation." Higher oil prices, which increased the flow of hard currency to Venezuela's treasury, seem to have encouraged the dealings of the leftist Mr. Chavez with foreign energy companies as the rise in oil revenue offset the effects of declining production. But even as Venezuelan oil production has declined over all, foreign companies have provided more of the output, accounting for roughly 1.2 million barrels a day - a result of the opening of the Venezuelan energy industry to greater foreign investment by governments in the 1990's. With oil prices and demand high, Mr. Chavez appears to be seizing the moment to get more favourable contracts from the oil companies and greater control of his resources. The president and his officials want to widen the customer base for Venezuelan oil. That is where China, which is seeking to secure long-term sources of oil, comes in. In December, Venezuela said it would allow the China National Petroleum Corporation, one of that country's largest energy companies, to expand exploration. It is more expensive to ship oil to China than to the United States, but Venezuela is trying to reduce those costs by negotiating with Panama to send its oil by pipeline across the isthmus (only small tankers are now able to pass through the Panama Canal). An agreement between Venezuela and Panama would reverse the flow of a Panamanian pipeline, but there is growing concern that oil production in Venezuela, which has the largest reserves in Latin America, could decline further if exploration ventures with international companies were suspended. That, in turn, could restrict global energy supplies and push prices even higher, producing an even larger windfall for Mr. Chavez government. This type of strategy is fine as long as oil remains high, but if prices retreat, they'll have grave difficulty in fulfilling the promises that are now being made.

## Venezuelan Relations with Russia, China, India, Iran and its Global Geopolitical Impacts

The anticipated growth in energy demand has fuelled the entry of new producers into the energy market. But the biggest entry in the oil markets, after a long time following the collapse of the USSR, has been Russia. Before the 1991 collapse, the Soviet Union was the largest producer and the third largest exporter of petroleum in the world. While production is not at the pre-1989 levels, there is now enough excess production to resume oil and gas exports. It is the world's second largest producer, and has made a serious bid to gain market share. Holding 32 percent of the world's reserves, Russia holds a similar strong position in the production of natural gas as Saudi Arabia holds in oil production.

Russia considers Venezuela a natural trading partner and has come out in support of Venezuela internationally, for example in the United Nations. Venezuela, in turn, supports the Russian project for the construction of an 8000-kilometer pipe line through Latin American for its natural gas. Russian companies are to invest billions in Venezuela. Russia's LUK oil and Gazprom energy giants are in Venezuela to conduct explorations of oil deposits on land and sea in a country that Chavez claims has greater reserves than Saudi Arabia. In the energy sector, Russia and Venezuela are destined to play major roles in future world development. Venezuelan and Russian ties in economic political and military fields are making a great impact on world geopolitics. Hugo Chavez while visiting Moscow urged Russians to return to the ideas of Vladimir Lenin, especially his anti-imperialism. "The Americans don't want Russia to keep rising," he said. "But Russia has risen again as a centre of power, and we, the people of the world, need Russia to become stronger." Chavez finalized a $1 billion deal to purchase five diesel submarines to defend Venezuela's oil-rich undersea shelf and thwart any possible future economic embargo imposed by Washington. Venezuela had become the second largest buyer of Russian weaponry. (Algeria topped the list, another indication of a growing multi-polarity in world affairs.) Venezuela acquired the distinction of being the first country to receive a license from Russia to manufacture the famed AK-47 assault rifle.

The Iran-Venezuela-Russia alliance poses a significant threat to US economic security. Combined, these three countries account for 30% of global oil exports. By comparison, the Organization of Petroleum Exporting Countries, of which both Iran and Venezuela are members, accounts for about 50 % of global oil exports. In addition to substantial oil exports, oil production in all three countries is now government controlled. While this has always been the case in Iran, the change has only occurred recently in both Russia and Venezuela. By colluding with each other over oil production and exports, these three countries can dictate international oil prices. By extension, these three countries can also dictate inflation and economic growth rates in the world's largest oil-consuming countries, which are enormously dependent on oil imports. While relations between the Iran-Venezuela-Russia alliance and the US, the world's largest oil importer, are hostile to say the least, this is not the case between cartel and China - the world's second-largest oil importer. China has become a major investor in oil and natural gas production in all three countries. All four countries are dependent on strong economic growth for ensuring political and social stability. Iran, Venezuela and Russia need high oil prices to ensure continued strong economic growth, while China needs guaranteed oil supplies to prevent an economic slowdown. The mutually supportive political, social and economic relationship between these four countries provides a strong foundation for international oil prices.

The persistent threats and counter-threats hurtling between Washington and Caracas is the background, sometimes the foreground, of Sino-Venezuelan relations. Simply put, if U.S. ties to Venezuela were friendly, Beijing would have little to do in this oil-rich state that exports 60 percent of its output to its northern neighbour. Yet, Washington has been suspicious of Hugo Chavez since his election as president during the Clinton administration and relations have nosedived under the current presidency of George W. Bush. U.S. Secretary of State Condoleezza Rice called in mid-February for an 'inoculation' strategy to neutralize Chavez. Meanwhile, Chavez insists that the U.S. plans to invade Venezuela and uses his enormous oil slush fund to press for Latin independence from Washington. In order to diversify the Venezuelan market for oil, Chavez made plans to begin shipping Venezuelan crude to China, the world's second-largest energy consumer after the United States. It would be a mistake not to have a presence there. They are switching over from coal to more efficient fuels. In a search for energy supplies, China has sent political leaders, technicians and investments all over the world in recent years, finally even to Latin America. In this region, which has about 10% of the world's estimated oil reserves, Venezuela is the land of plenty with about two-thirds of Latin America's total. Venezuela is the world's fifth largest oil exporter. Yet while China wants some of that oil, the critical question will be, whether China is willing to run the risk of a confrontation with the United States over a country without much importance except oil. Chavez does not seem to grasp Beijing's concern here and has repeatedly tried to pull China on his side in disputes with Washington. For example, he has condemned Washington's refusal to supply spare parts for Venezuela's aging F-16s and for blocking his efforts to purchase aircraft from Spain and Brazil on the grounds of U.S.-licensed components used by the Spanish and Brazilian companies. In one of his speech he said we could easily sell (our) oil to real friends and allies like China and India and is trying to show that they are his real supporters in every field. China's oil diplomacy is putting the country on a collision course with the U.S. and Western Europe, which have imposed sanctions on some of the countries where China is doing business. China had a series of trade agreements, infrastructural investments and bilateral visits over the past two years has begun to reshape the economic landscape of Latin America, But economics is also politics. China seeks to present its new relationship with Latin America as part of its much-vaunted 'peaceful rise', but how is it seen in Latin America itself – and in the United States? The most radical of Latin America's new generation of leftwing leaders have few doubts. Hugo Chavez speculated that Chairman Mao and Simon Bolivar, the Latin American revolutionary, would have been 'great friends' if they would have ever met. He said both countries had "been victims of international aggressions, of a storm made in America". But each had managed to surprise the United States by "standing up on its own feet" and "building its own paths". Chavez's rhetoric concerned Chinese officials who are keen for their country to keep a low profile in its international ventures – no more so in what the US still considers its 'own backyard'. China's commerce ministry recommended its companies adopt a 'softly-softly' approach when buying abroad, lest they stir up 'anti-Chinese feeling' and have to pay a 'a China premium'.

For its part, Venezuela continues to rely heavily on US oil revenues – 60% of its crude goes to the US, through its 'downstream' subsidiary Citgo. Despite Chavez's escalating anti-Americanism, he needs the US to fund the country's extensive welfare programmes – not to mention his wider ambitions for the continent. Still, cooperation between Venezuela and China is rapidly increasingly. CNPC, China's largest oil company, has licences to explore Venezuela's Orinoco oil belt – a potentially vast, untapped source of crude oil. Chinese companies are able to exploit the Caracoles and Intercampo Norte oilfields, and have options on others. The state-run company PetroChina in mid-2007 was second only to Exxon Mobil in its market value among energy corporations. Indeed, that year three Chinese companies made it onto the list of the world's ten most highly valued corporations. Only the U.S. had more with five. China's foreign reserves of over $1 trillion have now surpassed Japan's. With its gross domestic product soaring past Germany's, China ranks number three in the world economy. And China is building a plant to process heavy tar fuel used in its factories. The oil shipments started in recent months, at around 120,000 barrels a day, with plans to ramp up production to 1.6 million barrels a day in 2007. However, it is not so much the volumes, but the price. According to one well-versed source in the Venezuelan oil industry, China is paying only $3-$4 a barrel, a small fraction of the world market price charged to other foreign consumers. Beyond oil, Venezuela bought a Chinese communications satellite in 2005 (to be named "Simon Bolivar", and launched in 2008). It has also purchased Chinese radar equipment to monitor its borders, and it is interested in working with the Chinese to upgrade its ageing air force. The two countries are even cooperating on the internet. The oil-industry source says members of Venezuela's state oil company (PDVSA) recently travelled to Beijing to learn techniques for eaves dropping on internet traffic. Despite his romantic revolutionary image, Chavez - who apparently uses PDVSA for all kinds of non-oil activities - is not above the sort of humdrum authoritarianism normally associated with his Chinese friends.

Transporting oil to Asia, however, could prove logistically difficult. PDVSA has expressed interest in moving oil across Panama to the Pacific Ocean via pipeline. The company is also exploring the idea of building such a facility across Venezuela's northern border with Colombia, extending to that country's Pacific coast. Shipping oil to Asia carries other logistical and infrastructural problems. China presently has an insufficient deep conversion refining capacity and transporting petroleum to the Asian giant would be costly due to the long distances involved. Moreover, the Panama pipeline eyed by Chavez already transports 100,000 barrels a day of Ecuadorian crude from the Pacific to the Atlantic. According to analysts, there is no way that the pipeline can be converted into being able to simultaneously ship Venezuelan oil to China in the opposite direction. Finally, China may be only interested in Venezuela in the short run, as Beijing is busy exploring for oil and gas closer to its shores in the South China Sea. Despite these practical problems, Chavez's rhetoric suggests the Venezuelan leader earnestly seeks to challenge U.S. regional hegemony by putting together a formidable coalition of like-minded nations. China was cooperating with the Venezuelan government in the expectation of securing access to some of the oil for itself. China's interest is strictly commercial. Chavez and China have different interests. Importantly, both reject a 'uni-polar' world dominated by Washington. China's main goal since the late 1970s, however, has been domestic development. Foreign relations are intended to advance or at least not hinder that objective. They clearly states that China does not want unrest in the Americas. Such a scenario, or rocky bilateral relations with Washington, might threaten energy and other deliveries to China and thus impede the country's domestic growth.

Chavez, however, is a revolutionary firebrand who quotes Mao Zedong and urges major change. He is one of the most colourful caudillos ever in a hemisphere, famous for its strong and resourceful rather than brilliant and progressive leader. He thrives today because he has made himself the chief spokesman for this decade's wave of Latin 'anti-Americanism' and because Venezuela is now awash in oil money that he spends freely on programs to aid and court the poor and the powerful abroad, something that is increasingly resented by many of the poor at home. Latin America is as always ripe for such messages because the region's governments seldom actually serve the interests of their people .Also, the United States is sometimes rightly, but often demagogically (in the spirit of traditional Latin scapegoat) linked to those governments and other policy failures.

Chavez seeks a special relationship so that China can replace the United States as Venezuela's chief foreign client, enabling him to toss the U.S. out of Venezuela in the context of his continent-wide 'Bolivarian revolution'. Rafael Ramirez, the president of Venezuela's state-run oil company PDVSA, reviewed Venezuela's oil-related relations with China in a Caracas interview, saying "we are hoping to send

300,000 bpd to China very soon" .This would be double the current amount, most of which goes into asphalt. (Much of what China buys now is a low-grade, dirty fuel oil made by PDVSA from the heavy oil of the Orinoco Tar belt.) Venezuela's ultimate goal is to provide 15-20% of China's oil import needs. Much of that might have to come from what the United States now receives. China is taking an increasingly active role in Venezuelan fields themselves. Extra-heavy oil blocks in the Orinoco tar belt have been reserved for the China National Petroleum Corporation (CNPC), which has agreed to join PDVSA in developing hydrocarbons found in eastern Venezuela's Zumano region .Ultimately, China's ties to Venezuela must be seen in the context of Beijing's accelerated cultivation of countries throughout the Western Hemisphere. For example, pledges of hundreds of millions of dollars in investments in Venezuela are dwarfed by Hu Jintao's 2004 pledges of more than $30 billion to Argentina and Brazil alone over ten years. Beijing wants oil, but is still far from sure that it will pan out, in large part because of the personality, objectives and actions of Chavez himself. Moreover, Beijing does not want a fight with Washington. It is conceivable that as investments rise, the Chinese will become increasingly intolerant of ideology if it reduces competence and efficiency, which it so often does. So China's relations with Venezuela are practical and economic but still its implications on world geopolitics are commanding and policy affecting for United States and other countries of the world.

India is seeking to build on its recent friendship with the South American nation. The thriving relationship is a success story in President Chavez's quest to strengthen south-south collaboration. Venezuela's imports from India totalled $42 million in the first five months of this year, and its non-oil exports to India were approximately $20 million, a marked increase over past years. Venezuela is key source for India in terms of energy security; Reliance Limited has imported 10 million barrels of Venezuelan crude oil this year through October, worth over $500 million. And in expanding its Jamnagar refinery and in increasing exports of refined products, Reliance could be a natural partner for Venezuela, which seeks greater access to Asia-Pacific markets. We are among the few countries that can process Venezuelan crude oil. This gives India a strategic advantage. Venezuelan crude is of an inferior quality to Middle East crude. It is heavier and contains more sulphur, requiring special processing. ONGC Videsh Limited (OVL) is helping Venezuela certify heavy oil reserves in the Orinoco river belt, which is expected to contain 235 billion barrels of heavy crude. When added to the proven 81 billion barrels of crude oil, Venezuela would become the world's top crude reserve holding nation. OVL's Junin block is in the sub-region thought to contain the most reserves. India also has a strong presence in the pharmaceutical sector in Venezuela. Cipla has 120 medications approved to sell in Venezuela, and expects $15 million in revenue this year. In 2006, half of all HIV patients in Venezuela received at least one Cipla drug. Five years ago, 4,000 HIV patients were treated at a cost of $14,000 per patient a year. This year, 26,000 patients were treated at a cost of $800 per patient a year. Political relations between the countries are also strong. India has stood by President Chavez during his seven years in office while the Opposition in his country and the United States have repeatedly tried to undermine him. The India-Venezuela alliance does face challenges, beyond geographical and language barriers. India-U.S. relations are at a high point, sustained by a strong personal relationship between Prime Minister Man Mohan Singh and President George W. Bush.

President Chavez and his government generally pay more attention to perceived U.S. foes such as Iran. They even broke off relations with Latin American neighbour, Peru for negotiating free trade agreements with the U.S. Venezuela and India's economic models are moving in opposite directions. Last year, 32 oil service production contracts with multinationals were revamped so the state became the majority owner. Taxes and royalties were also increased. Meanwhile, Chevron recently acquired a five per cent stake in Reliance, demonstrating the challenge Mr. Chavez faces in maintaining a pure south-south alliance in today's world. Many countries he is courting are simultaneously increasing business with the U.S. President Chavez's anti-Yankee political rhetoric may give Reliance an edge in doing business with Venezuela but "that does not mean that Reliance will turn away from making deals with Americans." Opposition leaders in Venezuela regularly argue that the country should emulate countries such as India rather than adopting statistic economic policies, fearing that Asia is leaving Latin America in the dust.

India opened up its markets only when it was prepared to compete globally, and after decades of protectionism. In contrast, Venezuela opened up markets prematurely in the past. Latin America has been so dependent on multinationals setting up shop for them that it has not evolved its own home-grown industries. Bilateral relations between India and Venezuela are thought to have improved during the Presidency of Hugo Chavez and the premiership of the Indian Congress party. However, the recent Latin American trip of Indian President Pratibha Patil did not include Caracas at all. Patil tour just included neighbouring Brazil, Chile and Mexico. Had President Patil visited Venezuela, she would have been met by a socialist government with many women in top positions. The last high Indian visit to Venezuela was in 1968 when Prime Minister Indira Gandhi called on Caracas. Now the absence of the Venezuelan leg in Patil's 12-day-tour could be interpreted as a cautious approach to the Chavez administration at the political front.

Venezuela has long cultivated ties with Middle Eastern governments, finding common ground in trying to keep oil prices high, but its recent engagement of Iran has become a defining element in its effort to build an alliance to curb American influence in developing countries. Venezuela's Hugo Chavez and Iran's Mahmoud Ahmadinejad are fiery anti-American leaders whose moves to extend their influence have alarmed Washington and they said they would help finance investment projects in other countries seeking to thwart U.S. domination. The two countries had previously revealed plans for a joint $2 billion fund to finance investments in Venezuela and Iran; the leaders said the money would also be used for projects in friendly countries throughout the developing world.

Chavez and Ahmadinejad have been increasingly united by their deep-seated antagonism toward the Bush administration. Chavez has become a leading defender of Iran's nuclear ambitions, accusing the Washington of using the issue as a pretext to attack Tehran. Ahmadinejad, meanwhile, has called Chavez "the champion of the struggle against imperialism. The two presidents announced their intention to "defeat imperialism" they signed several joint trade and industrial agreements. Chavez assured that the increased cooperation between Iran and Venezuela "plays an effective role in defeating imperialist politics and the salvation of nations." They have started the construction of a large petrochemical complex with an annual capacity of 1.65 million tons of methanol. Located about 800 miles south of Tehran, the complex will be a joint company with 51% belonging to Iran, and 49% to Venezuela and will have a total cost of 700 million dollars. The two governments have plans to build a second identical complex in Venezuela as well with the purpose of opening markets in Latin America to Iran as the complex in Iran will open new markets, such as India, to Venezuela. The election of governments in the region (of Latin America) that are against the United States shows that U.S. imperialism has been weakened. With Venezuela contesting for a nonpermanent seat on the United Nations Security Council, the ties with Iran have led to additional friction with the United States. Venezuela has also supported Iran's effort to price oil in euros instead of dollars, a move aimed at weakening the influence of American investment banks and hedge funds, and the creation of an oil exchange in Iran to trade such contracts. "Geopolitically, the most important front for Chavez in the world at this moment is Iran," (Garrido, 2005). Chavez, together with his closest advisers, has defined the strategic alliance with Iran as a means with which to counter American power. Mr. Chavez is aligning himself too closely with Muslim leaders who have little in common with Venezuela's generally inclusive and pluralistic political system. While in Qatar, Mr. Chavez said in an interview with Al Jazeera that Israeli military actions in Lebanon were "being carried out in the style of Hitler, in a fascist fashion."(Jens Erik Gould). With Iranian nuclear aspirations gaining notice, it's worth directing attention to the growing relationship between Iran's President Mahmoud Ahmadinejad and Venezuela's President Hugo Chavez. The Reagan administration repulsed Soviet efforts to set up camp in Central America. Iranian designs on Venezuela perhaps deserve similar U.S. attention.

The warmth and moral support between Ahmadinejad and Chavez is very public. The two tyrants are a lot more than just pen pals. Venezuela has made it clear that it backs Iran's nuclear ambitions and embraces the mullahs' hateful anti-Semitism. What remains more speculative is just how far along Iran is in putting down roots in Venezuela. In his efforts to provoke the U.S., the Venezuelan no doubt hopes that saber rattling against imperialism can stir up nationalist sentiment and save his floundering regime. That view argues that the U.S. would do best to ignore him, but it's not easy to ignore a Latin leader who seems intent on forging stronger ties with two of the worst enemies of the U.S., Ahmadinejad and Fidel Castro. The increasingly close relationship between Chavez and Ahmadinejad has alarmed some Chavez critics, who accuse him of pursuing an alliance that does not serve Venezuela's interests and jeopardizes its ties with the United States, the country's top oil buyer.

## Chavez's Steps to Defy United States Hegemony

Chavez's steps to defy United States Hegemony are moving towards right direction as the participation of energy-hungry economic powerhouses China and India in the Orinoco Belt may represent a great leap forward in Venezuela's attempt to diversify, which is itself a crucial part of the country's long-term strategy to sever economic and technological dependence on the United States. Venezuela has greater reason to pursue this goal than its neighbours, since major oil-exporting states have always been subject to greater dependence on imported products, single-commodity exports, and sophisticated technology than elsewhere in the Third World. In Venezuela's case, oil products account for almost 90% of exports, and its unconventional oil reserves require imported, state-of-the art technology, The effect of this strategy is already apparent. During the past two years, Venezuelan oil exports to the United States have declined 8.2%. Exports to China have spiked since 2003, from 12,000 barrels a day to 150,000; Chavez intends to increase the amount to 1 million by 2012 and diplomatic efforts have continued apace. If economic diversification and international solidarity are the twin goals of Chavez's diplomacy, the latter is often overemphasized in rhetoric and action. In 'socialist' Venezuela, extending support to the underprivileged overshadows the practical consideration of implementing programs that are viable and workable. The two goals are exemplified by accords Venezuela has reached with its neighbours, especially PetroCaribe, signed with Cuba, Jamaica, Dominican Republic, and 10 other Caribbean nations in June 2005. Under the arrangement, Venezuela allows 40% of the current price of oil to be paid off in 25 years either in cash or with products like sugar, rice, and bananas. The accord amounts to 198,000 barrels a day and has facilitated the deployment of more than 15,000 Cuban doctors to Venezuela, as partial payment for the 90,000 barrels of oil that Venezuela now exports to that nation under the agreement. The practice, however, may be feasible only for goods and services produced by the state. Chavez's rhetoric notwithstanding, the bartering arrangement with socialist Cuba is proving difficult to duplicate with privately produced merchandise from the 12 other PetroCaribe nations whose economies are capitalist.

Chavez justifies the PetroCaribe deal by appealing to humanitarian sentiment. In the process he plays down the pragmatic argument that discounts or special terms of payment to clients are a viable strategy for any company interested in penetrating new markets. Venezuela is selling oil for the first time to various South American nations like Argentina and Uruguay, which along with Brazil signed an agreement with Venezuela called PetroSur that promotes cooperation among state oil companies. Another important hemispheric precedent for Venezuela's international strategy is the Bolivarian Alternative for the Americas (ALBA), which may indeed serve as a model for South-South relations in general. ALBA systematically critiques globalization, specifically the Bush-sponsored Free Trade Area of the Americas (FTAA), whose promotion of cut-throat competition is the very antithesis of solidarity. Venezuela and Cuba launched ALBA in Havana in 2005, and Bolivia and Nicaragua have recently become members, while Ecuador and various Caribbean nations have also drawn close to the project. At ALBA's fifth meeting held in April, Chavez offered to extend the PetroCaribe oil deal to ALBA affiliates. He also proposed cooperation among member nations to implement the Cuban-inspired mission program whereby doctors and educators provide free services to impoverished neighbourhoods. In this way, ALBA proposes preferential treatment for Southern nations and the underprivileged throughout the world as an alternative to the asymmetric relations between developed and underdeveloped countries. While ALBA criticizes the protectionist measures of the North, it defends the right of the South to protect farm production. Its Fundamental Principles affirm that "agriculture is a way of life and cannot be treated as just any form of economic activity." ALBA also rules out the participation of the World Bank and other financial bodies in designing integration plans and proposes the creation of "compensation funds" for those displaced as a result of international agreements. In another proposal that goes against the grain of neoliberalism, ALBA calls for giving priority to national firms and cooperatives and for exempting state companies from anti-monopoly legislation. Finally, disputes with foreign corporations are to be resolved in national courts, and only as a final resort can they be brought to international tribunals. And Venezuela is seen as an important player in all these because of its oil wealth. It also converts Chavez into a major actor on the international stage to a degree unmatched by Latin American leftist and radical populist governments in the past. Referring to Chavez's initiatives and strategy, the president of a Washington-based think tank commented, "He's playing treaty chess, whereas Cuba's Fidel played checkers."

Chavez has taken political positions that have made him a popular figure among much of the general population in the Middle East. He immediately condemned the U.S. bombing of Afghanistan and subsequently lashed out at the invasion of Iraq. More recently he has defended the Iranian nuclear energy program and denounced Israel's bombing of Lebanon. Chavez's popularity in the Arab world strengthens his hand within OPEC.Until Chávez; Venezuela had traditionally assumed a moderate position within OPEC. Sectarian religious conflicts, often expressed along political lines, did not draw in Venezuela, one of the few non-Muslim member countries (and the only one after Gabon dropped out in 1995). Venezuela was thus well positioned to play the role of conciliator between radicals like Iraq, Libya, Iran, and Algeria, which supported big price hikes, and conservatives like Saudi Arabia and Kuwait, which were predominately concerned with maintaining stable price.

Chavez's outspoken position in favour of Arab causes in the Middle East has struck a responsive chord throughout the region, but is also not without its potential dangers. Chavez labeled Israel's July 2006 incursion in Lebanon "mass genocide" Arab nationalist leaders applauded Chavez's decision to suspend diplomatic relations with Israel and implored other nations of the South to follow suit, while also rebuking Middle East nations for not taking similar measures. By way of underlining the popularity of Chavez's move, Al Jazeera reported that many Palestinians have posters of the Venezuelan president in their homes, alongside those of Che. According to one Israeli Communist activist, "Arabs throughout the Middle East are comparing Chávez's generosity in distributing oil income to the needy with the self-serving behavior of their own leaders." On the other hand, Chavez's virulent attacks against Israel, his uninhibited style, and the efforts of his adversaries to isolate Venezuela could endanger his ambitious efforts to group the nations of the South into a bloc.

Adversaries at home attacked the president for distancing Venezuela from democracies to its south while drawing close to nations in other continents, like Iran. Chavez justifies his close relations with Iranian president Ahmadinejad as an attempt by two developing countries two help each other to help each other and move forward on the path of development.

Chavez's foreign policy victories, like his campaign against the Bush-promoted FTAA, have been made possible by tolerance toward, and friendly relations with, heads of state who adhere to a diversity of ideological positions. These diplomatic efforts avoid the errors committed by the Castro government in the 1960s, when it encouraged insurgency throughout Latin America and in doing so forfeited the possibility of winning over, or neutralizing, democratic governments. Castro himself has abandoned that strategy and has indeed advised Chavez, as well as Bolivian leftist leader Evo Morales, to follow a more pragmatic approach to international relations. On the other hand, Chavez's zealous rhetoric in favor of thoroughgoing change and his glorification of Che Guevara and other revolutionary icons have generated widespread support among social movement activists and leftists throughout the hemisphere. Chavez's firebrand side sometimes complements and other times undermine his diplomatic efforts to build ties with governments of the South. Verbal clashes with Venezuela's neighbours are an example of how Chavez's aggressive style can negatively influence outcomes in concrete ways. Following Mercosur's approval of Venezuela's membership request in July 2006, the congresses of Brazil and Paraguay delayed ratifying the decision, Chavez blamed the right in both countries for blocking Venezuela's admission to Mercosur and announced that his government would withdraw its request for membership if the two congresses did not reach a decision within three months. In another statement that hurt Venezuela's case for membership, Chavez criticized the organization's largest member, Brazil, for failing to lend a helping hand to tiny Uruguay and Paraguay.

From the beginning of his presidency, Chavez has advocated a "multipolar world" as a corrective to the 'unipolar world', dominated by United States. Chavez began using the term imperialism, and forging alliances with other nations became a political imperative. By "multipolar world," the Venezuelan president envisions the transformation of nations of the South into blocs, bound together geographically or economically, with political and economic clout. For Venezuela, these formations include both the hemispheric Common Market of the South and most significantly OPEC. Chavez's OPEC policy and his positions on Middle East politics exemplify the two sides of his diplomacy with other nations of the Global South: promoting government-to-government ties and using fiery rhetoric to appeal to the general population. On the one hand, Venezuela has strengthened OPEC by playing a major role in winning over other governments to stabilize oil prices at upper levels. Ideological distinctions have been set aside in the process. Chavez's multipolar world concept—like the Non-Aligned Movement organized in the 1950s by Yugoslavia's Tito, Ghana's Nkrumah, Egypt's Nasser, and India's Nehru presupposes submerging political differences in order to put up a united front to defend the South's common interests. Thus, for example, even the governments belonging to OPEC's conservative wing have been receptive to Chavez's initiatives.

Along with his OPEC and Latin American policies Chavez is continuously enhancing its relations with other energy starved countries of the world. As explained earlier its relation with Russia, China and India, although mainly economic but are creating a new Geopolitical dimension in the field of oil. Economic power is the biggest power today as along with that both military and political might automatically strengthens. United States Know that so it do not want any other country of the world to become economic bull except him. Although, Venezuela is not near to that level but still it relations with other powerful countries of the world affects United States economic interest. Chavez steps till now have not affected the world politics too much. But, still its impact is there and with increasing oil hunger in the energy starved world it will definitely leave its Geopolitical impacts.

## CHAPTER FIVE

# CONCLUSION

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Today, the World moves on oil. Without oil, today's industrial society would simply be impossible. The control and pricing of energy is an emotionally charged issue that lends itself to conspiracy theories and distorted interpretations of past events. Multinational oil corporations working with the U.S. government tries to dominate the supply, distribution, and cost of oil. For them, the ultimate goal is to gain control over the oil resources does not matter even if it starts major international crises, such as Iraq crisis. But the relationship between oil and politics is not so simple. Neither oil scarcity nor energy security- the twin concept hat is a sound starting point for thinking about oil policy. Getting beyond such notions, however, requires an examination of the myths and the realities of oil.

Venezuela tried to extract oil for a small hand-pumped refinery early in the 20th century. Later representatives of large foreign companies came to the country and started lobbying for rights of exploration and exploitation, Gomez allowed them. He established the concessionary system. Gomez, who didn't trust industrial workers or unions, refused to allow the oil companies to build refineries on Venezuelan soil, so these were built on the Dutch islands of Aruba and Curacao. By 1927, oil was Venezuela's most valuable export and by 1929 Venezuela exported more oil than any other country in the world.

Gomez wanted development of Venezuela and as he had an acute business sense, understood that it was necessary to create incentives for investors in the Venezuelan oil fields, some of which were very accessible but others were deep in jungles. Oil income allowed Gomez to expand Venezuela's rudimentary infrastructure and the over all impact of the oil industry on Venezuela was a immense in the areas where it operated. Perez Jimenez because of huge income from oil went on spending on infrastructure way beyond to create gigantic industrial, agricultural, and power-generating projects. In foreign affairs, Venezuela was a faithful ally of the American government. By 1974, when the Arabs imposed an oil embargo, world oil prices arose and along with that Venezuelan state income quadrupled from 1972. This sudden rise in state income was historically unique in Venezuela and to the other OPEC states. It made a newly elected president, Carlos Andres Perez, promise the Venezuelans that they will become a developed country within a few years. Perez's 'La Gran Venezuela' was to 'sow the oil' through a combination of fighting poverty, via price controls and higher income, and import substitution. Part of his plan was the nationalization of the oil industry, which took effect in 1976 with the creation of PDVSA. While the oil boom seemed to be a huge blessing, it had negative effects on Venezuela such as chronic inflation and, rising indebtedness. In the successive changes in political power in Venezuela, from Gomez to Chavez, one finds a recurring pattern in which the group in power attempts to produce economic success by making use of petroleum resources. Because the State is very powerful and financially autonomous, the problem of the State and the political sector in Venezuela has not been the extraction of money from society, from one social class or another. Rather, it is opposite here i.e. how to spend, distribute oil wealth for social welfare, political reasons, to gain loyalty, political power, or for strictly personal reasons of family or friendship. The United States had viewed Venezuela as a stalwart production hub. Indeed, Venezuela steadily supplied some 15 percent of U.S. oil and gasoline imports. Venezuela, along with Mexico and Canada, had become essential to the U.S. diversification strategy. Oil accounts for half of Caracas revenue and 75 percent of its exports. Currently the U.S. purchases 60 percent of Venezuela's oil exports and finding new markets could prove daunting to Venezuelan authorities. Venezuela has the advantage of being geographically close to the United States. This means it takes only six days for Venezuelan oil to reach U.S. shores, which reduces transport costs and allows Venezuela to quickly compensate for supply problems elsewhere in the world- much faster than Saudi Arabia or Russia, which require at least a month to get their oil to the United States. U.S. refineries are particularly equipped to process Venezuela's sulphur rich crude. United States wants to continue with Venezuelan relations because it was reliable partner in past. In American eyes, Venezuela had at least two things going for it. First, it was reliable. As a non-Arab and non-Middle Eastern member of the Organization of Petroleum Exporting Countries, it had continued exporting oil during the 1973 Arab oil embargo and had provided additional supply during the shortages brought on by the 1991 Gulf War. Its reserves were (and still are) among the largest outside the Middle East.

United States who viewed Latin America as a puppet, but with the emergence of Venezuelan President Hugo Chavez as a vexing and potentially dangerous adversary the situation has altered. United States is convinced that he is provoking instability in some of the most volatile states in the hemisphere, including Bolivia, Ecuador, and Nicaragua. His alleged links to Colombia's leftist guerrillas and the sanctuary they enjoy in Venezuela also worry U.S. officials. Venezuela and the United States have clashed repeatedly at the Organization of American States (OAS) and other regional institutions. He has made clear his intent to forge a wide anti- U.S. coalition in order to replace Washington's agenda for the hemisphere with his own, that rejects representative democracy and market economics. So far he is a long way from succeeding: no other government has followed his economic or political lead. Indeed, nearly every Latin American country still sees its future as being linked to the United States and wants to strengthen its relations with Washington.

Under Chavez, Venezuela has developed close ties to Cuba and is now generously subsidizing the island's economy. Some in Washington think this support could complicate Cuba's post-Castro transition by helping a repressive regime hold onto power. And there are more immediate concerns. Despite his failure to export his 'Bolivarian Revolution' thus far, Chavez, buoyed by enormous oil revenues and virtually unchecked power at home, is working to increase his influence in the region. On his watch, Venezuela has launched Petrocaribe, an energy alliance designed to deliver subsidized oil from Venezuela to the small states of the Caribbean, and begun financing Telesur, a regional news network intended to compete with the BBC's and CNN's Spanish-language programs. Venezuela is nearing full partnership in Mercosur (South America's most important free-trade zone) which includes Venezuela, Argentina, Brazil, Paraguay, and Uruguay (Bolivia, Chile, and Peru are associate members). Chavez also suggested forming a nuclear energy consortium with Brazil and Argentina, which if goes its way will create new Geopolitical scenario in the hemisphere. Chavez's ambitions are not limited to stirring up trouble in few neighbouring countries. His desire to create a South American energy company called Petrosur, which would integrate regional oil and gas industries, is already bearing fruit.

Washington's problem is that no government in Latin America has yet been willing to help it to challenge Chavez. Even Governments closely associated with Washington have some sympathy for the Venezuelan leader's anti-Bush and anti-American policies. Although from time to time Brazil has helped to restrain Chavez, but his move is not on halt. At last year's meeting of the OAS General Assembly, Latin American diplomats rebuffed a U.S. proposal to establish a committee to monitor democracy in Latin America, which was seen as a U.S. effort to put a spotlight on Chavez's democratic failings. Although many regional governments are unhappy with Chavez and his policies, but they are unwilling to risk their commercial and financial relationships with Venezuela or pay the domestic political costs of opposing him. Growing presence of China in Latin America is creating a new geo-political dimension as after the collapse of the Soviet Union, China is emerging as the most serious challenge to U.S. interests in the region since along with financial relations China is increasing its military relations with the region, and its clear political ambitions are giving a new angle to Latin American politics especially that of Venezuela. In order to diversify the Venezuelan market for oil, Chavez made plans to begin shipping Venezuelan crude to China, the world's second-largest energy consumer after the United States. It would be a mistake not to have a presence there. China is not willing to run the risk of a confrontation with the United States over a country without much importance except oil and is showing that the china relations with Venezuela are to fulfil its energy requirements. Chavez does not seem to grasp Beijing's concern here and has repeatedly tried to pull China on his side in disputes with Washington. Transporting oil to Asia, however, could prove logistically difficult. China may be only interested in Venezuela in the short run, as Beijing is busy exploring for oil and gas closer to its shores in the South China Sea. Despite these practical problems, Chavez's rhetoric suggests the Venezuelan leader earnestly seeks to challenge U.S. regional hegemony by putting together a formidable coalition of like-minded nations. China is cooperating with the Venezuelan government in the expectation of securing access to some of the oil for itself. China's interest is strictly commercial. Chavez and China have different interests. Importantly, both reject a 'uni-polar' world dominated by Washington. China's main goal since the late 1970s, however, has been domestic development. Foreign relations are intended to advance or at least not hinder that objective. They clearly states that China does not want unrest in the Americas. Such a scenario, or rocky bilateral relations with Washington, might threaten energy and other deliveries to China and thus impede the country's domestic growth.

Chavez and Ahmadinejad have been increasingly united by their deep-seated antagonism toward the Bush administration. Chavez has become a leading defender of Iran's nuclear ambitions, accusing the Washington of using the issue as a pretext to attack Tehran. Ahmadinejad, meanwhile, has called Chavez 'the champion of the struggle against imperialism'. Chavez emphasized that Iran and Venezuela are two nations that have taken the road toward national development without impositions from Washington. Although both of these are energy rich countries but it looks that they are shouting high than their capacities.

Any interruption in Venezuelan oil exports to the U.S. would bring significant disruption to both countries. A sudden and severe reduction in Venezuelan oil exports would have worldwide impacts, while the impacts of a Venezuelan oil embargo against the United States or closure of Venezuela's U.S. refineries would be primarily concentrated in the United States and Venezuela. A sudden loss of all or most Venezuelan oil from the world market under the current tight global supply and demand balance would raise world oil prices. The impacts would be obviously most severe in the United States and Venezuela, although greater demand by U.S. oil companies to buy petroleum products from other countries could cause price increase in those countries. Venezuela would suffer direct losses of revenues from its U.S. refineries and, if closing the refineries was deemed a threat to U.S. national security, Venezuela could potentially face sanctions by the U.S. government. There is also doubt that Chavez can afford to drastically cut shipments to the United States. Logistically it's too costly to supply that much oil to Asian nations like India and china and also the refining of Venezuelan oil is a big problem as the oil is rich in sulphur contents.

Chavez called the U.S. government to accept 'the new realities of Latin America', as he brushed aside restrictions that limit presidents to two consecutive terms. He vowed to stay in office beyond 2013, when his term expires, saying he would revise the constitution to get rid of presidential term limits. Chavez also said that he personally hopes for better relations between United States and Venezuela. He expressed his views that United States should treat Venezuela as an independent democratic nation and should dump down its hegemonic pretensions. It will be good for people of both the countries and for the world energy security. Further problem with Venezuela is that Venezuelan oil fields are experiencing an annual depletion rate on the order of 25% because there is little government reinvestment in the sector, similarly infrastructure problems are looming in oil. Venezuela's decision to spend a significant part of its oil revenues on Social programs such as education and health care, instead of reinvesting it in the oil industry, will slow further development of the country's oil sector. Venezuela's new hydrocarbon law imposes significant social commitments on PDVSA. Future production could be impaired by these policies of Venezuelan government.

So, we can conclude the through oil diplomacy Chavez wants development of Venezuela. For Venezuela, oil is most important or we can say the only geopolitical weapon to fulfill its economic aspirations and to secure a place as an independent nation on the world map. Everyone knows the hegemonic pretensions of United States and west, they want to control all the energy hubs of the world whatever the cost may be. As Venezuela is very close to United States so transportation cost is very low and the oil import is more economical in comparison to gulf countries, so U.S. can not afford to loose the Venezuelan trade ties. Venezuela was reliable trade partner of United States before Chavez and they can not afford to lose it because of one man as it, not only a big economic loss but also a big political defeat for them. Chavez himself knows that Venezuela relies heavily on its oil for its development and in that United States is largest trade partner. So Venezuela can't afford embargo on supplies to United States, Making new partners will diversify its choice but it will take a long time and margin of profit from export will also decrease because of high transportation costs of the oil importing countries (India, china). There is no doubt in the argument that Chavez has challenged the dollar diplomacy of united states and has created a new geo-political dimension in the world energy sector and its implications will have far reaching effects for world energy security and peace.

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