

**CARACAS DISPATCH**

**Crude Analysis**

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Venezuelans love Coca-Cola. They affectionately refer to the soft drink as "black champagne," and its absence from store shelves here is considered one of the hardest things to bear about the nation's nine-week-old general strike. So it was an important symbolic gesture when Venezuelan President Hugo Chávez, whose ouster the strikers desire, dispatched soldiers to seize stocks of the precious soda from the warehouses of the local Coke bottler, whose workers had walked off the job in support of the strike. Chávez threatened to "liberate" more warehouses if their owners didn't reopen for business. That drew a rebuke from U.S. Ambassador Charles Shapiro, who said he was "concerned and disappointed" by Chávez's actions.

The United States never likes to see a foreign government illegally expropriate the inventory of a private business--especially when that company is associated with as enduring an American icon as Coca-Cola. But Shapiro has been careful to temper his criticism of Chávez, despite the fact that this self-professed admirer of Fidel Castro is hardly on George W. Bush's buddy list. That's because U.S. policy toward Venezuela is less about black champagne than black gold. Critics claim the Bush administration's push for regime change in Iraq is motivated by oil, but in Venezuela the exact opposite is true: Oil is the reason the United States is leaving Chávez in power.

It's not that the United States has suddenly decided Chávez is a good guy. But, with a Middle East war looming, America needs Venezuela's oil. The United States normally imports 14 percent of its oil--1.5 million barrels per day--from Venezuela, the world's fifth-largest petroleum producer and home to the Western hemisphere's largest proven reserves. Many Gulf Coast refineries in Louisiana and Mississippi are specially configured to process Venezuela's heavy, sour crude. But the strike has crippled the country's oil industry, cutting exports by 75 percent. The loss of Venezuelan oil supplies has helped send U.S. petroleum reserves to their lowest levels since 1975 and has helped drive up prices at the gas pump five cents nationwide. If Venezuelan production doesn't resume soon, prices will be at least ten cents higher by summer.

More importantly, Venezuela's crisis threatens to seriously complicate the Bush administration's planning for war with Iraq. OPEC, with plenty of behind-the-scenes pressure from the United States, voted in mid-January to boost production quotas by 1.5 million barrels per day, but that will make up less than half the total shortfall from Venezuela. Plus, the fresh crude won't arrive immediately. Most will come from Saudi Arabia and the United Arab Emirates, and it takes 45 to 60 days for a tanker to steam from the Middle East to the United States, compared with just four to eight days from Venezuela. A war would almost certainly result in a temporary loss of Iraq's two million barrels per day, and it might curtail production elsewhere in the Middle East, too. "We can make up for a disruption in supply from either Venezuela or Iraq, but not both," says Daniel Yergin, president of Cambridge Energy Research Associates, a firm that tracks the international oil market.

That explains why the United States has suddenly launched a major diplomatic effort to resolve Venezuela's political crisis. There is little doubt the Bush administration would prefer to see regime change in Venezuela. Chávez, a former paratrooper turned leftist populist, has irritated the United States ever since

**T** he was first elected in 1998. He promised Venezuelans a revolution loosely modeled on Castro's Cuba and began shipping oil to Havana at subsidized prices. He went on a grand tour of rogue states, cozying up to Iran and Libya and referring to Saddam Hussein as "my brother." And he pushed for the passage of a new "hydrocarbons law" that effectively ended new foreign investment in Venezuela's oil sector. Twice elected with majorities approaching 60 percent, Chávez's increasingly authoritarian tendencies have alienated large segments of the country. Today, he enjoys the support of poorer Venezuelans but is reviled by the majority of middle-class and richer members of society.

But the Bush administration's first attempt to hasten Chávez's exit from Miraflores Palace, the Venezuelan presidential residence, was hopelessly ham-handed. The White House seemed to endorse--and, some speculate, covertly helped plan--an abortive April coup against Chávez that even many of his opponents denounced as undemocratic. The administration was deeply embarrassed when Chávez was restored to power after 48 hours.

Until recently, the United States had been content to let the Organization of American States (OAS) take the lead in brokering a settlement between Chávez and the coalition of labor unions, business groups, and civic organizations--called the Democratic Coordinator--that oppose him. But the OAS-sponsored talks at Caracas's Hotel Melia have dragged on for months with little progress. Despite moving into the Melia to personally oversee the negotiations, the best OAS Secretary General Cesar Gaviria has been able to do is convince both sides to agree on the need for a "constitutional" solution to the crisis. Even Gaviria admitted in an interview on January 14 that the government and the opposition remained far apart on what exactly "constitutional" means.

With an attack on Iraq imminent, the Bush administration can't afford to wait. So for the moment, at least, it has subordinated its desire to see Chávez out of power to its desire to see oil flowing out of Venezuela again. "Right now, we don't have much choice but to deal with him," says one State Department official. In fact, Chávez and the White House have never broken off contact altogether--the oil relationship is too important. "The ambassador in Caracas with the best access to the government is still the U.S. ambassador," says another Western ambassador in the city. U.S. oil companies have continued to operate facilities near Lake Maracaibo on behalf of Venezuela's state-owned oil firm Petróleos de Venezuela. Perhaps that's why Chávez has recently made more accommodating statements about the United States, telling American reporters that his revolution is based on America's own founding principles.

Having learned its lesson from April's fiasco, the United States has made it clear to Chávez's opponents that it won't abide another coup. "We wouldn't touch it with a ten-foot pole," the State Department official says. Plus, a coup might well fail. After being restored to power in April, Chávez purged the military of suspected dissidents. "It's not at all clear that a sizable percentage of the military would line up against Chávez," the State Department official says.

The new American diplomatic push centers on a group called "The Friends of Venezuela," which consists of Brazil, Chile, Mexico, Portugal, and Spain, along with the United States. It's a clever maneuver designed to head off a rival proposal by Brazil's new left-leaning president, Luiz Inácio Lula da Silva. At Lula's inauguration, Chávez called for the formation of an international coalition to help resolve Venezuela's crisis. He was clearly looking for leverage over the opposition, and Lula, whom Chávez considers a good friend, seemed ready to oblige. Lula's "Group of Friends" would have offered Chávez international allies--including Algeria, Cuba, and Iran--that were sympathetic to his politics. Instead, the United States has co-opted Lula's idea and turned it to its own purposes. It successfully cajoled Brazil to agree to a much more neutral set of participants and brushed aside Chávez's wishes to expand the group beyond the six members the United States selected.

The Friends of Venezuela, which held its first meeting in Washington last week with Secretary of State Colin Powell present, wasted no time in ramping up the pressure on Chávez and the opposition. The goal is



to convince both sides to accept one of two solutions broached by America's favorite back-channel diplomat, former President Jimmy Carter, during a recent visit to Caracas. One proposal calls for a referendum on Chávez's presidency on August 19, 2003; the other would involve amending the constitution to reduce the president's term from six years to four, leading to new elections before the end of the year.

While Chávez has struck a defiant tone in recent public remarks, even threatening to walk away from the talks, both sides are in the mood to deal, according to sources close to the negotiations. "With both the U.S. and Brazil speaking with one voice, Chávez has to negotiate," says one European diplomat in Caracas. "He can't afford to be totally isolated internationally." After all, each day the strike persists, Venezuela loses market share in the world oil markets to other nations. And, while some of those customers will return to Venezuela when the oil starts flowing, some of them may defect for good. That will make it hard for Venezuela--which derives 80 percent of its export income from oil--to recover from the strike.

Simply put, the toll from the strike, which began on December 2, has been enormous. Lines for gasoline stretch for miles, and there are shortages of some basic foodstuffs. The government, which derives half of its revenue from *Petróleos de Venezuela*, has lost more than \$4 billion so far. The economy, already in recession, could contract as much as 20 percent this year, and the country may be forced to default on its \$18 billion in foreign debt. The central bank has suspended dollar auctions and is considering price controls in an effort to stem the decline of the country's currency, which has lost almost one-third of its value since the crisis began.

The strike's human costs are also mounting. The daily marches and countermarches regularly end in tear gas and rubber bullets. And clashes between Chávez supporters and opponents have resulted in six deaths so far. "The risk of a serious escalation in political violence is significant," says the OAS's Gaviria.

But, despite all this, Chávez remains in power. And the strike cuts both ways, sapping the economic strength of the opposition, which is largely composed of middle-class workers and wealthy business interests. That explains why the opposition, having failed in its initial goal of quickly forcing Chávez's resignation, is desperate for a face-saving way out. That is especially true after the Venezuelan Supreme Court ruled that its efforts to force a referendum on Chávez's presidency before August were unconstitutional. "No one thought the strike would go on for this long," says Horacio Medina, a leader of the striking oil workers.

Given the opportunity, many believe Chávez will choose elections. That's because, while he's certain to lose a referendum, no single opposition politician enjoys as much support as he does. "If he still thinks that he has chances in an election, then he will opt for them," says another top European diplomat in Caracas. Plus, elections--which require the Venezuelan constitution to be amended--will take time to organize, perhaps allowing Chávez to engineer a political comeback.

The Bush administration believes Chávez will be voted out eventually. "He's lost his mandate to govern," says a senior State Department official in Washington. But for now the United States seems content to let him stay in office for several more months. By then, if all goes according to plan, Saddam will be history. And perhaps then Venezuelans will be able to toast their own regime--maybe with a Coke.

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