

Arcanum in the news

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VENEZUELA'S TAKEOVER: CHAVEZ TAUNTS U.S. AND OTHERS

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Sometimes it seems as though the United States must face the increasingly authoritarian regime of Hugo Chavez in Venezuela alone.

Having centralized power, developed a close alliance with Cuba, rigged elections and even harassed the American ambassador when he tried to deliver baseball equipment to a poor community in Caracas, the Chavez government is steering a course of economic autarky and political repression. While other Latin American countries are (quietly) deeply concerned about the course of events in Venezuela, the United States has been a lonely public voice in the international community calling attention to the abuses of the Chavez regime and the harassment of the political opposition.

Now, with oil above \$70 a barrel, the Venezuelan government is continuing its efforts to take over oil operations of foreign companies by stealth and political pressure. Among other things, the changes provide that foreign operators can only hold minority stakes in Venezuelan operations, must sell certain interests to the state and can no longer appeal to foreign courts for redress in commercial disputes.

Oil Minister Rafael Ramirez has already said that ExxonMobil is no longer welcome in Venezuela, for having rejected the demand for a forced sale of its majority interests in Venezuelan operations. Now the government is turning its attention to European operators.

On April 3, the Venezuelan national oil company PDVSA informed the Italian oil giant ENI that ENI's operating service contract on hydrocarbon activities in the Dacion field southeast of Caracas was unilaterally terminated and that all management of the operations must be transferred to personnel approved by PDVSA (in effect, a purge of any supporters of the opposition to Mr. Chavez). To step up pressure on ENI, the Venezuelan government claimed on April 21 that the company owes \$68 million in back taxes and must pay "no matter what," according to a recent article in Business Week. A court froze ENI's assets in Venezuela to prohibit the company from repatriating funds to its home.

Venezuela has taken similar actions against operations of the French company Total, and the Norwegian state oil company Statoil is reportedly looking to sell some of its operations there.

PDVSA – already the target of a purge putting the company into the hands of Chavez supporters – is pursuing these objectives at the behest of Mr. Chavez.

Politicizing the management of oil operations won't get a single barrel of additional oil out of the ground, but it will serve to weaken performance of the fields.

Foreign companies have sought out the best Venezuelans for these jobs and trained future leaders of the country. It's unsurprising that many Venezuelans who work in the oil fields see the dangers of the Chavez government's economic policies.

It's also worth remembering that PDVSA is an active participant in the downstream market in the United States through its ownership of Citgo service stations. But while Venezuela is happy to take money from American motorists, it does not want the benefit of real, mutually advantageous foreign investment in the country. Rather, it wants to skew the terms of investment sharply in its own favor.

Under international law, a nation has the clear right to nationalize or expropriate property provided that the taking is for a public purpose and that just compensation is paid. Neither exception applies here. ENI is offering Venezuela a reasonable period of time in which a full reparation of ENI's contract rights can be agreed between the parties. But if an agreement cannot be reached, ENI will pursue legal action to claim its rights, as it is entitled to do. That appeal to the rule of law, however, was greeted with stepped up pressure on the company to settle an unfair tax claim.

What does it say about a country when ideology and economic nationalism trump the desire to take advantage of high oil prices and encourage investment that will benefit the people of Venezuela?

Perhaps Venezuela believes that high oil prices permit it to ignore international law and normal international commercial behavior. Evidently, Venezuela simply does not care about its reputation as a destination for foreign investment – it wants to force a new economic reality based on solidarity with the developing world, even if that means missing a genuine opportunity for economic development for its people.

With Romano Prodi's new government about to take power in Rome, the question becomes whether that government will be more interested in supporting the legitimate rights of Italian companies or pleasing its members on the left who revel in "solidarity" with the developing world and enjoy seeing Mr. Chavez taunt the United States.

American and European consumers looking for relief from high gasoline prices, as well as Venezuelan citizens suffering from poor economic policies, are anxiously awaiting the answer.