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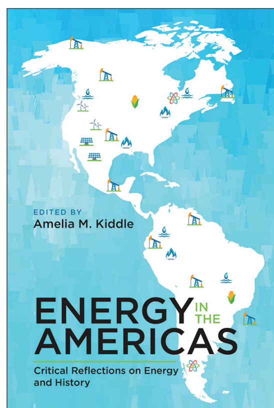

ENERGY IN THE AMERICAS: CRITICAL REFLECTIONS ON ENERGY AND HISTORY

Edited by Amelia M. Kiddle

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Exxon and the Rise of Producer Power in Venezuela

Joseph A. Pratt

Venezuela is one of the oldest and largest producers of crude oil for export in the Americas. Texas-based Exxon is one of the oldest, most profitable, and most criticized of the large international oil companies.[1] Swings from co-operation to confrontation have marked the century-long relationship between the two. During this time, Venezuela evolved from an oil colony in the early twentieth century, to a leader in the move toward producer power in the mid-twentieth century, to a symbol of resource nationalism in the early twenty-first century.[2] Throughout this process, Exxon has played a major role in the development of oil in Venezuela. This case study examines the nation's halting journey toward control of its own oil, as well as Exxon's efforts to adapt its operations to the rise of producer power in Venezuela.

The often tense relationship between the nation and the company is key to understanding the evolution of the oil industry in the Americas, which long provided the basic energy source for much of the region. Venezuela has numerous claims to leadership in the South American petroleum industry. The sheer size of its reserves shaped the total production and exportation of petroleum on the continent as a whole throughout much of the twentieth century.

In addition, its location proved ideal for exports to the United States, the largest market for oil exports in the Americas. Until the 1970s, tankers from the major oil companies active in the United States provided transportation to this market, along with access to these companies' large, technologically advanced refineries on the Texas-Louisiana Gulf Coast to process Venezuela's crude oil into refined products. Venezuela's oil thus came to hold a special place in the operations of the US- and British-based international oil companies (IOCs), and even in the foreign-policy calculations of their respective governments. As they sought to retain access to Venezuela's traditional oil reserves in the mid-twentieth century, the IOCs looked forward to the future development of technology capable of bringing to market both the vast heavy oil reserves in the Orinoco Basin and the extensive natural gas reserves in Venezuela.

The timing of Venezuela's entry into the oil industry gave it a head start toward becoming and remaining the leading oil exporter in the Americas. When Mexico's brief dominance of oil exports to the United States and Europe waned in the 1920s and '30s, Venezuela stood ready to take its place. Both before and after the expropriations of 1938, the major foreign companies active in Mexico responded by aggressively moving people, facilities, and investment dollars to the much more permissive political environment in Venezuela in the years between the two world wars. Early ties between the IOCs and the Venezuelan government helped forge a special relationship that shaped their interactions for much of the century.

Its massive reserves skewed the focus of the Venezuelan economy in the direction of oil-led development, with the long-term goal of using oil revenues to hasten the growth of a more diversified economy. But this approach never quite succeeded. Instead, the nation's reliance on foreign markets, technology, and capital in an oil-dominated economy produced the most extreme case of what is sometimes referred to as the oil curse in the Americas, with the distribution of both the benefits and the costs of oil-led development creating political and social tensions within Venezuela. The nation remains a model—or at least a cautionary tale—for other oil producers in the Americas concerned about the long-term impacts of an overreliance on oil.

As it grappled with problems raised by oil-led development, Venezuela gained an international prominence not shared by any other South

American oil-producing nation until the rapid growth of Petrobras, Brazil's national oil company, in the late twentieth century. Venezuela gained standing in the international industry in the 1940s, when it pushed through a 50/50 profit-sharing agreement with the IOCs that controlled the operations of its oil industry. This agreement quickly became the norm for major IOCs and large producing nations. After the Second World War, Creole (Exxon's subsidiary) granted concessions to Venezuelan oil workers that also became a model for numerous major oil companies. The nation's crucial role in creating the Organization of Petroleum Exporting Countries (OPEC) in 1960 cemented its claim to leadership in the industry, particularly in South America.

One final difference between Venezuela and its regional competitors was its long, tortuous journey toward some form of democratic capitalism capable of asserting control of the country's oil. The resulting political uncertainties proved costly to Exxon and other IOCs as they sought to survive and prosper amid the stops and starts of the nation's ever-changing oil policies. Exxon, for example, entered and exited several times as the nation moved from dictatorship to near democracy, from nationalization to the return of foreign companies, from the more radical policies of Hugo Chávez to an era of chaotic instability. Because of the continuing importance of Venezuelan oil exports, the world took note of the regular and chaos-producing tensions in the nation's politics. In many ways, Venezuela and PDVSA (its national oil company after the early 1970s) became the international symbol of both the prospects and the perils of oil development in the Americas.[3]

Exxon's Strengths and Weaknesses in South America

Although Exxon could not turn back the tide of producer power, it used its considerable strengths to adapt to changing conditions in Venezuela. Its access to global markets, capital, and political decision-makers provided distinct advantages when it came to dealing with less developed nations. Its vertically integrated management structure allowed it to coordinate activities across national boundaries. Its ace in the hole was state-of-the-art technology, which often was not readily available in producing

nations. These strengths had been established before the company entered Venezuela, as had been the focus on financial discipline, engineering efficiency, and competitive zeal that made Exxon one of the most successful companies in the world.[4]

Long-term success embedded in Exxon's corporate culture a strong commitment to business values learned in the days of John D. Rockefeller in the late nineteenth century. Thus, when the company entered Venezuela in the early twentieth century, it favoured markets unfettered by government, survival of the fittest in the marketplace, tight control of corporations over labour and other internal operations, and the sanctity of contracts. It also brought to Venezuela simple operating assumptions—namely, that the nation needed the company more than Exxon needed Venezuela's oil, and that the company's experts should set the terms of access, which should be written into contracts that were binding and not open to renegotiations. In the long term, producing nations would benefit if they gave companies such as Exxon near autonomy in developing their oil. The company brought with it skepticism of government, disdain for politicians, and a sense of racial and technical superiority. It also displayed a confidence in its abilities to find and produce oil that bordered on arrogance.[5] It would be challenged over the next century to adjust its attitudes and its operations as the government gradually asserted control over Venezuela's oil.

The Era of Unabashed Exploitation: Historical Baseline for Change through Time

Venezuela has been an important part of Exxon's operations since the company entered the nation in search of oil in the 1920s. In its early years in Venezuela, it profited from its close relationship with Juan Vicente Gómez, a military dictator. According to sources within Exxon, he ruled the nation "like a feudal baron" from 1908 to 1935. During its fifteen years of operations under the Gómez regime, the company grew through acquisitions and internal expansion into the largest of four major IOCs active in Venezuela.[6] Gómez ceded to these companies considerable control over the development of the nation's oil; Exxon's lawyers even helped draft the nation's landmark petroleum law in 1922. The IOCs reaped most of

the benefits from oil; the low taxes and royalties paid to the government enriched Gómez and his family and friends but had little impact on the nation as a whole.[7]

Exxon's exploitation of Gómez's Venezuela was unabashed. The company took full advantage of the imbalance of power between itself and the government in the formative years of Venezuelan oil. It was as if the Martians had landed, bringing advanced technology and expertise to a nation with vast oil resources but few tools with which to develop them. When it entered Venezuela, Exxon found a world in which "graft, traditional and universal as it had become, was not condemned, provided that the gratuities were adequate, generously dispensed, and given to the right people." The nation had quite limited infrastructure for transportation or communication, and in many of the remote locations where Exxon discovered oil, it built company towns marked by extreme paternalism. Finding few skilled Venezuelan workers, the company brought in technicians and supervisors from Texas. These expatriates were men of their time, and they generally held assumptions about the inferiority of Venezuelan workers; they found them to be unaccustomed to industrial labour and complained that they had "no loyalty to the company or to good work." Gómez opposed workers' organizations and brutally repressed any attempts at organization. Had Exxon wanted to improve the conditions of labour, it would have been opposed by the man who held control over its access to Venezuelan oil. Drawing from Exxon's internal records and interviews with employees, the authors of Exxon's corporate history found it ironic that the company prospered in the "strict civil order" created by an "iron-handed military dictator." They noted, however, that Gómez had one attribute much valued by the company: "The oil men soon learned that Gómez respected contracts."[8] In practice, the company operated comfortably and successfully in the strict civil order that Gómez had created, and it firmly established itself as an important factor in the development of Venezuelan oil.

The mass of Venezuelan citizens gained little from oil development in these early years. They watched foreign companies dominate their nation's largest industry to the exclusive benefit of a corrupt, oppressive dictator and his closest associates. They saw Venezuelan workers relegated to common labour while foreigners held technical and managerial positions and lived

in the best housing in work camps segregated according to nationality. The historical memory of the conditions in these early years played an important role in the public's reaction to the power of the foreign oil companies. Although conditions of labour gradually improved over the decades, memories of the behaviour and tone of foreign oil companies in the formative years of the Venezuelan oil industry left an anger and sense of injustice that lingered long after 1935, the year in which Gómez died. In public memory, these oil companies remained symbols of Gómez's harsh rule.

The dictator's demise brought a new era in the relations between Venezuela and the IOCs. His replacement as president, General Eleazar López Contreras, supported increasing the taxes paid by the oil companies, improving the treatment of workers, and revising aspects of the contracts signed during Gómez's dictatorship. A generation of young reformers long excluded by Gómez entered the political process and pushed for much stronger measures. Faced with growing demands for greater control over the power and behaviour of the oil companies, Exxon and the other IOCs had a clear choice: resist or accommodate.

Initially, the company's leaders stood firmly against change, especially on issues involving the principle of the inviolability of contracts. A contract was a contract; it should be honoured even if it had been made with a corrupt dictator with little regard for the national interest. Political pressure for change in existing contracts intensified with the emergence of the Democratic Action Party (Acción Democrática, or AD), which was determined to use new laws to extract concessions from the oil companies. Reformers in the party sought much higher oil revenues that could be used to encourage economic development, a process they called "sowing the petroleum" (*sembrar el petróleo*).[9]

The opening of politics to broader input from citizens after Gómez's death required Exxon to reconsider its stance toward reforms, and the ensuing debate within the company about how to respond to these new demands became heated. Executives with first-hand experience of their company's futile efforts to create lasting outposts of production in Bolivia, Argentina, and Mexico challenged the traditional hardline approach. In these years of reform (1935–48), a new consensus gradually took hold within Exxon. New attitudes emerged, especially on the key issues of taxes and the conditions of labour. One younger executive stressed the "need for

practicality" and criticized as inequitable and unsustainable the old way of unabashed exploitation. He argued that existing contracts in Venezuela were "defective and in jeopardy" because they were the work of an unrepresentative dictator in a corrupt bargaining process. Such contracts were unfair to the mass of the Venezuelan people, and, thus, indefensible in the court of public opinion. A colleague with long experience in Latin America took this argument one step further by noting the dangers of too rigid an opposition to potential changes in laws and contracts, since laws were only as strong as "the opinions and attitudes behind them."[10] Change was in the air.

Never far below the surface in these internal debates was the shared experience of the Mexican expropriation of 1938, which called into question the effectiveness of the hardline stance of opposing all manner of government oil policies. Chastened by its loses in Mexico, the company became more flexible in its dealings with Venezuela's government and its oil workers. Of utmost importance was Exxon's acceptance of large increases in taxes and royalties. Under Gómez, the IOCs had enjoyed very large concessions and very low royalties of 7.5 to 11 per cent of the value of oil produced. From 1943 to 1948, the AD, under the leadership of Rómulo Betancourt, put growing pressure on the IOCs to accept large increases in taxes and royalties. The leaders of Exxon and its major subsidiary in Venezuela, Creole, finally bent to the inevitable and accepted the so-called 50/50 agreement. This epoch-defining agreement raised total oil revenues to approximately half of the IOCs' net earnings—as measured largely by the IOCs themselves. It quickly became the global norm, introducing a new era of much higher oil revenues for major exporting nations.[11]

New labour laws also encouraged Exxon to pick up the tempo of its efforts to improve conditions of labour. Under pressure from the Venezuelan government, Creole put in place a program of welfare capitalism similar to programs Exxon had established in the United States in the 1920s. This included worker pensions, paid vacations, recognition of worker organization short of independent unions, higher wages and benefits, and technical training for increasing numbers of local workers. To this basic framework the Venezuelan government added labour boards with powers to mediate disputes between the companies and their employees. Exxon's top management, both at its corporate headquarters in New York and on

the ground in Venezuela, initially resisted these labour boards, which they thought were an unwarranted intrusion into management's traditional authority. But they soon recognized the wisdom of accommodating demands for government involvement in labour disputes. Their acquiescence reflected in part the memory that labour disputes had pushed the Mexican president to nationalize the properties of foreign oil companies. Longer-term views also dictated compromise on labour issues. One prominent Exxon executive argued that "good employee relations might be the decisive factor" in the company's future success. Especially during and after the demands for increased outputs during the Second World War, Creole's leaders asserted that they had made "every effort to build an understanding and loyal workforce."[12] Venezuelans pushing for greater control over their oil industry could certainly have presented Creole's management a long list of additional changes needed in the treatment of labour, but even they could agree that significant change had been made since the days of Gómez.

The willingness of Exxon's top management to listen to new voices from within Creole and adapt to changed political realities in Venezuela proved essential to the company's economic health in the post–Second World War oil boom. From the war until the 1970s, Venezuela was the company's largest source of crude oil and profits, making it abundantly clear that better treatment of the producing nations was both necessary and good for the bottom line. Henrietta Larson, who wrote the volume of the company's history that covered these years, concluded that "the importance of the amicable settlement of the Venezuelan issues can hardly be overstated."[13]

The Road to Nationalization: Venezuela Asserts Control

As events unfolded in the 1940s, Exxon accepted a demanding new truth: the oil-exporting nations inevitably would control their own oil. Looking back with the insight of years at the highest levels of the oil business, Jack Clarke, long-time Exxon attorney and adviser to the company's CEOs, gave a simple summary of this reality: "If Venezuela were running the oil business in Texas, how long do you think we would like them to do that? . . .

It's only natural for people to want to take it over."[14] Long-term profitability required Exxon to retain access to crude oil by satisfying the producers' demands for increased oil revenues and improved working conditions. The IOCs' strategy was to manage the process by accommodation in an attempt to retain as much control as possible for as long as possible over the price of oil and the quantity produced.

Accommodation was both a short-term necessity and a long-term strategy. At one level, it was simply a way to buy off discontent; at another, it was a symbol that company and country were partners of a sort as they pursued their own self-interests, which at times nonetheless overlapped. Political pressure from reformers accelerated the pace of change, at times overriding Exxon's concerns that government policies were "infringing too much on essential managerial prerogatives."[15] Even after the overthrow of the elected government and the ascension of a new military dictator in 1948, the reforms of the previous decade remained in place, becoming the foundation for a new era of oil policy in Venezuela.

Exxon prospered in this new order. In the 1950s and '60s, Creole became the linchpin of Exxon's global production. The company's output in Venezuela soared from about 400,000 barrels a day (B/D) in 1945, to 660,000 B/D in 1950, to almost 1.5 million B/D in 1974. In the postwar era, Creole accounted for as much as 40 per cent of Exxon's global profits. Despite the higher taxes won by Venezuela, Creole remained a pillar of strength within Exxon. It had moved from seeking to exert control over its workforce in order to safeguard its corporate interests to a search for programs that recognized the mutual interests of company and labour. The rapid growth of its workforce after the Second World War encouraged improvements in the recruitment, training, and retention of good employees. Indeed, Exxon voiced great pride in its employee relations in Venezuela, calling its operations an "industrial showcase in Latin America, if not the world."[16]

Yet forces in Venezuela and the oil industry as a whole worked to limit the duration of this golden era for Exxon. Oil was, after all, key to the future growth of both the Venezuelan economy and Exxon's global operations. But the self-interests of the country and the company were not necessarily the same. Many Venezuelans hoped that oil-led prosperity might result in a higher standard of living and perhaps a more open political system.

Others recalled with outrage the past attitudes and abuses of the foreign oil companies. Exxon's efforts to "convince the [Venezuelan] public that we are not a big octopus" had little impact, and political demands grew for more oil revenues, more national control over oil, and a more equitable distribution of oil wealth. Oil remained a central issue in Venezuela's national politics from the 1940s into the 1970s as the nation moved haltingly toward a more open and democratic system. Rómulo Betancourt, one of the founders of the AD and a chief proponent of its revolution of 1943, captured the essence of resource nationalism in the title of his influential book *Venezuela's Oil*. In the 1960s and '70s, the AD returned to power and led the way toward nationalization.[17]

The challenge to Exxon's control of Venezuela's oil went forward on two levels: national politics and international co-operation by the oil-producing nations represented by OPEC. In this era, the IOCs managed a global glut of oil by co-operating to hold down oil production through interlocking ownership ties in consortia in the major producing nations. The IOCs reinforced their control over both the amount of oil produced and oil prices by negotiating with only one producer at a time. Such collusion on the part of the IOCs strengthened the OPEC nations' resolve to share information and forge an organization capable of collective action.[18] Venezuela took the lead in creating OPEC in 1960, and it received a critical, if unintended, assist from Exxon. In the fifteen years after the Second World War, the IOCs maintained a measure of control over global oil prices by posting the price they would pay for crude without consulting producers. In August 1960, Exxon unilaterally lowered its posted price, sharply reducing oil revenues for producing nations. Its rationale for the cut was the need to lower oil prices to prevent the loss of market share to expansive Soviet companies. This was, of course, of secondary concern to the OPEC nations, which planned their national budgets around projected oil revenues. A unilateral reduction in the posted price of oil was a hard slap in the face. It reminded Venezuelans and citizens of other major oil-exporting nations once again of their lack of control over their own oil. Shared anger over the price cut, as well as shared memories of historical grievances, hastened these nations' resolve to create an organization capable of presenting a united front in their dealings with the IOCs. By September, OPEC was that organization.

In the 1960s, however, the focus of negotiations between the IOCs and major oil producers remained the individual producing nations. Creole was an obvious target for nationalist sentiment in Venezuela. By 1974, it produced approximately 1.5 million B/D of oil out of total national production of about 3.3 million B/D. Along with the other IOCs in Venezuela, Exxon faced serious problems. Some of these problems were geological. The major IOCs in Venezuela had access to lower-cost, higher-quality crude oil in the younger and larger fields of the Middle East, putting Venezuela at a disadvantage in global markets. Other problems were political. Opposition to foreign oil companies had been a staple of Venezuelan politics for almost forty years. Indeed, Creole's most pressing problem in 1973 was historical. The petroleum law of 1943 had renewed existing leases for forty years, stipulating that these leases would revert to the nation in 1983. The clock was ticking as the IOCs sought ways to retain a strong position in Venezuela.[19]

Early reversion became a key issue in the presidential election of December 1973. The position of the AD's candidate, Carlos Andrés Pérez, was simple: "Venezuela must take over control of this product." In his winning campaign, and later as president, Pérez sought a middle way between the military dictatorships with close ties to the IOCs in Venezuela's past and the Cuban model of socialism. He acknowledged that the nation was not yet ready to manage its own oil industry. It still needed the IOCs' technical assistance and access to markets, at least in the transitional period after the reversion of the leases.[20]

In May 1973, top Creole executives told their superiors in New York that Exxon faced "major uncertainties beyond our control." Yet they also advised that, even if early reversion took place, the corporation could continue to provide important services to the Venezuelan nation "on a mutually satisfactory and profitable basis." By this time, Exxon had little to no leverage. As Howard Kauffmann, Exxon's president at the time, put it, "We recognized they had the right to nationalize that property. . . . All we wanted [them] to do was pay us a fair price for it, and we wanted to continue to be a customer of theirs. . . . We realized that losing your temper or showing any animosity was not going to get you anywhere."[21]

After Pérez won election, he moved quickly toward nationalization. In his inaugural speech in March 1974, he promised that the early takeover of

foreign oil operations and assets in Venezuela was a certainty. In announcing a two-year deadline to arrive at a national consensus on the early reversion of the 1943 leases, he called for a "coolheaded approach" that would "fulfill the old aspiration of our people, that our oil will be Venezuelan." To help build consensus, in May 1974, Pérez appointed a Reversion Commission made up of more than thirty prominent Venezuelans to recommend government policy on early reversion. According to Creole officials, when the commission at times threatened to get "out of hand, the administration . . . maintained control."[22] The company's co-operation with Pérez reflected the reality that other, more radical oil policies were possible in Venezuela.

Early reversion was now an accepted reality, not a matter of speculation. In 1973, the government handed control over all gasoline service stations and other local markets to CVP, a national oil company created in 1960 to help collect information. It was now asked to manage the transition to Venezuelan control. In April 1974, Creole reported that the foreign companies had been "arbitrarily assigned, by decree, supply and distribution obligations to CVP at very low prices"[14] to provide oil products to subsidize Venezuelan development.[23]

As Venezuela marched toward nationalization, Creole of necessity chose diplomacy over indignation. With no realistic option, it supported and carried out Pérez's policies. When the government called for the drastic reduction of natural gas flaring, Creole launched a "very aggressive program to install additional gas compression capacity" designed to "raise Creole's gas utilization in Lake Maracaibo to essentially 100 percent." When the government sought to cut back production to conserve reserves, Creole accelerated its efforts to save oil by making its own operations more efficient.[24] Venezuelan officials could be excused for wondering why one of the world's leading oil companies with a reputation for engineering excellence had not previously taken such measures on its own.

Amid growing tensions, Jack Clarke, a central figure in the company's negotiating team, sought the counsel of Howard Page, who had handled similar talks for Exxon from the 1950s through the early 1970s. Recounting the frustration of negotiating from weakness in these years, Page noted a crucial difference after 1973: "In my day, when I was negotiating, I at least had the appearance of having a gun. You fellows don't have

anything."[25] Lacking power to impose a solution, the company made a final accommodation: it co-operated in its own nationalization, hoping to retain a profitable presence in a new Venezuela in which the government controlled the nation's oil.

Legislation passed in July 1975 called for the early reversion of the 1943 leases on 1 January 1976; it also announced the framework for the newly organized Venezuelan oil industry. Six months earlier, the president of Creole had sent a discouraging letter to New York decrying the lack of input on the part of the IOCs on this key issue. He noted that Creole's personnel had taken part in "many technical discussions [about the law] underway at government request, between their representatives and industry professionals concerning refining, computing, technology, research, etc." The Reversion Commission, however, included no representatives of the major foreign oil companies. Creole's president complained that "no high level discussions between industry and government have taken place in over half a year."[26] Venezuelans, not Exxon managers, would make the decisions about reversion.

The law asserted control over the nation's oil, but despite fierce political opposition, President Pérez stood by his position that Venezuela was not yet ready to manage the industry without assistance from the IOCs. To facilitate a smooth transition to national ownership, the new law grouped all existing Venezuelan oil companies into four firms, Lagoven (built around Creole), Maraven (built around the holdings of Shell), Meneven (built around the holdings of Gulf Oil), and Corproven (created around CVP). Smaller companies would be folded into these four entities. This approach retained as much as possible of the organization, the Venezuelan personnel, and the professionalism of the three major IOCs. Sitting on top of the four competitors was the newly created Petróleos de Venezuela, S. A. (PDVSA), which initially exercised oversight of the operating companies but evolved into a strong national oil company. Exxon felt that the new organizational framework, which embodied well-developed ties between Creole and the Venezuelan government, might pave the way for future co-operation.[27]

These historical ties would not much matter to Exxon, however, unless it retained access to large quantities of crude while also earning a reasonable profit on the technical, marketing, and managerial services it

contracted to provide to the new companies. The reversion law allowed the foreign oil companies to sign "two-year renewable technical assistance contracts—to include marketing—with the government in order to continue providing essential support services after nationalization."[21] The IOCs and the government vigorously negotiated all aspects of these contracts, which now took the place of the direct ownership of oil that Creole had enjoyed under the old lease system. The contracts specified payments per barrel of oil for different services. Amounts ranged from 10 to 20 cents per barrel, but such small sums quickly added up when a company processed a million barrels of oil a day. Creole and the government also bargained hard to establish a pricing system flexible enough to reflect changes in global markets. The two parties also had to find a compromise on the amount of oil that would be made available to Exxon. Short of crude, the company wanted the largest quantity of oil acceptable to Venezuelan officials; seeking to limit exports, the government wanted the smallest quantity acceptable to Exxon. Just days after the official nationalization, on 1 January 1976, Exxon signed a contract with the government to purchase an annual average of 965,000 B/D of crude, at least temporarily fulfilling its major strategic objective in Venezuela—continued access to large, relatively secure supplies of crude at prices that were reasonable in the context of rising oil prices in the mid-1970s. The one-time king of Venezuelan oil had become a contractor.[28]

The attainment of Creole's second strategic objective, fair compensation for its nationalized properties, proved much more difficult. The Venezuelan government awarded about $1 billion in compensation to all nationalized oil companies, with Creole receiving about half of this sum. As called for in the law of reversion, compensation reflected the net book value of the companies on which taxes had been based, not the total amount invested by the companies, which the IOCs claimed totalled approximately $5 billion. The foreign companies had only sixty days to accept the government's compensation offer. Creole had no realistic option. It accepted the government's take-it-or-leave-it offer, and its properties reverted to the state on 1 January 1976.[29]

Only months after the deal had been done, however, the Venezuelan government filed a suit against Creole for disputed back taxes from 1970. The sum involved was $231 million, almost half of the compensation

payment received by Exxon. As far as the company's managers were concerned, the total was not as important as the principle involved. They had accepted the government's offer because it seemed as close to fair and timely compensation as it could obtain. In this context, the tax claim appeared to be an end run around the agreement. Throughout its history, Exxon has fought long and hard in the courts on issues of principle—in the process sending a message to other potential litigants that the company would not settle out of court. Believing the "claims as without legal foundation," Exxon's lawyers vowed that they "would be resisted vigorously in the courts." Another top executive warned that "failure to reach equitable settlement of the outstanding nationalization issues could result in phasing out of our Venezuelan activities." Negotiations droned on until 1986, when those working on the tax issue advised Exxon CEO Cliff Garvin that "the best deal we are going to get is to call it even." Garvin, who had led the company throughout the reversion process in Venezuela, swallowed hard and replied, "I don't like it, but okay." This end game foreshadowed things to come for Exxon in Venezuela, where long-term investment opportunities beckoned it while political risks pushed it away.[30]

Looking back, nationalization seems inevitable, but the timing was uncertain. From the 1940s onward, Exxon's management strategy of choosing accommodation over resistance probably enabled the company to extend its run as a major leaseholder in Venezuela.[31] The fundamental limit to accommodation was Venezuela's desire to control its own resources, and events in the early 1970s allowed the nation to just that. Exxon had no practical option except to work with the Venezuelan government to move the nation as smoothly as possible toward state ownership of petroleum. Despite intense political pressure to use the process of nationalization to demonize and punish the foreign oil companies, the government chose instead to accept their assistance and then to move gradually toward more independence in its operations. Lacking the power to impose a better outcome, Exxon co-operated with the government and then with PDVSA in these transition years, to the benefit of Venezuela and consumers of petroleum around the world.

In and Out in the 1990s and 2000s

Far-reaching changes in the global oil industry in the 1970s shaped Venezuela's success in nationalizing Exxon and other foreign oil companies throughout the decade. Within individual producing nations, politicians of all shades supported the strong nationalistic urge to take control of valuable national resources from foreign oil companies. Across national borders, oil-producing nations shared knowledge about the inner workings of the international petroleum industry. The increased oil revenues brought by OPEC's assertion of control over oil prices after 1973 dramatically enhanced producer power. This revenue bonanza, coupled with a shared sense of historical grievances against the IOCs, became the glue binding together the diverse member nations of OPEC. The completion of nationalization and the rise of OPEC did not, however, ensure the success of each national oil company or the prosperity of each oil-exporting nation. Because its oil fields were relatively old and its heavy oil were expensive to produce in comparison to Middle Eastern oil, Venezuela faced difficult challenges in carving out a place for itself in a highly competitive global oil industry during a lengthy period of low oil prices.

As the Venezuelan economy stagnated in the early 1990s, the country's political leaders looked for ways to jump-start growth. Petroleum remained the primary engine of growth for Venezuela, and the government decided to try to foster growth by inviting foreign oil companies to return.[32] Ironically, the leader of this new opening to foreign oil companies was Carlos Andrés Pérez, who was re-elected president in 1989, ten years after the end of his first term in office. As in the 1970s, Pérez represented the reformist wing of Venezuelan politics, and he still believed that the nation needed the capital, the access to markets, and the advanced technology of the IOCs to help develop its oil fields. In the twenty years since the nationalizations, the global oil industries had added numerous strong new competitors, including both national oil companies and a more diverse group of IOCs. Many of these companies responded to Pérez's invitation. From their perspective, Venezuela was a promising oil frontier. It had relatively manageable political risks and held out the prospect of being a part of one of the most touted oil booms of the era—namely, the development of the nation's vast heavy oil reserves in the Orinoco River Basin.

Since the 1970s, the oil industry had made headway in developing technologies to unlock the great potential riches of the heavy oil deposits in the Orinoco region. By the early 1990s, estimates of the nation's recoverable conventional oil reserves had reached a respectable 90 billion barrels, but its heavy oil belt held as many as 250 billion more barrels of recoverable reserves—if ways could be found to develop this oil at prices competitive with conventional oil. Exxon's previous experience with Canadian oil sands and heavy oil deposits, along with its research in the 1970s and '80s on synthetic fuels, made it a logical company to develop Venezuela's heavy oil.[33]

Even though the Pérez government offered attractive terms to the IOCs, Exxon initially hesitated to return to Venezuela. This was hardly surprising given the bad memories of retroactive taxes levied against the company after the nationalization. In addition, the company had a long commitment to financial discipline, and it already had large investments that came with high political risks in Russia and West Africa. Violent coup attempts in Venezuela in 1992, one involving then Colonel Hugo Chávez, put Exxon and other potential investors on notice that Pérez and the nation's still fragile democratic institutions were in danger. As Exxon studied the situation in Venezuela, it had to look ahead to the coming presidential election of 1998 and handicap the direction of political change. The company also considered the economics behind Venezuela's new overtures to foreign oil companies. In an era of low oil prices, the government lacked the revenue needed to develop its heavy oil reserves. Would this remain true over the long period required to develop heavy oil? In short, did long-term political and economic trends merit large investments in a nation whose modern history had been shaped by recurring periods of confrontation with IOCs?

Exxon took a stake in one traditional oil project in Venezuela in the late 1990s, but it did not enter the heavy oil sector in the first round of contracts. Many of its competitors signed thirty-five-year contracts that stipulated low royalties and tax rates. These projects planned to produce the region's very thick heavy oil and then upgrade it to a lighter syncrude through refining. This would take place in existing plants owned by the foreign companies—at times in joint ventures with PDVSA—on the Texas-Louisiana Gulf Coast and in new plants built in Venezuela. Mobil's

Cerro Negro project (which came to Exxon through its merger with Mobil in 1999) involved potential production of 120,000 B/D by 2001, with most of the upgrading to be done at a Chalmette, Louisiana, refinery jointly owned by Mobil and PDVSA. Mobil, the operator, had about 42 per cent ownership.[34] The low tax and royalty rates on these heavy oil projects made them attractive despite the prevailing depressed prices for oil.

Though not a partner in any of the original heavy oil projects, Exxon continued negotiations for Hamaca Este, a project designed to produce about 170,000 B/D of syncrude by upgrading heavy oil from Venezuela in the company's Baytown or Baton Rouge refineries. Exxon also continued planning for a $3 billion petrochemical complex in Venezuela with Pequiven, the state-owned petrochemical company. Finally, it took part in the latest proposal for the Cristobal Colon LNG project that had emerged in the 1970s and then reemerged in the early 1990s.

Unfortunately for the company, Chávez won the presidential election in 1998, after which he quickly moved to consolidate his political power. His self-styled Bolivarian Revolution put in place a variety of programs to improve the education, health, and welfare of the poorest segments of society—paid for largely by increased payments by foreign oil companies. In essence, this was a more radical version of sowing the petroleum, with the assumption that PDVSA would serve as a cash cow that could be milked to provide the funding for extensive social programs in Venezuela and other nations. Chávez backed these programs with aggressive rhetoric against US foreign policy. His message to the IOCs was clear: they could stay in Venezuela only on his terms.[35]

A turning point in the Chávez regime was his dramatic showdown with PDVSA. When President Chávez sought to tie PDVSA's goals more closely to his own, the company's leaders resisted. Tensions came to a head in a strike by much of PDVSA's workforce in December 2002. Chávez fired some eighteen thousand strikers, replacing many of the company's professional oil specialists with people whose major qualification was their loyalty to him. He proclaimed, "Previously, PDVSA was managed as a multinational company, with criteria that did not consider our social reality. Now it is a national company that has allowed us to deploy, for the first time, our plan." Almost overnight, an efficient oil company run by experienced engineers became an organization run by Chávez loyalists

with limited experience in the oil industry. Long-standing ties between the IOCs and PDVSA were severed in the process, as many experienced oil technicians left home for oil-related jobs in Calgary and Houston.[36]

Direct challenges to the foreign oil companies followed. Increases in oil prices generated higher government revenues, encouraging Chávez's resource nationalism. The speeches of the president and his spokesmen heated up, with pointed references to the deals president Pérez had cut with the IOCs in the mid-1990s as "criminal" and "treasonous giveaways."[37] The government backed its rhetoric by revising the terms of contracts for conventional oil projects written in the 1990s and giving PDVSA increased authority in managing the joint ventures involved in these projects. After threatening to take its grievances against Chávez to international arbitration, Exxon decided instead to sell its holdings.[38]

The Chávez regime moved on to heavy oil in 2004 by unilaterally raising the royalty rate on the Orinoco projects. In 2006, Chávez altered the original thirty-five-year contracts to significantly increase taxes and royalties and give PDVSA majority control of each project. The companies involved faced a difficult choice: accept these changes or leave Venezuela. Collectively, they had already invested an estimated $11 billion in Venezuela's heavy oil fields and in refineries needed to upgrade the approximately 600,000 B/D of syncrudes flowing or scheduled to flow from their projects. Much of this investment, including advanced technology being used to transform heavy oil into useful products, could not be moved out of Venezuela.

ExxonMobil had backed away from a threat of international arbitration after the earlier round of royalty increases, but it held its ground in 2006. With oil prices rising steadily, the Venezuelan government also stood firm. After ExxonMobil indicated that it could not make an adequate return under the proposed new taxes, the Venezuelan oil minister responded with disdain. If the company preferred to leave rather than to adjust, he said, "we don't want them to be here then. . . . [If] we need them, we'll call them." The minister reminded Exxon that plenty of other oil companies from around the world, particularly national oil companies, had expressed their interest in Venezuela's heavy oil.[39] With the growth of competition and the prevailing high prices for oil, Venezuela no longer needed Exxon as it had in the 1970s.

After almost a year of this war of words, Exxon announced its decision to leave Venezuela. Conoco was the only other foreign company in the heavy oil projects that made the same choice. Before Exxon's departure, Chávez proclaimed that "the Orinoco belt is still a living symbol of what was an important part of the oil opening. We must eliminate this symbol." Chávez punctuated his subsequent political victory by standing up to Exxon, the global symbol of Big Oil and a ready villain for politicians hoping to rally support. The company took this dispute to arbitration, but after more than five years of hearings, it received only a small portion of the claims it had made on the Chávez regime.[40]

This was not a case of Exxon reverting to its earlier rigidity on the sanctity of contracts. The company knew that governments would and could alter the terms of contracts. Instead, this was a decision based on considerable experience during the difficult search for non-OPEC oil after the 1970s. Some political risks simply were not worth taking. Top management concluded that doing business with Chávez over the long term was a losing game; the heavy oil projects were becoming increasingly expensive; it would take decades to recoup investments. Better to avoid large investments in Venezuela, cut its losses, and try to recover its previous investments through arbitration than to face the uncertainty of life with Chávez. No doubt, the company walked away in anger over its treatment by Chávez, but shorn of pride, the decision to leave Venezuela made economic sense for Exxon.

Exxon paid a high price for its decision to resist Chávez. It sold one traditional oil field in Venezuela and lost its stake in the Cerro Negro heavy oil project. In addition, it lost the chance to pursue a $3 billion petrochemical project and an even larger LNG project in Venezuela. Its highly publicized confrontation with Chávez yielded some long-term benefit by announcing once again that the company believed strongly in the sanctity of contracts and was willing to stand up for its principles. Re-entry into Venezuela had looked interesting for a moment in the mid-1990s, but events after the election of Chávez in 1998 showed how quickly political risks could mount, particularly in times of rising oil prices.

Exxon's departure from Chávez's Venezuela shows that the company's choices were shaped by various considerations beyond the politics of an individual nation. The price of oil and the company's access or lack thereof

to alternative sources of crude also entered into its decisions, as did the long time required to make profits on the large investments that had become the primary business of big oil companies. Geopolitics constrained some choices during the Second World War and the Cold War, but the fall of the Soviet Union and the "triumph" of capitalism in the 1990s opened new horizons for the company, notably in Russia, the breakaway Soviet republics, and China.

History also shaped Exxon's choices. The behaviours and attitudes it brought to Venezuela in the early twentieth century left lasting impressions that proved difficult to alter. Memories of the early years of unabashed exploitation—passed down from generation to generation and embodied in political rhetoric—fuelled the zeal of reformers. During almost a century in Venezuela, the company modified its attitudes and behaviours in response to the rise of producer power. It stretched itself to its limits in its efforts to change while remaining profitable. In juggling the demands of accommodation, Exxon gradually became a new company, one with a broader vision of its social and political environment. It also gained a clearer understanding of a central reality of the twenty-first-century oil industry: the giant, expensive projects that had become the norm for the major IOCs required them to remain in producing nations for decades. To do so required a heightened sense of social responsibility and good corporate citizenship so that the companies could form lasting relationships with the governments and citizens of the producing nations.

When history happened to Exxon in the 1970s, the company tested the limits of accommodation and co-operation, but it could not avoid nationalization. When Hugo Chávez pushed the company to the wall in the early twenty-first century, it had enough experience with extreme political risks to recognize that it was time to seek opportunities elsewhere. Throughout its history in Venezuela, Exxon's learning curve was steep and at times painful. But the company emerged with a clearer sense of the limits of its own power and the need for close co-operation with governments. In Venezuela, as in other parts of the Americas, the road to producer power was long and rough, but the destination was ultimately reached. The lesson learned by the IOCs and the producer nations was simple: it was only natural for oil-producing nations to seek to control their resources. And for the major IOCs, it was only natural to learn to adapt to an ever-changing world.

NOTES

1. The company known as ExxonMobil since 1999 has undergone numerous name changes throughout its long history. It began as part of John D. Rockefeller's Standard Oil Company. Under the name Standard Oil of New Jersey, it served as the holding company for Standard Oil. After the breakup of Standard Oil by the US Supreme Court in 1911, Standard Oil of New Jersey emerged as the largest of the resulting companies. It often was referred to as "Esso" or Jersey Standard. In 1972, it took the name Exxon. I use that name to refer to the company throughout this chapter.
2. For overviews of oil-led development in Venezuela, see Juan Carlos Boué, *Venezuela: The Political Economy of Oil* (Oxford: Oxford Institute for Energy Studies, 1993), and Jorge Salazar-Carrillo and Bernadette West, *Oil and Development in Venezuela during the 20th Century* (Westport, CT: Praeger, 2004).
3. Sweeping views of the rise of producer power can be found in Anthony Sampson, *The Seven Sisters: The Great Oil Companies and the World They Shaped* (New York: Viking Press, 1975), and Daniel Yergin, *The Prize: The Epic Quest for Oil, Money and Power* (New York: Simon & Schuster, 1992). Terry Lynn Karl analyzes the difficulties in oil-led development in *The Paradox of Plenty: Oil Booms and Petro-States* (Berkeley: University of California Press, 1997).
4. Exxon has sponsored an ongoing corporate history since the Second World War. The project has now published five volumes, each covering about twenty-five years of the company's history. The general title of the series is History of Standard Oil Company (New Jersey). The five volumes are as follows: Ralph W. Hidy and Muriel Hidy, *Pioneering in Big Business, 1882–1911* (New York: Harper & Brothers, 1955); George S. Gibb and Evelyn H. Knowlton, *The Resurgent Years, 1911–1927* (New York: Harper & Brothers, 1956); Henrietta M. Larson, Evelyn H. Knowlton, and Charles S. Popple, *New Horizons, 1927–1950* (New York: Harper and Row, 1971); Bennett H. Wall, *Growth in a Changing Environment*: *A History of Standard Oil Company (New Jersey), Exxon Corporation, 1950–1975* (New York: McGraw-Hill, 1988); and Joseph A. Pratt with William E. Hale, *Exxon: Transforming Energy, 1973–2005* (Austin: Dolph Briscoe Center for American History, University of Texas Press, 2013).
5. For an overview of Exxon's responses to producer power, see Joseph A. Pratt, "Exxon and the Control of Oil," *Journal of American History* 99, no. 1 (2012): 145–54.
6. In this section, I make extensive use of Exxon's five-volume history. These books were written under contract by professional historians who had editorial control, access to internal records, and the opportunity to interview personnel. They provide useful insights into the internal life of the corporation and proved helpful in reconstructing the company's view of events. I have tried to place this internal view in a broad historical context, both in this chapter and in the fifth volume of the Exxon history. The remainder of this chapter draws primarily from my research in Exxon records while completing my recently published volume of the Exxon history, which covers the years from 1973 to 2005. All five volumes are cited in footnote 4.
7. Gibb and Knowlton, *The Resurgent Years*, 3.

8 Gibb and Knowlton, *The Resurgent Years*, 386–390; Larson, Knowlton, and Popple, *New Horizons*, 133–41.

9 Larson, Knowlton, and Popple, *New Horizons*, 140–4.

10 Larson, Knowlton, and Popple, *New Horizons*, 481–4.

11 Larson, Knowlton, and Popple, *New Horizons*, 479–88; Wall, *Growth in a Changing Environment*, 401.

12 Wall, *Growth in a Changing Environment*, 142–3. For more on welfare capitalism at Exxon, see Henrietta M. Larson and Kenneth Wiggins Porter, *History of Humble Oil & Refining Company: A Study in Industrial Growth* (New York: Harper & Brothers, 1959), 290–318, 350–89.

13 Larson and Porter, *History of Humble Oil*, 484.

14 Jack Clarke, interview by Joseph Pratt, Orlando, Florida, 3 January 2007, 13, Exxon Oral History Collection, ExxonMobil Archive, Dolph Briscoe Center for American History, University of Texas at Austin.

15 Larson, *New Horizons*, 728–30.

16 For production statistics, see Larson, Knowlton, and Popple, *New Horizons*, 486; Wall, *Growth in a Changing Environment*, 402; and Pratt, *Exxon*, 77. For a quote on Creole's labour system, see Wall, *Growth in a Changing Environment*, 396.

17 Rómulo Betancourt, *Venezuela's Oil*, trans. Donald Peck (London: Allen & Unwin, 1978); Wall, *Growth in a Changing Environment*, 403.

18 Wall, *Growth in a Changing Environment*, 600–21.

19 Wall, *Growth in a Changing Environment*, 396–430.

20 Most of the quotes on nationalization in the 1970s are from Pratt, *Exxon*, 26–36; *Oil and Gas Journal*, no. 71 (1 December 1973), various items; Exxon Management Committee Records (hereafter, XMC), Report from Robert Dolph to Management Committee, May 5, 1973, and May, 8, 1973, Irving, Texas, Exxon Archives. These records are destined for deposit at the Briscoe Center for American History. See also "Venezuela's Pérez Promises Take-Over of Oil in 2 years," *Oil and Gas Journal*, 25 February 1974, 29; "Venezuela Starts Down Road to Nationalization," *Oil and Gas Journal*, 27 May 1974, 33.

21 Quoted in Pratt, *Exxon*, 31.

22 Creole Petroleum to Exxon Management Committee, Fall 1974 CEO Letters, 26 September 1974, 1 and 2, XMC.

23 Dolph to Exxon Management Committee, 24 April 1974, XMC.

24 Exxon Management Committee, 25 April 1974, XMC.

25 Page is quoted in the interview with Jack Clarke cited in note 14.

26 Robert Dolph to Management Committee, 28 January 1975, XMC.

27 Emma Brossard, *Petroleum Research and Venezuela's INTEVEP: The Clash of the Giants* (Houston: PennWell Books/INTEVEP, 1993), 108–14.

28 “Venezuela Take-Over Set Jan. 1 for 21 Private Oil Companies,” *Oil and Gas Journal*, 8 September 1975, 25.

29 “Creole Petroleum in Venezuelan Pact,” *New York Times*, 13 November 1975, 61.

30 Pratt, *Exxon*, 33–4.

31 Wall, *Growth in a Changing Environment*, 430.

32 Most of the quotes about Exxon’s entry to and exit from Venezuela in the 1990s and 2000s are taken from Pratt, *Exxon*, 328–34.

33 For a history of Exxon’s development of heavy oil and oil sands, see Pratt, *Exxon*, ch. 4.

34 Thi Chang, “Upgrading and Refining Essential Parts of Orinoco Development,” *Oil and Gas Journal*, 19 October 1998, 67; Pratt, *Exxon*, 330–3.

35 For a lively account of Hugo Chávez’s years in office from 1998 to 2007, see Tina Rosenberg, “The New Nationalization: Where Hugo Chávez’s ‘Oil Socialism’ Could be Taking the Developed World,” *New York Times Magazine,* 4 November 2007, 45.

36 Rosenberg, “The New Nationalization,” 48–9.

37 Brian Ellsworth, “Chavez Views ’90s Oil Deals as Criminal,” *Houston Chronicle*, 19 April 2006, D-6.

38 “Exxon Mobil Pays Price for Balking,” *Houston Chronicle*, 8 February 2006, D-4.

39 “Venezuela Takes on ExxonMobil,” Associated Press, 30 March 2006.

40 Russell Gold, “Exxon, Conoco Exit Venezuela Under Pressure,” *Wall Street Journal*, 27 June 2007, A-9; Kristen Hats and John Otis, “Two Oil Giants Defy Chavez,” *Houston Chronicle*, 27 June 2007, D-1 and D-5; Peter Howard Wertheim, “Venezuela to Nationalize Orinoco Oil Operations,” *Oil and Gas Journal*, 15 January 2007, 41.