Book Review

Gustavo Coronel, *The Nationalization of the Venezuelan Oil Industry* (Lexington, Mass.: D. C. Heath, 1983).

This case study describes and evaluates the genesis and first eight years of Venezuela's nationalized oil industry. Gustavo Coronel, a U.S.–trained Venezuelan geologist with 27 years' experience in oil industry technical and managerial positions, writes from a special vantage point: He served on the board of Venezuela's national oil company, Petroleos de Venezuela (PDVSA) from 1975 to 1979, and in 1980 he was appointed executive vice president of one of PDVSA's operating companies. Disillusioned with the politicization of oil industry decision making, Coronel resigned his post in 1981. This book, self-characterized as a "personal testimony," is an informed and intelligent insider's tale of how an event of great national pride and accomplishment—the nationalization in 1975 of Venezuela's oil industry—fostered political interference and cronyism that rather quickly resulted in the moral and financial deterioration of the Venezuelan oil industry.

Before nationalization, 14 oil companies were operating in Venezuela; 13 of these firms were foreign owned. Upon nationalization, ownership of these 14 operating companies passed to a newly created holding company, PDVSA. The relationship between PDVSA and the operating companies was meant to be similar to the relationship that had prevailed between these operating companies and their respective foreign owners. Specifically, while PDVSA was to provide advice and be the coordinating agent for all oil industry activities, direct responsibility for running and modernizing Venezuela's oil industry remained with the renamed and, subsequently, rationalized operating companies. Possessing decades of experience in Venezuela's oil industry and retaining, largely intact, their senior managements, technical and financial staffs, decision-making systems, and organizational cultures, the operating companies were well equipped to perform their difficult assignment.

Because foreign oil companies had faced reversion of all their Venezuelan assets by no later than 1983, they had been reducing their Venezuelan oil investments. As a result, the Venezuelan oil industry had been contracting in the decade before nationalization. Even though crude oil prices had been climbing rapidly since 1970, both production and proved reserves were in decline. The principal task for Venezuela's newly nationalized oil industry was to halt and, if possible, reverse this decline.

Three major problems had to be addressed if the Venezuelan oil industry was to be revitalized. First, because most of Venezuela's crude oil production was from mature reservoirs, the yearly rate of production decline was a very high 25–30 percent. Hence, multibillion-dollar annual investments were required just to find and develop replacements for current production. Second, the heavy oil reserves of the Orinoco tar belt were the most likely source of new oil supplies. However, to produce significant quantities of oil from these low-quality reserves would entail both a massive drilling program of a scope never before undertaken in Venezuela and the installation of expensive, state-of-the-art crude oil upgrading plants. Third, the principal product of Venezuela's refineries was residual fuel oil. Production of this product was favored both because Venezuela produced mainly low-gravity, heavy crude oils and because it was explicitly encouraged by U.S. oil import policy. However, when oil prices began climbing after 1972, the market for residual oil (which competes directly with coal) began to collapse. A multibillion-dollar program of refinery modernization was needed to enable Venezuela to produce more of the lighter petroleum fractions increasingly preferred in both domestic and international markets. The programs aimed at solving these three problems largely explain why investment in the Venezuela oil industry increased 13-fold between 1976 and 1981.

The technical, economic, and administrative problems of the Venezuela oil industry were enormous. Thus it seemed fortunate that the government was committed to insulating the newly nationalized industry from political concerns. Two policies were central to preventing the politicization of the Venezuelan oil industry. First, the government gave assurances that the oil industry would be run by experienced, professional managers whose promotion would be based on merit. Second, to prevent political considerations from distorting, delaying, and perhaps even corrupting investment decisions, Venezuela's nationalized oil industry was to be self-financing. Corona documents in detail how the government's commitment to these two policies swiftly eroded. His book should be read by all who advocate nationalization as a simple cure for a nation's problems with its oil industry.

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