Stringent, open and hybrid state treatment of foreign investment: three eras of the oil industry in Venezuela and Ecuador

by

Antulio Rosales Nieves

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Examining Committee Membership

The following served on the Examining Committee for this thesis. The decision of the Examining Committee is by majority vote.

External Examiner	Paul Alexander Haslam Associate Professor, University of Ottawa
Supervisor(s)	Eric Helleiner Professor, University of Waterloo
Internal-external Member	Bruce Muirhead Professor, University of Waterloo
Other Member(s)	Kathryn Hochstetler Professor, London School of Economics
	Alex Latta Associate Professor, Wilfrid Laurier University

Author's Declaration

I hereby declare that I am the sole author of this thesis. This is a true copy of the thesis, including any required final revisions, as accepted by my examiners.
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Abstract

This thesis explains the development of three distinctive forms of engagement between the Venezuelan and Ecuadorian states and foreign investment since the 1970s until 2014 in their oil sectors. State treatment of foreign investment ranged from stringent in the 1970s, to open in the decades of the 1980s and 1990s, to a hybrid model in the 2000s. The broad changes that occurred in the three periods responded to factors conceptualized herein as the conditions of state-company bargaining, and the role of dominant and contested ideas. This study is accomplished through a detailed historical analysis and in-depth case studies. The dissertation incorporates and modifies insights from longstanding traditions in political science that deal with the politics of bargaining between states and transnational corporations: the Obsolescing Bargaining Models (OBM). It highlights the strategic view of states in their treatment of foreign investment through time, emphasizing states' agency, by combining insights from the politics of bargaining, while also integrating ideational motivations, based on constructivist scholarship, in the shifts of state treatment of foreign investment historically. This perspective allows a shift in gaze from the apparent novelty of new left governments to comprehending longer-term linkages, ruptures and continuities.

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List of Abbreviations

AD	Acción Democrática
BITs	Bilateral Investment Treaties
BANDES	Banco de Desarrollo Económico y Social de Venezuela
CDB	China Development Bank
CEPE	Corporación Estatal Petrolera Ecuatoriana
CFP	Concentración de Fuerzas Populares
CNPC	China National Petroleum Corporation
COPEI	Comité de Organización Política Electoral Independiente
CONAIE	Confederación de Nacionalidades Indígenas del Ecuador
CVP	Corporación Venezolana de Petróleo
CTV	Confederación de Trabajadores de Venezuela
ECLAC	Economic Commission for Latin America and the Caribbean
FEDECAMARAS	Federación de Cámaras de Comercio (Venezuela)
FEIREP	Stabilization, Social and Productive Investment, and Reduction of Public Indebtedness Fund (Ecuador)
FEM	Fondo de Estabilización Macroeconómica (Venezuela)
FEP	Fund of Petroleum Stabilization (Ecuador)
FONDEN	Fondo de Desarrollo Nacional (Venezuela)
ICSID	International Centre for Settlement of Investment Disputes
ID	Izquierda Democrática (Ecuador)
IMF	International Monetary Fund
IOCs	International Oil Companies
IOs	International Organizations
IPE	International Political Economy
IR	International Relations
MAS	Movimiento Al Socialismo (Venezuela)
MEP	Movimiento Electoral del Pueblo (Venezuela)
MIR	Movimiento de Izquierda Revolucionaria (Venezuela)
NIEO	New International Economic Order
NOC	National Oil Company
OBM	Obsolescing Bargaining Model
OCP	Oleducto de Crudos Pesados
OLADE	Organización Latinoamericana de Energía
OPEC	Organization of Petroleum Exporting Countries
OSA	Operating service agreements
PCV	Partido Comunista de Venezuela

PDVSA	Petróleos de Venezuela
PND	Partido Nacional Democrático (Venezuela)
PSC	Partido Social Cristiano (Ecuador)
SENPLADES	Secretaría Nacional de Planificación y Desarrollo
SINOPEC	China Petroleum and Chemical Corporation
SOE	State-owned enterprise
SOTE	Sistema Oleducto Trans-Ecuatoriano
UPM	Unión Patriótica Militar (Venezuela)
URD	Unión Republicana Democrática (Venezuela)

Chapter 1
The political economy of state-foreign companies' relations from an historical perspective: The oil industry of Venezuela and Ecuador

1.1. Problem and research questions

Since the advent of the last phase of globalization, the liberalization of trade, finance, and the opening of borders to investments and capital have become central focuses of attention. The ideas, policy regimes and mechanisms that *attract* investments have sparked a wealth of scholarly work. In this globalized context, policies geared toward strengthening state control over the resource sector are often seen as deviant behavior. In particular, resource nationalism associated with revolutionary regimes has been understood as a result of institutional failures, and their advocates are portrayed as outliers in an otherwise cooperative international system. In a widely cited article, Ian Bremmer and Robert Johnston define revolutionary resource nationalism as associated with 'broader political and social upheaval, not merely directed at the natural-resource sector'.[1] This type of resource nationalism is characterized as having 'dangerous effects' on international resource companies with nationalizing actions that are 'top-down, arbitrary and accompanied by little if any compensation or recourse'.[2] But even more so, the re-emergence of resource nationalism has been associated with wider rogue state actions that can be summed up as part of the greatest evils in international relations: 'exporters such as Russia, Iran, Venezuela, and until recently, Iraq and Libya, actively defy global norms, invade neighboring countries, expropriate foreign investors, flout human rights, and finance terrorism and armed rebellions in foreign countries'.[3]

Venezuela and Ecuador have been cited prominently as examples of revolutionary resource nationalist states. They are, moreover, part of the wave of left wing governments that rose to power in South America in the first decade of the twenty-first century. Hugo Chávez in Venezuela was first elected in 1998 and remained in power until his death in 2013, when his vice-president Nicolás Maduro was elected to complete his term. In Ecuador, Rafael Correa was

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[1] Ian Bremmer and Robert Johnston, "The Rise and Fall of Resource Nationalism," *Survival* 51, no. 2 (May 1, 2009): 150, doi:10.1080/00396330902860884.
[2] Ibid.
[3] Michael L. Ross and Erik Voeten, "Oil and International Cooperation," *International Studies Quarterly* 60, no. 1 (March 1, 2016): 85, doi:10.1093/isq/sqv003.

first elected in 2007 and remains in power today. The 'revolutionary resource nationalist' label attributed to them responds to the fact that both of their governments produced changes in the legal framework that govern their states' relations with foreign companies in their oil sectors. These legal changes have been proclaimed as re-nationalizations, after years of liberalization and opening to foreign investment.

Several years after these governments had taken office, these nationalizing policies came into effect. In 2007, the Venezuelan government completed its 'full oil sovereignty campaign' by establishing new associations with foreign companies in the form of joint-ventures with the state holding shares of at least 60% of assets. Three years later, in 2010, the Ecuadorian government pursued a policy that forced a change to all oil production-sharing agreements to service contracts wherein the state pays foreign companies a flat service fee per barrel of oil extracted. These shifts in policy have been seen both in the academic and political spheres as representing a tougher stance against foreign companies and a reassertion of state control over the oil industry.

The political discourse in these countries referred to these changes as bringing an increased sense of sovereignty and ownership over oil. Carlos Pareja Yanuzzelli, former president of Petroecuador and former Minister of Hydrocarbons in Ecuador, said in an interview that after the change in contracts, 'the oil in Ecuador is 100% property of the state'.[4] Moreover, the discourse that accompanied these 're-nationalizations' also embodied notions of development and power. On the occasion of the takeover of ExxonMobil assets in the Orinoco river belt in May 2007, Venezuelan president Hugo Chávez said that 'Venezuelans now have full operational control over their oil, upon which the whole development and power of the nation will depend for years to come'.[5] Hugo Chávez stated during the same speech that Venezuela acquired operational control over its oil in the Orinoco river belt 'for the first time', contrasting the time of *apertura* or 'oil opening' (1990s) with his full oil sovereignty campaign. Similarly, in Ecuador, the era of

[4] Interview with author, Quito May 2015.

[5] Hugo Chávez, *Pensamiento Petrolero Del Comandante Chávez* (Caracas: Ministerio del Poder Popular para Petróleo y Minería/ PDVSA, 2013), 164.

the 1990s is referred to 'as entreguismo – or the selling out of the country's interests', in contrast to a more nationalist period in the 2000s heralded by Correa.[6]

The main academic focus on the rise of the 'new left' has been concerned with explaining their emergence and characterizing their political models. For quite some time, the debate surrounding the left-wing governments in South America focused on a reductionist typology that distinguished countries between a generally market-friendly left and an authoritarian and non-cooperative 'radical' left.[7] Among the main political economy characteristics of the 'radical left' is its pursuit of apparently audacious and deviant policies of natural resource governance. The most prolific works on the political economy of the new left have been narrowly focused on their increased reliance on resource extraction and primary commodity export, a phenomenon recently labeled as 'neo-extractivism'.[8] While some critical scholars have paid attention to their reliance on foreign capital to expand resource extraction, studies on the terms of their association with foreign investment have been scant.

Even more so, overall assessments of these countries' *historical* treatment of International Oil Companies (IOCs) and other foreign investors are notably absent.[9] Ignoring the historical trajectories of these countries tends to overstate the innovative and even radical nature of the current left-leaning governments, particularly when compared to the neoliberal period in the

[6] Emily Billo, "Sovereignty and Subterranean Resources: An Institutional Ethnography of Repsol's Corporate Social Responsibility Programs in Ecuador," *Geoforum* 59 (2015): 268.
[7] Jorge Castañeda, "Latin America's Left Turn," *Foreign Affairs* 85, no. 3 (2006): 28.
[8] Hans-Jürgen Burchardt and Kristina Dietz, "(Neo-) Extractivism–a New Challenge for Development Theory from Latin America," *Third World Quarterly* 35, no. 3 (2014): 468–86; Eduardo Gudynas, "Diez Tesis Urgentes Sobre El Nuevo Extractivismo," in *Extractivismo, Política Y Sociedad*, ed. CLAES (Quito: CAAP/CLAES, 2009); Eduardo Gudynas, "Natural Resource Nationalisms and the Compensatory State in Progressive South America," in *The Political Economy of Natural Resources and Development: From Neoliberalism to Resource Nationalism*, ed. Paul Haslam and Pablo Heidrich (New York, NY: Routledge, 2016); Henry Veltmeyer, "The Political Economy of Natural Resource Extraction: A New Model or Extractive Imperialism?," *Canadian Journal of Development Studies/Revue Canadienne D'études Du Développement* 34, no. 1 (2013): 79–95.
[9] Well-known texts on Venezuela's oil and state date back to the 1990s, see: Fernando Coronil, *The Magical State: Nature, Money, and Modernity in Venezuela* (University of Chicago Press, 1997); Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States*, vol. 26 (Univ of California Press, 1997). Previous works on Latin American countries include: George Philip, *Oil and Politics in Latin America: Nationalist Movements and State Companies* (Cambridge University Press, 1982). For a history of Ecuador's oil industry see: John D. Martz, *Politics and Petroleum in Ecuador* (New Brunswick, New Jersey: Transaction, Inc., 1987).

region during the 1980s and 1990s, as the political discourse of these governments likes to emphasize.[10]

This dissertation attempts to fill this glaring gap by underscoring the historical evolution of state treatment of foreign investment. This thesis seeks to answer the following research questions: (1) "*How have the Venezuelan and Ecuadorean governments' treatment of foreign investment in their oil sectors changed since the 1970s?"* and (2) *"What explains the approaches they have taken?*" The main objective is to show the historical evolution of state treatment of foreign investment in Venezuela and Ecuador, paying particular attention to resource nationalist policies, which in both cases fulfilled important political objectives in the 1970s, faced important challenges in the 1980s and 1990s, and re-emerged during the 2000s.

1.2. Main arguments and contributions

1.2.1. Empirical contributions: three forms of engagement with foreign investment

This dissertation provides important empirical and analytical contributions. In empirical terms, as an answer to the first research question, this thesis will explain the development of three distinctive forms of engagements between the Venezuelan and Ecuadorian state and foreign investment from the 1970s until 2014. This is accomplished through a detailed historical analysis and in-depth case study. Table 1.1 below synthesizes the evolution of the states' treatment of foreign investment in Venezuela and Ecuador in three time periods. State treatment of foreign investment ranged from stringent in the 1970s, to open in the decades of the 1980s and 1990s, to hybrid treatment in the 2000s. This study concludes with the collapse of oil prices in 2014, but nevertheless makes some references to the evolution of the oil industry in both cases until today.

[10] Chávez, *Pensamiento Petrolero Del Comandante Chávez*.

Table 1.1: The evolution of the treatment of foreign investment in the oil sector in Venezuela and Ecuador: from stringent to hybrid

Country case/ Period of study	State relations with IOCs 1970s	State relations with IOCs 1990s	State relations with IOCs 2000s
Venezuela	**Stringent** Full nationalization with state monopoly. Association with IOCs only permitted through contracts for technical assistance.	**Open** Open to FDI with joint-ventures and association contracts with low taxes and lax regulations. Ownership structure of ventures was flexible, allowing for IOCs to hold majority ownership. International courts were set as venues to settle disputes.	**Hybrid** Forced migration to joint-ventures with majority state ownership. State restored the power of domestic courts to rule in cases of dispute. State assured control over PDVSA.
Ecuador	**Stringent** Association contracts with IOCs. High state appropriation of profits and majority ownership of main extracting consortium.	**Open** Open to FDI through production sharing agreements with low taxes and lax regulation.	**Hybrid** Forced migration from production sharing-agreements to service contacts with flat service fee. Joint-ventures allowed for SOEs, with majority state ownership.

Government treatment of foreign investment in the oil sector in the 1970s is characterized as *stringent* with the culmination of nationalist strides both in Venezuela and Ecuador (see chapters 3 and 6). Stringency in this context is understood as the desire of state officials to take over investment assets and achieve full nationalization of oil installations together with a high intake of the industry's profits. These nationalist strides meant the full nationalization of the oil industry in Venezuela with state appropriation of industry profits well above 80%. In Ecuador, the 1970s witnessed important thresholds of control over the oil industry with 51% state ownership in the country's main operating consortium, CEPE-Texaco, and 80% of appropriation of profits over the industry. None of these countries completely sealed off relations with foreign companies, as they remained linked through technical contracts in Venezuela and association contracts in Ecuador, but the state gained significant control and appropriated high portions of the industry's profits.

In the 1980s and 1990s, a new era of *open* treatment emerged (discussed in detail in chapters 4 and 7). In Venezuela, the state voluntarily decreased its appropriation of rents from its National Oil Company (NOC), Petróleos de Venezuela (PDVSA), and the company initiated a process of internationalization and opening geared toward increasing its administrative and political autonomy. The oil opening in Venezuela culminated in the 1990s with the signing of association contracts, risk contracts and the creation of joint-ventures. All of these forms of association welcomed investors under flexible conditions, meager tax burdens, and a legal framework that ensured investors' confidence by establishing international courts as venues to settle disputes. In Ecuador, the 1980s was characterized by high foreign debt burdens and the need to increase production to service this debt. Risk service contracts were signed to welcome new investors in the Amazon region wherein investments were reimbursed once commercially viable discoveries were made. Later, in the 1990s, service contracts were replaced with production sharing agreements that allowed companies to appropriate about 80% of production and obtain significant windfall profits.

With the rise of the Bolivarian revolution in Venezuela and the Citizen's Revolution in Ecuador led by Chávez and Correa respectively, a new treatment model was established (see chapters 5 and 8). Unlike the 1970s, when full nationalization was achieved in Venezuela and state majority ownership was gained in Ecuador, the terms of state treatment of foreign investors are considered *hybrid* under these new left regimes. The hybridity of this model is characterized by state officials' desire to increase control over investments, especially in terms of higher rent appropriation, without necessarily hoping to nationalize all or most of the industry's assets. Foreign investors remained in both countries despite changes in the extraction terms and new investments were pursued, especially coming from China and other emerging powers.

The new arrangements approved under *chavismo* in Venezuela gave foreign companies the right to own assets as minority partners in joint-ventures, something that was not possible under the nationalization law of 1975. At the same time, the government substantially increased corporate tax and royalty levels from the previous liberal framework. The state also restored the power of domestic courts to rule in cases of legal disputes with IOCs, something that the oil opening had eroded. Most importantly, it brought PDVSA back to state control. To a large degree, this state control is currently exercised through alliance with foreign investors. PDVSA is now in charge of channeling funds for government spending, leaving foreign partners as key sources of capital and as partners that can help the government control PDVSA.

In the case of Ecuador, the government forced a change in contracts with foreign companies as a means of redressing the liberal policies of ‘give away’ embodied in production-sharing agreements signed in the 1990s. With new service contracts, the state promotes the idea that it has restored sovereignty over the resource. Only joint-ventures were allowed for foreign SOEs with majority shares for the Ecuadorian government. During times of high prices between 2010 and 2014, the state also procured increasing revenues that helped it to leverage innovative development policies. As a dollarized economy with limited access to foreign capital due to its 2009 default, Ecuador’s state-led developmentalism has become reliant on foreign investment in extractive sectors.

1.2.2. Analytical contributions: bridging bargaining conditions with dominant and contested ideas

In relation to the 1990s, which has been the main political and academic focus of comparison so far, contemporary resource nationalists have exerted tighter control over foreign companies. By shifting the lens to a longer historical perspective, this dissertation argues that contemporary left-wing governments in Venezuela and Ecuador have been more open to foreign investment than has been conventionally understood, and more than their counterparts were during the 1970s. Their relative openness to foreign investment with state control is testament to their desire to use foreign capital to benefit their political agendas and developmental models, as well as to changes in the bargaining conditions of the oil industry. Beyond the importance of describing and characterizing these general trends, this thesis proposes a framework to explain the changes across the three periods, while addressing the second research question.

One reason for the nationalization trends in the 1970s can be found in factors included in obsolescing bargaining models (OBM). The obsolescence of the concessionary agreements from the earlier part of the century occurred as states gained more confidence and increased their ability to regulate the industry, especially in Venezuela. Changes in the oil price were also important. A second set of factors explaining nationalization had to do with ideas, as emerging norms regarding national sovereignty over natural resources became dominant throughout the Third World. In this period, internal ideational contestations in Venezuela and Ecuador demonstrated the emergence of diverse coalitions around different kinds of resource nationalist policies. Both Venezuela and Ecuador maintained some linkages with foreign investments in this period but exercised more stringent control over the industry through rents appropriation and, in the case of Venezuela, by attaining full state ownership of the industry.

The terms of the bargain changed considerably in the 1980s as a result of the decline in the oil price. In ideational terms, the emergence of neoliberalism as a dominant ideology together with the burden of foreign debt played an important role, especially in Ecuador. In this period, Ecuador pursued an open door policy that was geared toward servicing foreign debt through increased oil production. Though dominant, neoliberalism was not completely hegemonic in Venezuela and different actors within Congress and other institutional spaces contested and resisted liberal reforms. Moreover, the government tried, unsuccessfully, to keep PDVSA under control. The main ideational divide during this period in Venezuela emerged from contested views between PDVSA's managerial elite, who emphasized the company's interests as an oil producer, and state officials, who saw as their role defending prices and maximizing rents. The company's managerial elite managed to pursue policies of internationalization and opening largely based on, and as a way to expand, PDVSA's autonomy from the state.

In the 2000s, the Venezuelan and Ecuadorian governments then shifted to pursue a treatment of foreign investors that I have labeled as 'hybrid' (chapters 5 and 8). The hybrid model responded partly to an increase in oil prices and the motivation to appropriate investors' sunk costs. But in contemporary revolutionary resource nationalist Venezuela and Ecuador, foreign investment has also been used to serve the broader political and economic goals of the state. In the Venezuelan case, the government's goals focused on asserting control over PDVSA and the advancement of a socialist political economic model after growing ideational divergence between PDVSA and the state led to a direct confrontation between the two. In Ecuador, these goals have been focused on the enhancement of a neo-developmentalist agenda.

In summary, the broad changes that occurred in the three periods responded to factors that I conceptualize as the conditions of the bargain and the role of dominant ideas, underpinned by internal ideological contestations. Table 1.2 summarizes the main factors contained in this explanatory framework, which is based on a diversity of theoretical approaches. From OBM literature, this framework draws on the following factors as explanatory variables: industry maturity, state technical capacity, oil price conditions, industry concentration, and type and quantity of states' underground endowments (Table 1.2). These objective variables help to explain specific moments when states faced greater incentives to increase control over foreign investment or, on the contrary, had incentives to loosen those controls.

While drawing on OBM literature, I also modify it in some ways. OBM literature assumes that states and IOCs are unitary actors seeking to maximize their benefits (i.e., subsoil rents, see Table 1.2). I show, however, that companies are increasingly varied in their nature, and some, especially foreign state-owned enterprises (SOEs), may act in ways that the traditional private corporations would not. While industry concentration is recognized in OBM scholarship, this condition is usually considered at the national level and changes in the outlook of global energy market actors tend to be ignored. Because the rise of SOEs at the global level brings into question some of the common attitudes of IOCs toward host states, I include this variable as part of the bargaining conditions, especially in the current era.

Building on political science literature, I analyze how the two countries' internal ideational contestations affect the ways in which bargaining conditions play out in different junctures, and can lead to different outcomes even from the same objective conditions. Indeed, state treatment of foreign companies can be shaped by ideational motivations that transcend the incentives of rational actors as described in OBM literature (Table 1.2).[11] Dominant ideas can originate at the

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[11] The role of ideas in the OBM has not been completely absent, especially in the earlier iterations of this theory. Notions of development and state capacity have been embedded into some of the motivations of state action for the bargaining literature. See: Barbara Jenkins, "Reexamining the 'Obsolescing Bargain': A Study of Canada's National Energy Program," *International Organization* 40, no. 1 (1986): 139–65; Raymond F. Mikesell, *Foreign Investment in the Petroleum and Mineral Industries: Case Studies of Investor-Host Country Relations* (Baltimore: Johns Hopkins University Press, 1971); Gary Gereffi and Peter Evans, "Transnational Corporations, Dependent Development, and State Policy in the Semiperiphery: A Comparison of Brazil and Mexico," *Latin American*

national or global levels and may be embraced or challenged by the aforementioned contending actors. This ideational component of the framework draws on constructivist and political ecology perspectives to include ideas as crucial factors helping us to understand the specific meanings and purposes of bargaining shifts.

Table 1.2 Explanatory framework in state treatment of foreign companies: bargaining conditions, and dominant and contested ideas

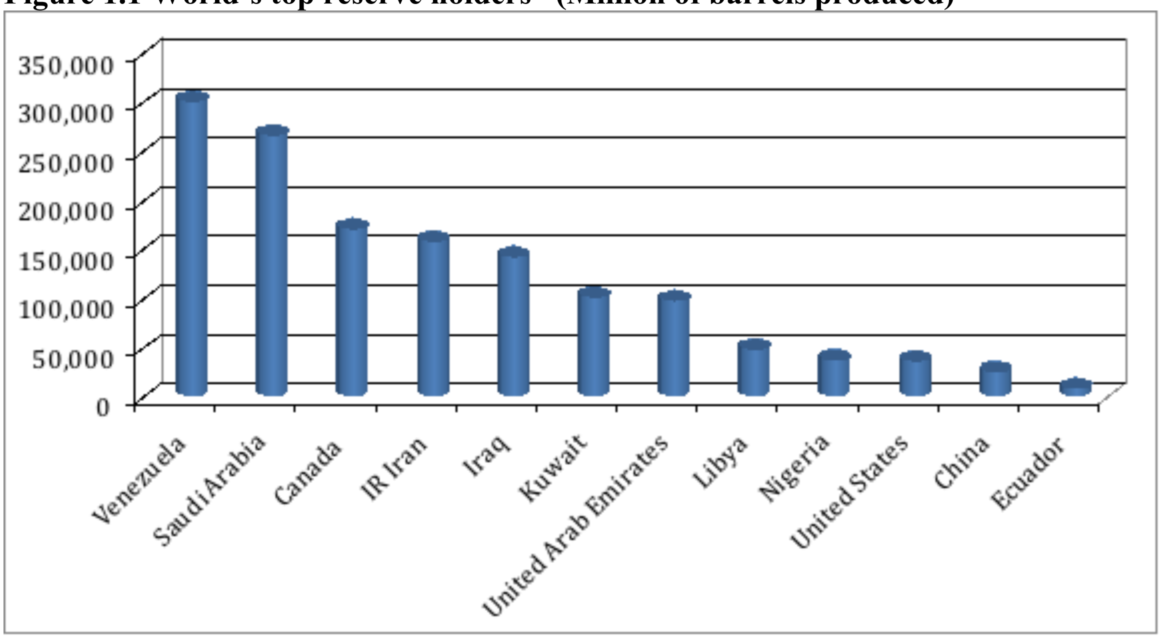
	1970s **State stringent treatment of foreign investment**	**1980s-1990s** **Open treatment of foreign investment**	**2000s** **Hybrid state treatment of foreign companies**
Conditions of the bargain	• Sunk investments • Increased state technical capacity • High oil prices • Concentrated industry	• Need for new investments • Low oil prices • Exploitation of unconventional crudes, technology mostly available from IOCs	• Sunk investments • High oil prices • Less concentrated industry • Exploitation of unconventional crudes • Attractiveness of host state's reserves • Rise of state-owned IOCs (SOEs)
Role of dominant and contested ideas	• Division among nationalists • State-led development, ISI policies • International norms favor state control over natural resources	• State-PDVSA struggles for control (Venezuela) • Parties' disagreements about neoliberal reforms (Venezuela) • Social movements' resistance to neoliberalism (Ecuador) • The rise of neoliberalism • International norms and institutions favor open investments	• Government-PDVSA battle for control (Venezuela) • Environmentalists' activism against oil extraction (Ecuador) • Neo-developmentalist agenda in Ecuador • Rentier socialism in Venezuela • Rise of China and SOEs favor state-market nexus

Despite the similarities in the general trends of state treatment of foreign investment, this research also shows important differences in these changes across the two country cases. While some ideological characteristics of governments in the third phase are similar (i.e., expressing a critical view of neoliberalism and anti-imperialist rhetoric), they differ greatly in other respects, including their resource endowments, history of the oil industry and institutional capacity, and the nature of social activism. As will be discussed, these differences explain important aspects of

Research Review 16, no. 3 (1981): 31–64; Theodore H. Moran, *Multinational Corporations and the Politics of Dependence: Copper in Chile* (Princeton, N.J, Princeton, N.J.: Princeton University Press, 1974).

the outcomes of the current study. Venezuela ranks first in world-proven oil reserves—ahead of Saudi Arabia and Canada—with 297,735 million barrels of oil. Most of these are heavy and extra heavy crude deposits. Ecuador's reserves rank 19th in the world with over 8,000 million barrels (see Figure 1.1 below). The quantity of Venezuela's reserves makes its attractiveness for foreign investment different than that of Ecuador, and suggests a stark contrast in these states' bargaining capacity vis-á-vis companies. Furthermore, Venezuela's long history of having a concessionary system allowed the development of institutional and regulatory capacities of a rentier state that was reliant on oil rents for over 50 years before it nationalized the industry (see chapter 3). In Ecuador, knowledge and technical capacity to control the industry has been partial and dependent on foreign investors (see chapters 6 and 7).

Figure 1.1 World's top reserve holders* (Million of barrels produced)



Source: data from OPEC's Annual Statistical Bulletin (2016). Canadian data from Canada's Association of Petroleum Producers
*Also includes China, United States and Ecuador

Another significant difference between the two country cases is the role of resource extraction in the compound of domestic social forces and activism. In Venezuela, oil extraction is taken for granted and has been associated with national identity and the country's political system since the early twentieth century.[12] Much social activism in Venezuela centers on disputes around 'socialism' and alternatives to it as understood by the government elite, in opposition to liberal/representative democracy. As has been previously mentioned and will be explained in more detail, a major internal dispute in Venezuela occurred at the center of oil policy, between the government and the managerial elite of PDVSA (see chapters 4 and 5). These contestations related to notions of autonomy and control that reflect different subjective cultures: the culture of a globally-oriented oil producing company (PDVSA) and that of a landlord state.

The purpose of resource extraction and use of rents in both cases differs greatly as Venezuela pursues a model of rentier socialism and Ecuador enhances a neo-developmentalist agenda. In Ecuador, beyond the socialism/democracy debate, resistance to resource extraction is also at the front and center of social activism. Environmental and social impacts of extraction have generated an alliance between Indigenous activists and urban environmentalists for at least two decades. These sectors, despite being relatively minor players in Ecuadorian society, championed the ideals of *'buen vivir'* (roughly translated as 'living well') and sought to drastically decrease extraction and pursue a more balanced relationship between state, society, and nature. The inclusion of important environmental provisions in Ecuador's new constitution, including the rights of nature, has been an important achievement of these environmentalist and Indigenous leaders. Even though '*buen vivir'* ideals have been largely undermined by a developmentalist project heralded by the state[13], these environmentalist principles add complexity to the relationship between state and extractive companies in ways that are not present in Venezuela (see chapter 8).

1.2.3. Inserting arguments and contributions within international politics and global governance literatures

This work provides important analytical contributions to a variety of literatures in international politics and global governance (see chapter 2). Broadly speaking, this work is circumscribed

[12] Coronil, *The Magical State*; Miguel Tinker Salas, "The Enduring Legacy: Oil," *Culture, and Society in Venezuela (Durham: Duke University Press, 2009)*, 2009, 1900–1938.

[13] Lorenzo Pellegrini et al., "The Demise of a New Conservation and Development Policy? Exploring the Tensions of the Yasuní ITT Initiative," *The Extractive Industries and Society* 1, no. 2 (November 2014): 284–91, doi:10.1016/j.exis.2014.05.001; Gonzalo Escribano, "Ecuador's Energy Policy Mix: Development versus Conservation and Nationalism with Chinese Loans," *Energy Policy* 57 (2013): 152–59, doi:http://dx.doi.org/10.1016/j.enpol.2013.01.022.

within the realm of International Political Economy (IPE) and specifically IPE studies, which embrace interpretative frameworks and theoretical eclecticism, while also committing to rigorous empirical analysis.[14] This thesis engages with two main bodies of literature that provide important inroads to the current analysis: OBM literature and constructivist approaches to political economy.

A wealth of scholarship has been devoted to analyzing the effects of resource extraction on the social, economic, environmental, and political realms of developing countries. In these works, however, little attention is paid to the *processes* through which extraction takes place *in relation* with foreign companies. This research takes on the task to uncover the mediation process that occurs between states and companies *prior* to rent distribution. In this context, this dissertation highlights the strategic view of states in their treatment of foreign investment, emphasizing states' agency, by combining insights from the politics of bargaining with the role of ideas deployed through internal ideological contestations. Moreover, it engages with state treatment of foreign investment from an historical perspective. This perspective allows a shift in gaze from the apparent novelty of new left governments to comprehending longer-term linkages, ruptures and continuities.

I build on the OBM literature that emerged with the 1970s' wave of resource nationalism. This literature explains the behavior of two sets of actors—host states and foreign companies—whose interests are not always completely incompatible.[15] The bargain is thus described as positive sum, wherein actors can arrive at certain points of equilibrium and both may procure benefits.[16]

[14] For a succinct discussion of methodological divides in IPE debates, and the role of empiricism and theory, see: Eric Helleiner, "Division and Dialogue in Anglo-American IPE: A Reluctant Canadian View," *New Political Economy* 14, no. 3 (2009): 377–83, doi:10.1080/13563460903087524.

[15] Raymond Vernon, *Storm over the Multinationals: The Real Issues* (Harvard University Press, 1977); Mikesell, *Foreign Investment in the Petroleum and Mineral Industries*; Stephen J. Kobrin, "Testing the Bargaining Hypothesis in the Manufacturing Sector in Developing Countries," *International Organization* 41, no. 4 (1987): 609–38, doi:10.1017/S0020818300027624.

[16] Vlado Vivoda, "Resource Nationalism, Bargaining and International Oil Companies: Challenges and Change in the New Millennium," *New Political Economy* 14, no. 4 (December 1, 2009): 517–34, doi:10.1080/13563460903287322; Vlado Vivoda, *The Return of the Obsolescing Bargain and the Decline of Big Oil: A Study of Bargaining in the Contemporary Oil Industry* (VDM Verlag Dr. Müller, 2008), http://espace.library.uq.edu.au/view/UQ:330900; Vlado Vivoda, "Rise of State-Firm Bargaining in the 2000s," in *The Political Economy of Natural Resources and Development: From Neoliberalism to Resource Nationalism* (New York, NY: Routledge, 2016), 53–69; Janis Nikolaus Kluge, "Foreign Direct Investment, Political Risk and the Limited Access Order," *New Political Economy*, July 2016, 1–19, doi:10.1080/13563467.2016.1201802.

Initially, the conditions of the bargain benefit the transnational corporation, which tends to be endowed with capital and resources that the host state lacks. Changes in the underlying conditions of the bargain produce incentives for actors to change the terms of the arrangement. The basic argument that stems from the model is that once initial investments have been committed, states gain confidence over time and seek changes in the terms of association to increase states' appropriation of rents. As investments have been previously committed, companies can find themselves 'trapped' by host states, and the initial advantage becomes obsolete. Recent scholarship has assessed the validity of Raymond Vernon's traditional OBM in the current wave of resource nationalism.[17] New arguments have been added to analyze the progressive decay of the initial advantage held by IOCs. For example, a more concentrated industry tends to increase the relative power of companies while a less concentrated industry benefits host states. An exogenous factor is also decisive: the international price of oil. Higher prices benefit host states while lower prices benefit companies. Similarly, the quality and accessibility of the resource can increase burdens for host states which may lack technical capacity to extract heavy crude or access deep water off-shore deposits. [18]

In this line of thought, while the bargaining literature considers industry concentration as an important bargaining variable, it does so mainly by focusing on the domestic industry conditions. In general, OBM literature focuses on IOCs interaction with states. I argue that foreign investors should not be considered as homogenous actors. In the present day, the emergence of new powers that hope to appropriate foreign resource markets are prompting novel corporate behaviours, problematizing OBM assumptions about the simple two-actor model. SOEs—which act at home as NOCs but behave as IOC investors abroad with the backing of their home state—can offer advantages to producing countries that traditional private IOCs cannot.[19] In both the cases of Venezuela and Ecuador, Chinese SOEs have figured prominently as a new source of investments in the 2000s. Moreover, China's lending institutions have generally been significantly active in providing other development and financial cooperation to both of these

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[17] For Vernon's original model, see Raymond Vernon, *Storm over the Multinationals: The Real Issues* (Harvard University Press, 1977).

[18] Vlado Vivoda, *The Return of the Obsolescing Bargain and the Decline of Big Oil: A Study of Bargaining in the Contemporary Oil Industry* (VDM Verlag Dr. Müller, 2008), http://espace.library.uq.edu.au/view/UQ:330900.

[19] Vivoda, *The Return of the Obsolescing Bargain and the Decline of Big Oil*.

countries. China's emergence in the world economy and its thirst for oil can help to explain its firms' more benevolent behavior toward host states, which may use this foreign alliance to improve their bargaining position with respect to other companies. Furthermore, the type of expansion experienced with China reveals, in light of recent IPE works concerned with state-market nexus, a statist form of intervention that is simultaneously market and state oriented.[20] In the cases of Venezuela and Ecuador, China has not only become a critical source of investment in their oil sectors, but also turned into a lender of last resort and a fundamental stabilizer. Foreign investors' diversity, demonstrated in the rise of SOEs, encouraged states to conceive of a form of engagement with investors that is portrayed as a 'strategic alliance'.

Despite attempts to update the model and include new actors outside of the state-IOC dyad locally and transnationally, the bargaining literature, especially in its most recent iterations assumes that states are unitary actors pursuing material interests.[21] In this research, I argue that state behavior can also be explained by changes and encounters between domestic factions who advance ideas that become dominant at different times. These ideas can emerge from the national or global level and oftentimes are influenced by other state and non-state actors across borders. In the process of reconstructing the history of state treatment of foreign investment, it is crucial to examine the emergence and pursuit of local and global norms by different social groups in order to make sense of various moments of conflict and cooperation. My current work draws from constructivist scholarship that has stressed the importance of ideas in explaining the outcomes of economic policy.[22] The theoretical approach in this thesis focuses on two main pathways through which ideas affect outcomes: ideas as 'meaning' and ideas as 'subjectivity'. The meaning of national identity tied to subsoil sovereignty and the meaning of development are

[20] Bastiaan van Apeldoorn, Naná de Graaff, and Henk Overbeek, "The Reconfiguration of the Global State–Capital Nexus," *Globalizations* 9, no. 4 (August 2012): 471–86, doi:10.1080/14747731.2012.699915.

[21] David Levy and Aseem Prakash, "Bargains Old and New: Multinational Corporations in Global Governance," *Business and Politics* 5, no. 2 (2003).

[22] Javier Corrales and Michael Penfold, *Dragon in the Tropics: Hugo Chavez and the Political Economy of Revolution in Venezuela* (Brookings Institution Press, 2011); Diego Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela* (Caracas: Alfa, 2013); Carlos De la Torre, "Technocratic Populism in Ecuador," *Journal of Democracy* 24, no. 3 (2013): 33–46; Tom Perreault and Gabriela Valdivia, "Hydrocarbons, Popular Protest and National Imaginaries: Ecuador and Bolivia in Comparative Context," *Geoforum* 41, no. 5 (2010): 689–99; Benjamin Kohl and Linda Farthing, "Material Constraints to Popular Imaginaries: The Extractive Economy and Resource Nationalism in Bolivia," *Political Geography* 31, no. 4 (2012): 225–35; Anthony Bebbington and Jeffrey Bury, *Subterranean Struggles: New Dynamics of Mining, Oil, and Gas in Latin America* (University of Texas Press, 2013).

particularly crucial. At the same time, subjective beliefs associated with different social actors are relevant in this account. For instance, struggles over control and autonomy between the state and PDVSA in Venezuela were largely rooted in different interpretations of what an autonomous oil producer ought to do and what the role of the landlord state is in the context of national development. In Ecuador, internal ideological disputes took the form of social and environmentalist activism. Social movements and indigenous leadership led strong campaigns that encouraged a temporary moratorium on oil extraction in the national park Yasuní and led actions against IOCs through national and international activism. While dominant ideas are important in affecting state behavior, ideas are also contested by different social actors and may carry different weight at specific times.

In addition to contributing to OBM literature as well as scholarship on the role of ideas, the analytical framework proposed in this thesis also speaks to ongoing broader debates in international politics and global governance about the role of the state. Significant analytical innovations have brought to light the diffusion of state power to other actors,[23] networks,[24] institutions[25] and mechanisms.[26] Nevertheless, many agree that the state remains an important site of contestation.[27] The early discussions that placed a focus on the battle of states versus markets have clearly evolved to a point where states and markets are not antithetical. If anything, these sites of authority face important frictions but can also complement, incorporate, and overlap one another. While diffusion of power has been eloquently seen as a 'form of governing'[28], a state-

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[23] Susan Strange, *States and Markets* (London: Pinter, 1988); Stefano Guzzini and Iver B. Neumann, *The Diffusion of Power in Global Governance: International Political Economy Meets Foucault*, Palgrave Studies in International Relations (Houndmills, Basingstoke, Hampshire ; New York: Palgrave Macmillan, 2012); Margaret E. Keck, *Activists beyond Borders: Advocacy Networks in International Politics* (Ithaca, NY; London: Cornell University Press, 1998).

[24] Anne-Marie Slaughter, *A New World Order / Anne-Marie Slaughter.* (Princeton, NJ; Oxford: Princeton University Press, 2004), http://books.scholarsportal.info/viewdoc.html?id=/ebooks/ebooks2/pda/2011-12-01/1/13826.9781400825998.

[25] Michael N. Barnett, *Rules for the World International Organizations in Global Politics* (Ithaca, NY: Cornell University Press, 2004); Michael N. Barnett and Martha Finnemore, "The Politics, Power, and Pathologies of International Organizations," *International Organization* 53, no. 4 (1999): 699–732.

[26] Guzzini and Neumann, *The Diffusion of Power in Global Governance*.

[27] Robert W. Cox, *Approaches to World Order*, Cambridge Studies in International Relations ; 40 (Cambridge: Cambridge University Press, 1996); Philip G. Cerny, *Rethinking World Politics a Theory of Transnational Neopluralism*, Oxford Scholarship Online (New York ; Oxford: Oxford University Press, 2010), http://dx.doi.org/10.1093/acprof:oso/9780199733699.001.0001.

[28] Guzzini and Neumann, *The Diffusion of Power in Global Governance*.

market nexus has been recently illuminated in studies of the global economy, as the state has become increasingly active in global markets and market forces require domestic state action to operate.[29] In broad terms, my analytical perspective contributes to these debates by pointing out that the state remains an important locus of power, without negating market and global forces. This is particularly true today with the rise of new powers in global markets, which are strongly influenced by and connected to their home states.

Importantly, the present work also contributes to broader debates about Latin America and the region's connection to the global economy through its position of primary commodity producer. As previously mentioned, this work draws on recent discussions of extractivism. It is important to recognize, however, that these debates about Latin America's position in the global economy have a long tradition in the region's social thought. Many theoretical contributions sought to de-center our understanding of the global economy, from the metropolis to the 'periphery' of the system, highlighting the political economy interdependence between center and periphery. This work explores such peripheral states, and particularly some which claim national ownership over subsoil resources. These states simultaneously engage with global forces and international markets for their resources. This research contributes to a long lineage of social thought from the essayists of the early twentieth century[30] to the structuralist school,[31] dependency scholars,[32] and post-colonial intellectuals[33] that have contributed to the critical placement of Latin America in the wider context of the modern capitalist system. In recent years, attempts to bring to light Latin American and other non-western contributions to our understanding of norm creation in global

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29 Bastiaan van Apeldoorn, Naná de Graaff, and Henk Overbeek, "The Reconfiguration of the Global State–Capital Nexus," *Globalizations* 9, no. 4 (August 2012): 471–86, doi:10.1080/14747731.2012.699915.

30 Victor Raúl Haya De La Torre, "El Antimperialismo Y El APRA," *Santiago: Ercilla*, 1936; José Carlos Mariátegui, *7 Ensayos de Interpretación de La Realidad Peruana*, vol. 4 (Fundacion Biblioteca Ayacucho, 1979).

31 Raúl Prebisch, "The Economic Development of Latin America and Its Principal Problems," *Comisión Económica Para América Latina Y El Caribe*, 1950, http://archivo.cepal.org/pdfs/cdPrebisch/002.pdf.

32 Fernando Henrique Cardoso and Enzo Faletto, *Dependencia Y Desarrollo En América Latina: Ensayo de Interpretación Sociológica* (Siglo xxi, 1996); Ruy Mauro Marini, "Dialéctica de La Dependencia" (Era, 1977), http://lahaine.org/amauta/b2-img/mauro_dia.pdf.

33 Edgardo Lander, *La Colonialidad Del Saber: Eurocentrismo Y Ciencias Sociales: Perspectivas Latinoamericanas* (Consejo Latinoamericano de Ciencias Sociales, 1993); Arturo Escobar, *Encountering Development: The Making and Unmaking of the Third World*, Princeton Studies in Culture/power/history (Princeton, NJ: Princeton University Press, 1995), http://hdl.handle.net/2027/heb.31025; Arturo Escobar, "Latin America at a Crossroads: Alternative Modernizations, Post-Liberalism, or Post-Development?," *Cultural Studies* 24, no. 1 (2010): 1–65.

governance[34] and the configuration of IPE[35] have also been a matter of debate. In essence, Latin American states are also globalized states; they are part and parcel of global economic processes and have been so for a long time.

The following section of this chapter briefly conceptualizes resource nationalism in the current era of globalization and places Venezuela and Ecuador's policies in a wider regional and historical context. The objective of this section is to provide a conceptual understanding of resource nationalism within this work.

1.3. Conceptualizing resource nationalism in the era of globalization

Resource nationalism can take many forms, different policies, ideas and discourses. In a narrow sense, Stevens argues that resource nationalism 'is assumed to have two components—limiting the operations of private IOCs and asserting a greater national control over natural resource development'.[36] In a broader sense, Click and Weiner include the purposes of such actions and define resource nationalism as: 'state control or dominance of natural resources, and the resulting potential to use this power for political and economic purposes, including relationships with foreign investors'. They go on to argue that 'at the heart of resource nationalism is a government's intervention in its country's natural resource industries to protect or enhance its national patrimony and sovereignty'.[37] Drawing on the recent work of Haslam and Heidrich, three basic 'categories of action' surrounding resource nationalism emerge as recurrent themes despite broader ideological commitments of different states. These actions focus on: 1)

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[34] Amitav Acharya, "Who Are the Norm Makers? The Asian-African Conference in Bandung and the Evolution of Norms," *Global Governance: A Review of Multilateralism and International Organizations* 20, no. 3 (July 1, 2014): 405–17, doi:10.5555/1075-2846-20.3.405; Amitav Acharya, "'Idea-Shift': How Ideas from the Rest Are Reshaping Global Order," *Third World Quarterly* 37, no. 7 (July 2, 2016): 1156–70, doi:10.1080/01436597.2016.1154433; Kathryn Sikkink, "Latin American Countries as Norm Protagonists of the Idea of International Human Rights," *Global Governance: A Review of Multilateralism and International Organizations* 20, no. 3 (July 1, 2014): 389–404, doi:10.5555/1075-2846-20.3.389.

[35] Eric Helleiner, *Forgotten Foundations of Bretton Woods: International Development and the Making of the Postwar Order* (Ithaca, New York: Cornell University Press, 2014); Eric Helleiner, "Globalising the Classical Foundations of IPE Thought," *Contexto Internacional* 37, no. 3 (2015): 975–1010; Diana Tussie and Pia Riggirozzi, "A Global Conversation: Rethinking IPE in Post-Hegemonic Scenarios *," *Contexto Internacional* 37, no. 3 (2015): 1041–68.

[36] Paul Stevens, "National Oil Companies and International Oil Companies in the Middle East: Under the Shadow of Government and the Resource Nationalism Cycle," *The Journal of World Energy Law & Business* 1, no. 1 (2008): 5.

[37] Reid W. Click and Robert J. Weiner, "Resource Nationalism Meets the Market: Political Risk and the Value of Petroleum Reserves," *Journal of International Business Studies* 41, no. 5 (June 2010): 783, doi:10.1057/jibs.2009.90.

maximization of public revenue; 2) assertion of strategic state control; and 3) enhancement of developmental spillovers from extractive activities.[38]

The maximization of revenues is generally done through royalty, corporate or windfall taxes, although royalties are the simplest and most common way for landowner states to take a piece of the rent pie. While state ownership over the resource is a given in many producing states, control over the industry is a more abstract term that is open for interpretation depending on the historical and social context.[39] The degree of control that a state can exercise in the resource industry varies according to the different policy mechanisms it can deploy. Policies can target the ownership of one specific firm, or the entire resource industry at any level, but it commonly occurs upstream in the industry and less so at the downstream level.[40] Ownership over a firm's assets or the entire industry can be mandated through expropriations or confiscation.[41]

Policies targeting ownership have been usually referred to as *nationalization*, at least in the Latin American context. Bolivia nationalized its oil in 1937 after the end of the devastating Chaco war. Mexico nationalized the industry under the government of Lázaro Cárdenas in 1938. Mexico's nationalization had an important symbolic impact for producing countries in the region as well as for IOCs. This move made the US government more cautious in challenging host countries' demands on companies, especially in the context of the Second World War (see chapter 3). As will be discussed, a process of nationalization led by Carlos Andrés Pérez was finalized in Venezuela in 1976 (see chapter 3). Part of the military in Ecuador attempted a full nationalization in the 1970s but managed to achieve it only partially (see chapter 5). In current times, policies targeting the ownership structure of the whole industry have been less salient, due to the increasing mix of private and public enterprises and innovative forms of state regulation. Arsel et al. stress that nationalization today 'cannot be understood simply as a state takeover of

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38 Haslam and Heidrich, "From Neoliberalism to Resource Nationalism: States, Firms and Development." P. 1

39 Pauline Jones Luong and Erika Weinthal, "Rethinking the Resource Curse: Ownership Structure, Institutional Capacity, and Domestic Constraints*," *Annu. Rev. Polit. Sci.* 9 (2006): 241–63.

40 Jeffrey D. Wilson, "Understanding Resource Nationalism: Economic Dynamics and Political Institutions," *Contemporary Politics*, no. ahead-of-print (2015): 1–18.

41 Ruben Berrios, Andrae Marak, and Scott Morgenstern, "Explaining Hydrocarbon Nationalization in Latin America: Economics and Political Ideology," *Review of International Political Economy* 18, no. 5 (2011): 673–97.

private enterprises' but rather as 'the increased presence of the state in the extractive process'.[42] As we shall see, these more nuanced or 'hybrid' shifts are at the heart of the contemporary processes of resource nationalism in countries like Venezuela and Ecuador.

Today, management policies that increase state control are usually implemented through legal constraints in contracts. In this line of policies, there are mechanisms that deploy industrial policy requirements or local content quotas for certain operations.[43] Industrial policy can therefore be advanced through mechanisms of private-public alliances that allow investments to come into countries' specific sectors. Brazil is an illustrative case as the state has used foreign investment in its resource sectors to advance internationally competitive firms and link these investments with wider redistributive and industrial policies.[44]

Policies of control through legal contracts have been recently used in Venezuela and Ecuador. Under such managerial policies, NOCs can control majority assets in a joint-venture that still has foreign or private partners.[45] Indeed, this was the route of Venezuela's partial nationalization (shown in chapter 5). A radical shift in contracts to assert control was the strategy pursued by Rafael Correa in 2010 after forcing a complete change from production-sharing agreements to service contracts in Ecuador (see chapter 8).[46] These management policies targeting firms' ownership or regulatory frameworks, along with tools to increase state revenues, are the type of resource nationalist policies enacted today in radical left-leaning South American countries.[47] In the remainder of this work, I argue that these policies are still compatible with forces of globalization through controlled investments and associations. These differ from the more

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[42] Murat Arsel et al., "Property Rights, Nationalisation and Extractive Industries in Bolivia and Ecuador," in *Conflicts over Natural Resources in the Global South: Conceptual Approaches*, ed. Maarten Bavinck, Lorenzo Pellegrini, and Erik Mostert (Leiden, The Netherlands: CRC press/Balkema, 2014), 112.
[43] Wilson, "Understanding Resource Nationalism."
[44] Jewellord Tolentino Nem Singh, "Towards Post-Neoliberal Resource Politics? The International Political Economy (IPE) of Oil and Copper in Brazil and Chile," *New Political Economy* 19, no. 3 (2014): 329–58.
[45] Berrios, Marak, and Morgenstern, "Explaining Hydrocarbon Nationalization in Latin America."
[46] Emily Billo, "Sovereignty and Subterranean Resources: An Institutional Ethnography of Repsol's Corporate Social Responsibility Programs in Ecuador," *Geoforum* 59 (2015): 268–77; Gonzalo Escribano, "Ecuador's Energy Policy Mix: Development versus Conservation and Nationalism with Chinese Loans," *Energy Policy* 57 (2013): 152–59, doi:http://dx.doi.org/10.1016/j.enpol.2013.01.022.
[47] Haslam and Heidrich, *The Political Economy of Natural Resources and Development: From Neoliberalism to Resource Nationalism*.

antagonistic incarnations of nationalization in the 1960s and 1970s that aimed at full takeover of foreign companies' assets.

Moreover, resource nationalist policies tend to respond to different ideas of national sovereignty and are executed to satisfy a greater societal goal, or as a means to satisfy the interests of rent-seeking actors. In a nutshell, there is also a *nationalist* component that refers to broader ideational factors, which assume that 'the natural resources of a country belong to the nation and exist as a national patrimony and consequently should be used for the benefit of the nation as a whole and not be exploited for private gain'.[48] As Perreault and Valdivia point out, 'struggles over resources such as oil and gas become focal points for broader struggles involving the terms of citizenship, the nation, rights and identity'.[49] These ideational processes are indeed fundamental in drawing the lines of struggles and spelling out the discursive elements of state-companies' disputes.

1.4. Methodology, case selection, and positionality

This section describes the methodological approach used in this work. As previously stated, the research questions grounding the present work seek to historicize the changes in state treatment of foreign investment in Venezuela and Ecuador. This approach is strongly influenced by a tradition in IPE studies that is historical and interpretative in nature.[50] In the words of Robert W. Cox, a historicist approach can be seen as 'holist'. It is an approach that 'considers individual events as intelligible only within the larger totality of contemporaneous thought and action'.[51] This research is inscribed in that larger tradition of historicist understandings of contemporary social reality. Two important notions of history are relevant in this case. Drawing on Braudel, this work recognizes that specific social structures and events are the result of long-lived

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[48] Amy M. Jaffe, "Resource Nationalism and Oil Development: Profit or Peril?," in *Beyond the Resource Curse*, by Brenda Shaffer and Taleh Ziyadov (University of Pennsylvania Press, 2012), 295.
[49] Perreault and Valdivia, "Hydrocarbons, Popular Protest and National Imaginaries," 691.
[50] In the lexicon made popular by Benjamin J. Cohen, this work would fit his description of the 'British School' of IPE. See: Benjamin J. Cohen, *International Political Economy: An Intellectual History* (Princeton: Princeton University Press, 2008). For a reflection on Cohen's view of the school, see: Robert Cox, "The 'British School' in the Global Context," *New Political Economy* 14, no. 3 (2009): 315. doi:10.1080/13563460903087524.
[51] Robert W. Cox, *Approaches to World Order*, Cambridge Studies in International Relations ; 40 (Cambridge: Cambridge University Press, 1996).

processes established by social and even natural forces, and are part of a *longue durée*. However, specific junctures—the *histoire événementielle*—structured as the result of consecutive decisions and actions, are also important in explaining certain social and economic outcomes, ruptures and continuities.

As will become apparent, in order to fully comprehend the motivations and the outcomes of policies such as the contractual change with foreign companies in contemporary Venezuela and Ecuador, it is important to first contextualize them, and consider the historical linkages of these states with foreign investment. Through this history, it is also possible to conceptualize the often uneasy relationship between these states and their NOCs which, in the case of Venezuela, internalized IOCs' logics and practices. Beyond long-lasting links with foreign investment in the oil sector, specific junctures —such as a coup attempt in 2002 in Venezuela (chapter 5), or social mobilization against specific IOCs, i.e., Texaco and Occidental Petroleum, in Ecuador (chapter 7)—also substantially impacted the outcomes of state-company relations during Chávez and Correa's governments.

This thesis presents detailed and focused historical analyses of two distinct country case studies. It draws upon primary sources such as laws, policy documents, regulations of foreign companies, and interviews with key stakeholders as well as secondary sources in Spanish and English, for these historical narratives. It follows dissimilar historical periods traced through the history of each country's exposure to the global economy as oil exporters. Venezuela started to export oil in 1917; it was the world's largest oil exporter by the end of the 1920s, and has remained among the top 10 exporters since then. Ecuador became a net exporter only in 1972 and has since remained a relatively minor player in the oil market. Nevertheless, in both cases, the objective has been to analyze mainly three specific time periods, the 1970s, the 1980-90s and the 2000s.

Rather than hoping to extrapolate generalizable conclusions and causal mechanisms, this work aims to draw conclusions about a particular phenomenon stemming from two country cases. In other words, it seeks to historizice the experience of resource nationalism in two countries currently governed by the left. This work sits in the camp of qualitative political science, which gives, in Bennet and Elman's words, 'priority to identifying causal effects rather than causal mechanisms'.[52] Despite the use of two cases, which may suggest the choice of comparative research, this dissertation develops what Hancké explains as case studies 'conducted independently of one another, with a conclusion which engages the two cases side by side'.[53] Unlike comparative studies that attempt to hold certain variables constant and arrive at wider generalizations through methods of agreement or difference, the expectations of inference are circumscribed to the cases, but the research advances broader theoretical analysis that can be used in future studies.[54] The intention is to comprehend the evolution of two countries in South America governed today by seemingly radical governments that pursue resource nationalist policies and still welcome foreign investment.

1.4.1. Case selection and methods

Case study selection followed from the universe of contemporary left-wing nationalist South American countries. This thesis focuses solely on Ecuador and Venezuela, as opposed to Bolivia as well, in order to concentrate on investments in oil. Natural gas and other minerals are referred to when they appear to be relevant to the larger discussion of resource extraction, but the central focus of this work is crude oil. The political systems of these two countries have undergone deep and radical changes in the past few years, due to the rise of left-wing movements to leading positions in state structures. Rather than pursuing changes within existing legal and institutional arrangements—as 'less radical' left-wing governments did in Brazil, Chile and Uruguay—the executive power in both Venezuela and Ecuador favored a complete re-writing of the national constitution and the exercise of hegemonic power by controlling all branches of government. It is usually assumed that this group of radical left-leaning countries is more investment-adverse than the more moderate version of the left turn.[55] Venezuela and Ecuador are part of a broader anti-imperialist alliance named ALBA (Bolivarian Alliance for the People of Our America), together

[52] Andrew Bennett and Colin Elman, "Qualitative Research: Recent Developments in Case Study Methods," *Annual Review of Political Science* 9 (2006): 458, doi:10.1146/annurev.polisci.8.082103.104918.
[53] Bob Hancké, *Intelligent Research Design: A Guide for Beginning Researchers in the Social Sciences* (New York: Oxford University Press, 2009), 72.
[54] Gerardo L. Munck, "Tools for Qualitative Research," in *Rethinking Social Inquiry: Diverse Tools, Shared Standards*, ed. Henry E. Brady and David Collier (New York: Rowman & Littlefield, 2004).
[55] Michael Penfold-Becerra, "Institutions and Foreign Direct Investment in Latin America: A New Emerging Reality" (Working paper, Oxford, United Kingdom, July 2014).

with Bolivia, Cuba, Nicaragua and Dominica. Under Venezuela's leadership, ALBA attempts to reconfigure social relations based on socialist principles.[56]

The current research was developed over almost 3 years, starting in early 2014. Fieldwork was conducted in 2014 and 2015 in Caracas and Quito, respectively, for a total of 14 weeks in both countries. During this time, 52 in-depth interviews were conducted; the University of Waterloo's Research Ethics Committee granted approval for the qualitative methods. In Venezuela, 20 participants were interviewed between June and August 2014. Nine additional participants were interviewed via Skype, telephone, or written electronic exchanges from Waterloo, Ontario. In Ecuador, 23 participants were interviewed between May and June 2015. In both cases, official sources from government agencies were given precedence. As will be described below, many other informal conversations were also held with relevant stakeholders. Before commencing the fieldwork, key sources were identified and meetings were requested. Once access to a key stakeholder was gained, a snowball approach was employed to recruit other interviewees in and outside government agencies. All interviews were open-ended; although a tentative agenda for discussion topics was provided, interviewees were encouraged to speak openly about the various themes they felt were relevant.

While Venezuela's state is highly centralized, particularly in its oil policy, Ecuador's is more decentralized and various institutions play a role in its relationship with foreign companies. This institutional difference has to do with the history of each country's oil sector (see chapters 3 and 6). Table 1.3 shows a comprehensive list of the official entities and civil society organizations in which interviewees were accessed in each country. Senior policy officials were formally interviewed at the level of Director General and above, including deputy ministers, under-secretaries, and ambassadors. Informal exchanges also occurred with employees at various ministries and oil companies. The information provided through informal exchanges helped to inform views of the different locales presented, and to enrich questions asked of senior officials

[56] Thomas Muhr, "(Re)constructing Popular Power in Our America: Venezuela and the Regionalisation of 'Revolutionary Democracy' in the ALBA-TCP Space," *Third World Quarterly* 33, no. 2 (2012): 225; Thomas Muhr, "Tina Go Home! Alba and Re-Theorizing Resistance to Global capitalism.(America-Peoples' Trade Agreement)," *Cosmos and History: The Journal of Natural and Social Philosophy* 6, no. 2 (2010): 27; Martin Hart-Landsberg, "ALBA and the Promise of Cooperative Development," *Monthly Review* 62, no. 7 (2010): 1–17; Pablo Heidrich, "The Regional Context of Latin American Resource Nationalism," in *The Political Economy of Natural Resources and Development: From Neoliberalism to Resource Nationalism* (New York, NY: Routledge, 2016), 89–102.

and scholars; however, individuals involved in the informal discussions were not quoted directly. Names are provided only when interviewees provided consent, according to the guidelines of the University of Waterloo's Research Ethics Committee. Upon their request, other subjects remained anonymous and the records of these interviews have been kept confidential.

Table 1.3 Interviewees' institutional affiliation

Country	Government entity	Civil society and private organizations
Venezuela	➢ Petróleos de Venezuela ➢ Ministry of oil and mines ➢ Central Bank of Venezuela ➢ Ministry of Foreign Affairs	➢ Universidad Central de Venezuela ➢ Universidad Metropolitana ➢ Universidad Bolivariana de Venezuela ➢ Rice University (Baker Institute) ➢ Center for Strategic and International Studies, Washington ➢ Centro de Estudios Latinoamericanos "Rómulo Gallegos" ➢ Instituto de Estudios Superiores de Administración
Ecuador	➢ Petroecuador ➢ Petroamazonas ➢ Ministry of Hydrocarbons ➢ Hydrocarbon's Secretariat ➢ Secretariat of Planning ➢ Río Napo (joint-venture between Petroamazonas and PDVSA) ➢ Coordinator ministry for development and human talent ➢ Ministry of Finance	➢ Acción Ecológica ➢ Universidad Andina Simón Bolívar ➢ Facultad Latinoamericana de Ciencias Sociales ➢ Asociación de Bancos Privados del Ecuador ➢ Colegio de Economistas de Pichincha ➢ Instituto de Altos Estudios Nacionales

Beyond official sources, key former officials who now work in the private sector or in academia were also interviewed. In the case of Venezuela, access was available to former policy makers who currently work at IOCs or teach in universities in Venezuela and the United States. In both countries, several participants were recruited from university settings and were experts in oil and state-IOC relations. In Ecuador, interviewees included civil society representatives and journalists who have taken part in various struggles against oil exploitation with previous and current governments. Engaging with interviewees from a wide range of political affinities and world-views enriched the perspective of the case studies and allowed for triangulation of officials' views and official documents. It also allowed for a deeper understanding of these societies and the political processes that have been underway in each of them. All interviews were conducted in Spanish, transcribed and coded before commencement of the writing process. All quotes have been translated into English by the author.

The veracity of interviewees' statements may be a point of debate. Most interviews with officials reveal an interest in conveying a message about states' interests and motivations. These ideas may appear as 'the official story' that is also disseminated through media and official propaganda. For instance, Ecuadorian officials emphasized that the new service contracts meant the regaining of sovereignty, in comparison to a previous era of 'give away' to foreign interests. In Venezuela, the official story magnifies the efforts of the ruling elite to safeguard the revolution and national sovereignty from foreign and domestic threats that seek to pillage the nation's main source of wealth. Some respondents in Venezuela also insist that through his efforts to unify OPEC, Hugo Chávez single-handedly helped increase the oil price at the beginning of the 2000s, rather than viewing this increase as a result of an increasing demand in global markets. The statements made by officials were deconstructed via inquiries into *how* sovereignty safeguard mechanisms actually worked. Exchanges with the same official informants exposed, for example, that the new contracts in Ecuador did not indicate a radical reversal to the conditions of previous production-sharing agreements, and that joint ventures in Venezuela are also geared toward controlling PDVSA, rather than largely containing a potential foreign intervention. In terms of the history of state-foreign companies' relations, the interviews were crucial in disentangling conflicting nationalist views at play during the 1970s, 1980s and 1990s—many of which have implications for current policy.

While in the field, I attended workshops and symposia on political economy issues and oil in each country. Key spaces for debates of this nature were the Center for Latin American Studies "Rómulo Gallegos" (CELARG) in Caracas, and the Universidad Andina Simón Bolívar in Quito. The case studies also drew significantly from content analysis of a wide collection of primary sources from Venezuelan, Ecuadorian, and international specialized media, think-tanks, and most importantly, from government briefs, laws, regulations, and contracts from 2001 to 2016.

1.4.2. Positionality: the ambivalence of autonomy and commitment

Carrying out field research also involved important challenges. The most significant one related to the positionality of the researcher. In contexts of deep political polarization and social upheaval, interviews cannot be equated with simple sources of data. They are processes of social debate on their own, and must be analyzed in light of these contentions. While negotiating access, there was often an implicit request from interviewees to know the position of the researcher with respect to the subject matter. On fewer occasions, the expectation was overt. One interviewee asked me once, 'before I proceed to this interview, I need to know whether this work will be used in any way to support a government that violates basic human rights and has destroyed my country'.[57] At times like this, the researcher is posed with the ethical debate of positioning himself as honestly as possible with the subject of research—without entering into long debates about human rights or democracy—and, at the same time, whatever his actual position may be, hoping to safeguard the desired interview.

Access to Venezuelan sources may have been initially limited by this issue. Despite having personal connections on both sides of the political spectrum and having moved through a range of affinities, the possibility of being ascribed to a political camp *a priori* may have had an impact in my access to some sources. The way this challenge was countered was by tracing as many other primary sources as possible, and trying to access officials through a series of different contacts. For example, I gained access to key documents through establishing excellent relations with the staff at the library Juan Pablo Pérez Alfonzo at the Ministry of Oil and Mines in Caracas, who lent a helping hand whenever I needed in the summer of 2014. Through the staff, I gained access to top officials in the ministry and PDVSA. In turn, these top officials in Caracas were remarkably generous.

[57] Telephone interview 2016.

Finally, because of the challenge I mentioned about positionality and due to a larger recognition that any theoretical claim departs from and serves a particular perspective,[58] it is important to locate myself from the outset of this work. I grew up in a Venezuelan working-class household, generally influenced by progressive ideas. My parents are unskilled workers who joined urban radical left-wing movements in their youth. I was distanced from most centers of economic and political power; for example, I did not attend a famous private or public school in Caracas. My formal education was the result of earning scholarships abroad. In short, I have always been disconnected from the oil elites in Venezuela (and also in Ecuador). Often, my interviewees inquired where I came from, both wondering about my place of birth but also trying to locate me, largely unsuccessfully, in their wider social universe.

After finishing my undergraduate degree in Canada in 2005, I returned to Venezuela and joined the ranks of non-partisan, yet pro-government state officials and worked in an ambiance of policy research, at the Ministry of Foreign Affairs. I was part of a larger group of middle class, educated pro-revolutionary officials that grew slowly disenchanted and disenfranchised from the Bolivarian political process. I eventually realized that the polarized national context and authoritarian nature of the Bolivarian regime did not allow for 'non-partisan' or 'critical' support of wider progressive social transformations. Thus, I sought to return to Canada to pursue my doctorate in 2012. I intended to pursue my academic goals and regain the distance and autonomy of a researcher with no institutional and political affiliations in my country of origin. However, my work is deeply committed in an intellectual but also personal way to understanding my and other Latin American countries. I therefore embrace the ambivalence of autonomy and commitment, recognizing the potential effects of this ambivalence on the outcome of my work.

1.5. Thesis structure

Through a detailed analysis of their historical trajectories, I uncover the ruptures and continuities of Venezuela and Ecuador's oil industries with global capital. My main focus has been these states' treatment of foreign investment, including the various forms of control over the oil industry attempted over time. The present work argues that changes in the conditions of the

[58] More on the purposes of theory in: Cox, *Approaches to World Order*.

bargain and contested and dominant ideas affected state treatment of foreign investment in their oil sectors in distinct time periods.

This dissertation is structured as follows. Chapter 2 outlines my theoretical approach. The chapter surveys the long-standing literature in international politics that engages with state-company relations: the obsolescing bargaining models. The chapter outlines the value of the material considerations included in OBM, especially in its most recent adaptations. I argue, however, that the bargaining literatures, despite increasing recognition of the limitations in the two-actor dyad, overlook the importance of diversity within actors, and the role of ideas impacting the changes of the bargain. Concerning the latter, my theoretical discussion recognizes the value of ideational approaches, as cast by constructivist literature in international political economy. The role of national identity and the idea of development as important meanings for state actors help shape state treatment of foreign investment. Similarly, the power relations and subjectivities in which actors are immersed allow or constrain their behavior in important ways. The advantage of this approach which draws on both OBM and constructivist literature is that it is inclusive of both rationalist and ideational theories that attempt to explain the foreign economic policies of states.

Chapter 3 details the history of Venezuela's rentier state in relation to foreign investment. It argues that the state progressively gained knowledge, strength and capacity to control the industry and appropriate rents from foreign companies. This process culminated in full nationalization that took place in 1976. Insights from obsolescing bargain models illuminate a process of shifting bargains from 1943 to 1975, a period wherein the state had the upper hand in the business via appropriation of rents and legal regulation of company operations. The ideas of national control over natural resources also impacted national and international norms of landlord state association with foreign capital. Many of these norms became the basis for the creation of OPEC. Further, the chapter explains how two strands of nationalism contested policies of control over foreign companies. In 1976, policymakers associated with one of these strands –Acción Democrática (AD) nationalists— approved a nationalization law that brought all oil industry assets to the state, while allowing the possibility for engagement in technical assistance contracts with IOCs.

Chapter 4 demonstrates that struggles for rent and control did not end with nationalization. The logics of bargaining were instead internalized, or 'nationalized', between the state and its own NOC, PDVSA. In this context, PDVSA created mechanisms to internationalize in the 1980s and 1990s, as a way to develop its autonomy and break free of state political and financial control. While neoliberal adjustment became an important goal of state officials at the end of the 1980s, it was also resisted by some political parties. Leading members of traditional political parties hoped to keep control over PDVSA, and attempted to curtail its goals. This state-PDVSA tension was largely a consequence of conflicting subjective views of the role of a landlord state vis-á-vis a global energy firm. It was only in the 1990s that the government pushed for neoliberal reforms and, at the same time, allowed PDVSA's plans for encouraging foreign investment in the country. At this time, foreign investment became crucial to expand oil output and strengthen PDVSA's position internationally, while also distancing itself from OPEC quotas and mandates. In this period, bargaining power shifted away from the state toward the NOC and IOCs due to the fact that a new investment cycle began in the context of low oil prices.

For PDVSA, internationalization in the post-1976 context meant securing autonomy vis-á-vis the state and fulfilling its perceived role as a global energy company. During the government of Hugo Chávez, however, keeping fields of the Orinoco basin open to foreign investors meant, in contrast, a way for the state to exert control over PDVSA. This rather paradoxical process is explained in chapter 5. This chapter presents an analysis of how an explicit battle between PDVSA's managerial elite and the government ended with government control and set the stage for later reforms in the relationship with foreign companies. Following OBM insights, these hybrid reforms were made at the time when investments had been sunk in heavy crude projects and international oil prices were at record high levels. The new relationship established through joint-ventures sought to secure government control over PDVSA and over oil rents to carry out a model of rentier socialism centralized by the President. The ideas of state control in this period were more compatible with foreign investment than the nationalist period of the 1970s, mainly due to PDVSA's legacy of autonomy. Moreover, new industry features such as the rise of Chinese SOEs were also compatible with a more hybrid model of relationships.

Chapter 6 delves into the history of Ecuador's oil nationalism and the tensions between the 1970s military regimes and foreign companies. It explains how the military partially nationalized the oil industry in the context of a struggle with the Texaco-Gulf consortium—the largest producing enterprise in the country—drawing on wider notions of third-worldism and development. The military managed to appropriate 80% of the industry's profit and was able to takeover the Gulf Corporation's assets. This takeover, however, was not the product of an internal consensus; it provoked divisions within the military and was also influenced by Gulf's intra-firm maneuvers. Finally, it argues that the military benefited from a formidable international context of high oil prices and shifting ideas surrounding development and national ownership of natural resources.

Subsequently, chapter 7 explores the emergence of party democracy in Ecuador and the imposition of neoliberal reforms that forced a radical opening of the oil sector to foreign investment through mechanisms that have been known as a 'give away' of national resources. These mechanisms of 'give away' were embodied in production-sharing agreements. Low oil prices and the need to pay off foreign loans decreased the state's bargaining power vis-á-vis IOCs. Nevertheless, commitment to neoliberal restructuring prevailed in forging open relations with IOCs and increased oil output, while resistance to neoliberalism emerged among social movements. The chapter explains that during the neoliberal period, the pursuit of foreign investment was central to satisfy demands from international lending institutions and servicing debt.

Chapter 8 analyzes the emergence of Ecuador's Citizen's Revolution under Rafael Correa's leadership in relation to oil policy. It shows the initial ambivalence of this political project toward resource extraction, largely due to important internal contestations between environmentalists and neo-developmentalists. Neo-developmentalist imperatives soon became dominant, and state-led development policies required the pursuit of oil extraction in association with foreign investment. The context of higher oil prices and sunk investments from the 1990s motivated the state to migrate all contracts with foreign investors to service contracts. The chapter explains how the state negotiated this change in contracts, arguing that this shift was also prompted by a narrow understanding of resource ownership by the political elite in Ecuador.

Hence, the roles of ideas related to national sovereignty impacted the type of contracts that were pushed forward by the state. Due to Ecuador's limited bargaining power, which was essentially rooted in its relative unattractiveness to foreign investors, the outcomes of these negotiations were less favorable than was hoped. But like Venezuela, Ecuador has become increasingly reliant on Chinese investments and loans as China's 'go-out' strategy has benefitted the Ecuadorian state's resource and development policy.

The dissertation concludes with chapter 9, which summarizes the main contributions of this work—weaving together its empirical and theoretical arguments. The final chapter also provides an opportunity for a comparative analysis between the two cases, and showcases how this work enriches recent international politics and global governance literatures. Lastly, it speaks to new research avenues opened up by the current project, and presents potential cases for future study.

Chapter 2
Explaining states' treatment of foreign investment in an historical perspective: Bridging the politics of bargaining and ideational contestations

2.1. Introduction

The study of state-foreign company relations has long been dominated by bargaining theories. Obsolescing bargaining models, first popularized by the work of American economist Raymond Vernon, focused narrowly on material incentives in a two-actor setting. The basic OBM thesis proclaimed that at an early stage in the business cycle of resource industries, the advantage lies with the foreign corporation, as the host state usually lacks the capital and technology to extract the resource on its own. At a later point, once investment costs have been incurred, the host state develops confidence and regulatory capacity, increasing its motives to reap better deals from the foreign company. In short, the original arrangement becomes obsolete.

OBM was used to explain the resource nationalization wave of the 1960s and 1970s, as well as the liberalizing trends of the 1980s and 1990s.[59] It has been assumed as the 'accepted paradigm' of state-IOC bargaining in international economic relations.[60] The model's explanatory capacity has been expanded by up-to-date studies on host state-foreign company relations.[61] These new studies have incorporated other variables and actors. During the 1970s and the 1980s, scholars working within OBM paradigms considered notions of nationalism, development policies, and sectoral disputes as important considerations within state-multinational corporations' bargain.[62] Yet, more recent studies advancing bargaining models for the resource sector remain centered on material variables.

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59 Vlado Vivoda, "Rise of State-Firm Bargaining in the 2000s," in *The Political Economy of Natural Resources and Development: From Neoliberalism to Resource Nationalism* (New York, NY: Routledge, 2016), 53–69; Paul Haslam and Pablo Heidrich, "From Neoliberalism to Resource Nationalism: States, Firms and Development," in *The Political Economy of Natural Resources and Development: From Neoliberalism to Resource Nationalism* (New York, NY: Routledge, 2016), 1–33.
60 Vivoda, "Rise of State-Firm Bargaining in the 2000s."
61 Vivoda, *The Return of the Obsolescing Bargain and the Decline of Big Oil*; David Levy and Aseem Prakash, "Bargains Old and New: Multinational Corporations in Global Governance," *Business and Politics* 5, no. 2 (2003).
62 Mikesell, *Foreign Investment in the Petroleum and Mineral Industries*; John D. Martz, *Politics and Petroleum in Ecuador* (New Brunswick, New Jersey: Transaction, Inc., 1987); Jenkins, "Reexamining the 'Obsolescing Bargain'"; Moran, *Multinational Corporations and the Politics of Dependence*; Peter Evans, "Recent Research on Multinational Corporations," *Annual Review of Sociology* 7 (1981): 199–223.

The main theoretical criticism of OBM that emerges from my study relates to the characterization of unitary rational actors that seek to maximize material benefits, i.e. underground rents. States are not homogeneous and are subject to different motivations that do not always respond to utility-maximizing rationalities. While actors are endowed with material capabilities, they also interpret these material conditions in accordance with broader considerations related to their identity, their role in society or their ideological commitments. The bargaining relationship between states and foreign companies are thus inscribed within broader ideological disputes.

Even when affected by similar material variables such as an increased oil price, diverse ideological considerations can generate different outcomes in state treatment of foreign investors. As discussed in chapter 1, distinct material endowments, such as the quantity and quality of a country's crude reservoir, can offer specific advantages to some state officials in comparison with others. Equally important, state-owned companies from emerging powers, acting with the backing of their home state, have been recently open to invest under a more nationalist regulatory framework, hoping to secure an increased supply of energy resources, something that traditional IOCs have not been equally willing to do. In this case, the context of state-IOC bargaining is significantly affected by geopolitical and economic considerations of global nature.

In this chapter, I will briefly review how the global energy market is subject to the politics of bargaining and the main insights stemming from the OBM. As part of this discussion, I will engage with the most salient weaknesses of this approach. The third section of the chapter will explain the ways in which ideational approaches can help comprehend changes in state treatment of foreign investment, mainly employing strands of constructivist literature from international political economy and political geography.

2.2. The politics of bargaining

This thesis aims to address the changes in the relationships between the state and foreign companies required for extraction to occur. The state acts as a regulator for companies during the extractive process. The state, however, is also a mediator for economic actors, including those same companies, conflicting constituencies, and various agencies in the distribution of rents. It is important to emphasize that my understanding of 'mediation' in this context is not one of a neutral third party that calculates costs and benefits and derives optimal solutions to a defined problem. Instead, this particular mediator is an actor itself; an entity with its own set of interests in the extractive process. The state is part of the bargaining process as much as it is the one setting the 'rules of the game' under constraining and enabling factors. This role is probably better understood as one of friction and constant negotiation. As will become clear from the examples analyzed below, the state is not a neutral entity or a pre-conceived, ahistorical one. The state also undergoes changes and variations in composition throughout history, determining long-term linkages despite ruptures in specific junctures.

The current discussion will draw from political science literature of the 1970s that has been used in recent years as a way to assess the validity of bargaining models in the relationship between transnational corporations and host governments.[63] This body of work has been considered useful to explain the increase in resource nationalist attitudes by developing countries in recent years. Further, it illuminates various avenues with which to consider some of the deficiencies in the surveyed literature regarding post-neoliberal regimes and neo-extractivism. This literature stresses the shifting bargaining process between host states and foreign corporations. It demonstrates that, despite the intentions of any given government coalition with regards to the *use* of rent income, there is a bargaining process that occurs between states and companies that is generally influenced by factors associated with industry conditions. Understanding this process of bargaining is crucial in order to explain the mediation that occurs between states and companies *before* the use of rent income.

The relationship between oil-producing states and IOCs is largely determined by contention surrounding the control of oil rents. Costs of extraction vary depending on the stage of development of an oil field, but are generally lower than the international market price of crude. By virtue of being a crucial commodity for the world economy as the most preferred source of energy, the international market price for oil allows companies to earn potentially large rents.

[63] Vernon, *Storm over the Multinationals*; George Philip, "The Limitations of Bargaining Theory: A Case Study of the International Petroleum Company in Peru," *World Development* 4, no. 3 (1976): 231–39; George Philip, *Oil and Politics in Latin America: Nationalist Movements and State Companies* (Cambridge University Press, 1982); Vivoda, "Resource Nationalism, Bargaining and International Oil Companies"; Vivoda, "Bargaining Model for the International Oil Industry"; Stevens, "National Oil Companies and International Oil Companies in the Middle East."

This phenomenon characterizes the nature of the politics behind the oil industry as well as the bargaining that takes place in order to determine the division of those rents.[64] Susan Strange puts this eloquently: 'the international oil business… is a particularly complex cat's-cradle of interlocking bargains'.[65]

These interlocking bargains reflect the tensions between different actors in a highly politicized market. The global energy market in general, and oil market in particular, are considered of great importance for most states, making their energy provision a matter of national security.[66] The politicization of the energy market has given states with a relatively minor role in world politics heightened importance due to their 'particular-intrinsic power'.[67] This kind of power is largely determined by their capacity to affect the energy provision of larger states, through interrupting sales or affecting transport routes.[68] Hydrocarbon producers are thus on one side of the bargaining equation. In a similar fashion, states traditionally considered to be more powerful (i.e. endowed with strong military power and advanced industrial economy) developed strong transnational corporations that controlled oil production throughout the world until the 1960s.[69] These IOCs, the 'seven sisters', have traditionally been on the other side of the bargaining equation. Yet, with the emergence of resource nationalism in the 1960s and 1970s, producer states have also developed strong oil SOEs, and likewise, emerging powers today compete with traditional IOCs for hydrocarbon markets and reserves throughout the world.[70]

The embeddedness of geopolitical considerations in the state-IOC bargaining cannot be underestimated. Oil is a resource of such a geopolitical significance that the US—normally a strong advocate of free trade—imposed import quotas on crude between 1959 and 1973 to

[64] Jaffe, "Resource Nationalism and Oil Development: Profit or Peril?"; Vivoda, "Resource Nationalism, Bargaining and International Oil Companies"; Vernon, *Storm over the Multinationals*.
[65] Strange, *States and Markets*, 41.
[66] Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, and Power* (New York: Simon and Schuster, 1993).
[67] Tom Long, "Small States, Great Power? Gaining Influence Through Intrinsic, Derivative, and Collective Power," *International Studies Review*, 2016, viw040.
[68] G. Escribano and J. Valdés, "Oil Prices: Governance Failures and Geopolitical Consequences," *Geopolitics*, 2016, 1–26, doi:10.1080/14650045.2016.1254621.
[69] Susan Strange, *States and Markets* (London: Pinter, 1988); Jeff D. Colgan, Robert O. Keohane, and Thijs Van de Graaf, "Punctuated Equilibrium in the Energy Regime Complex," *The Review of International Organizations* 7, no. 2 (2012): 117–43.
[70] Nana De Graaff, "A Global Energy Network? The Expansion and Integration of Non-Triad National Oil Companies," *Global Networks* 11, no. 2 (2011): 262–83.

protect local producers and administer oil inflow from allies across the world.[71] In the aftermath of the Yom Kippur war of October 1973, the quota system was dismantled and US would later impose an *export* ban on American oil in 1975, which was only lifted during the second Barack Obama administration. Interestingly, these policies of market control exercised in the US have not been labeled as resource nationalist, but rather understood as part of larger national security strategies.[72] Even though states and companies bargain on the basis of different endowments and ideational motivations, there are also undeniable geopolitical considerations that underpin the politics of bargaining.

2.2.1 Obsolescing bargaining model

According to the OBM literature, the state-IOC bargain is crucially dependent upon the market cycle of investments and maturity of the industry. It is assumed that in early stages, most oil-producing states in resource-endowed countries lack the technology and labor capacity to invest in exploration and future extraction of the resource. As such, foreign capital becomes necessary to establish the groundwork for oil exploitation. Producing states welcome foreign investments in their oil industry to the extent that these investments provide them with the possibility of further resource extraction, and to make the extraction sustainable in the long term.[73] It is ultimately understood that these states seek to appropriate as much rent as possible—while at the same time making arrangements for foreign companies that are considered attractive enough to be worthy of investment.

The relationship of interdependence and power balance between these actors tends to change over time, as described by Vernon in the OBM.[74] The core of his argument is that once the initial phase of investments is complete and extraction is in motion, states gain confidence, develop

[71] Yergin, *The Prize*.
[72] Strange, *States and Markets*; Jeffrey D. Wilson, "Understanding Resource Nationalism: Economic Dynamics and Political Institutions," *Contemporary Politics*, no. ahead-of-print (2015): 1–18.
[73] 'Sustainable' is an unfeasible term here because oil is a non-renewable natural resource. However, what this means, generally, is that investments can be made to secure higher recuperation rates of the resource and maintenance of mature yields for longer exploitation.
[74] Vernon, *Storm over the Multinationals*.

necessary knowledge, and eventually seek further control over the industry.[75] An initial statement about this process appears in Vernon's seminal work *Sovereignty at Bay*. In this book, Vernon states 'the foreign enterprise whose successful establishment had rested on some superior capability or knowledge lost its security of position as time eroded the initial advantage'.[76] In *Storm over the Multinationals*, Vernon goes on to argue that 'when the initial risks are overcome, however, and the capital is put in place, the attitudes of both parties—business and government—undergo a basic change. The capital has been sunk; the initial risks have been overcome'.[77] Indeed, the position of each actor changes as 'the terms now seem much less reasonable to the government. The struggle is on to shift the terms toward a new point of equilibrium'.[78] Hence, the bargaining terms reach a point of obsolescence, and a new bargain is sought. In sum, the OBM is conceptualized as a 'positive sum game in which the goals of the MNC and host state are assumed to be in conflict, the initial bargain favors the MNC, but as MNC assets are transformed into hostages, relative bargaining power shifts over the host state over time'.[79]

The early discussions of OBM included important considerations regarding states' strategic view of development, such as import-substitution industrialization goals, and relatedly, state regulatory and technical capacity. For example, Theodore Moran's seminal book on the copper industry in Chile explores a wide set of interests stemming within various sectors of Chilean society and also with borader international disputes.[80] Gereffi and Evans' take on dependent development in countries such as Brazil and Mexico shows how changing state-MNC relations largely impacted state capacity and industrial policy, challenging traditional notions of dependency.[81] Similarly, Barbara Jenkins sophisticated study of Canada's National Energy

[75] Kobrin, "Testing the Bargaining Hypothesis in the Manufacturing Sector in Developing Countries."
[76] Raymond Vernon, "Sovereignty at Bay: The Multinational Spread of US Enterprises," *Basic Book Inc., New York*, 1971, 27.
[77] Vernon, *Storm over the Multinationals*, 151.
[78] Ibid.
[79] Vivoda, "Rise of State-Firm Bargaining in the 2000s," 55.
[80] Moran, *Multinational Corporations and the Politics of Dependence*.
[81] Gereffi and Evans, "Transnational Corporations, Dependent Development, and State Policy in the Semiperiphery."

Program demonstrated the importance of considering corporate power in a wider net of international and domestic interplay of interests and contraints.[82]

As mentioned, central in the original thesis of OBM is the maturity of the industry (large investors' sunk costs). But state actors' use of the obsolescing original state-MNC agreement is linked with important political considerations related to development policy. As will be shown, the image of a 'hostage' can be observed at different points in the history of Venezuela and Ecuador's oil industry. As is explained in detail in chapter 3, during the 1970s, the nationalization of IOCs assets in Venezuela responded to a long-lasting process of confidence and state regulation over the industry. Companies' installations were doomed to confiscation at the end of the concessionary contracts. In 1971, a reversion law anticipated that confiscation would take place in 1983 and 1996 when contracts expired. Companies faced incentives to stop investing and the government sped up the takeover. Similarly, at the time of partial re-nationalization in 2006-2007, the Chávez government waited five years to force the application of an existing legal framework on sunk investments in the Orinoco belt (chapter 5). Finally, Ecuador's purchase of Gulf assets in 1975 was in part the result of a process of increased state assertiveness over the industry (chapter 6).

In recent iterations of the OBM literature, there have been important contributions that help expand and adapt the core arguments of the theory. Other determining factors affecting the bargaining relationship between foreign companies and host states are mostly related to the nature of the industry and the context in which it operates. A highly concentrated industry typically increases bargaining power of the foreign company whereas an industry with more intense competition contributes to the host state's bargaining power.[83] The cases of Ecuador and Venezuela exemplify each side of the spectrum. While Ecuador has a more concentrated industry, the Venezuelan market is somewhat more competitive. Among other reasons, this is due to the nature of their reservoir and the extent of their investments. In fact, the Venezuelan reservoir is the single determining factor that explains its more advantageous position compared to Ecuador in the process of bargaining with investors. The degree of concentration of the domestic market within each country, however, has not always reflected its current state. As in

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82 Jenkins, "Reexamining the 'Obsolescing Bargain.'"

83 Vivoda, "Resource Nationalism, Bargaining and International Oil Companies"; Vernon, *Storm over the Multinationals*.

much of the world, a handful of Anglo-Dutch and American companies dominated Venezuela's market from the early twentieth century onwards. Increased competition emerged in the 1990s when Venezuela's oil opening campaign diversified investments. Furthermore, as will be demonstrated, in the period of *chavismo*, the government considered diversification of investments to be a core pillar of its strategy for self-protection (see chapter 5).

The price of oil is another crucial market factor that affects the distribution of power in this relationship. Higher prices tend to benefit host states while lower prices shift the balance toward companies.[84] The historical experience demonstrates that 'when prices rise, host governments rethink their contracts and seek higher taxes and royalties. Thus, it is natural that during a period of high prices the phenomenon of resource nationalism comes to the surface, as it is a by-product of high prices'.[85] The bargaining models literature has therefore characterized different periods of 'conflict' or 'cooperation' that depend on average oil prices, assuming that resource nationalism is less likely to emerge at times of low prices. Both the 2007 partial re-nationalization in Venezuela and the 2010 re-negotiation of contracts occurred in the context of high oil prices and were indeed a crucial factor in these decisions. In sum, resource nationalism is generally more likely to emerge at times of higher prices, when there are larger sunk costs, increased state capacity, and at times of more intense competition between extracting companies.

The issue of more intense competition among companies requires further discussion. In OBM literature, the issue of 'industry concentration' is considered largely within the domestic industry and this point is of course important. Yet, the position and outlook of companies in general have changed considerably in recent years world-wide. While IOCs have historically been the main form of foreign investor, new types of foreign companies have recently appeared in the global energy market. Specifically important have been Chinese SOEs, which have been instrumental in China's 'go-out' strategy used to satisfy the country's energy demands. These SOEs receive state financial and political support and can offer extra investment advantages to home states. Often, Chinese investments are accompanied by other financial cooperation agreements as well as investments in infrastructure and other sectors.

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[84] Wilson, "Understanding Resource Nationalism."
[85] Vivoda, "Resource Nationalism, Bargaining and International Oil Companies," 519.

In general, the global energy market has witnessed an increased presence of state firms and these firms have been present in the Venezuelan and Ecuadorean cases as well. According to de Graaff's recent study, the world's main five NOCs from various regions of the developing world have increased their corporate relationships in the last few years, doubling joint ventures abroad and tripling them at home.[86] This state-capital nexus supports the view that resource nationalism has been 'more pragmatic and opportunistic' in recent years than it was in the 1960s and 1970s.[87] This increased presence of SOEs in international markets, recently dubbed as a 'return of the state', has not necessarily meant a broad redressing of globalization and market governance. IPE scholars exploring this state-capital nexus emphasize that the state is not necessarily antagonistic to the market and, more importantly, that the market needs the state to perform certain basic functions for it to operate well.[88] For van Apeldoorn et al., the roles of market creation, correction, direction, and external representation are crucial for the wellbeing of the market and these functions are manifest today both in the global north and global south. The context of the global financial crisis demonstrated that active state action was necessary to 'save' the system and provide safeguards to important market players.

The incursion in the market by China's SOEs as well as Russia's, India's and Brazil's public-private ventures changed conditions of extraction in many developing countries. In the 2000s, both higher prices and a less concentrated industry (in this case, globally) gave producing countries greater bargaining capacity to shift the balance in their favor vis-á-vis IOCs. Changes in the global energy market produced processes that transcend the traditionally linear power-shifts between states (NOCs) and markets (IOCs) to more transnational and 'hybrid alliances and coalitions of interests'.[89] The growth of emerging powers impacted the market not only in terms of oil prices, but also in the way the oil industry was organized, as new major 'consumers' are also represented through state companies that operate beyond their borders. The specific case of China's apparently non-interventionist attitude toward developing countries created the opportunity for increased investment in extractive industries. Further, it led to a new dynamic of cooperation for infrastructure that has involved Chinese SOEs and financial institutions. Chinese

[86] Nana De Graaff, "The Hybridization of the State-Capital Nexus in the Global Energy Order," *Globalizations* 9, no. 4 (2012): 531–45, doi:10.1080/14747731.2012.699926.
[87] De Graaff, "The Hybridization of the State-Capital Nexus in the Global Energy Order," 539.
[88] van Apeldoorn, de Graaff, and Overbeek, "The Reconfiguration of the Global State–Capital Nexus."
[89] de Graaff, "The Hybridization of the State-Capital Nexus in the Global Energy Order," 533.

SOEs and financial lending mechanisms have become predominant both in Venezuela and Ecuador, bringing about important state-to-state alliances that include new foreign investors in the Orinoco belt and the Ecuadorian Amazon.

Bargaining models, especially in the most recent iterations of the literature, tend to be based on rational actors involved in a two-actor situation that assumes a positive sum game 'as the objectives of the two sets of actors are never exclusively conflictive'.[90] In an attempt to update these models to different sectors in the current context, Levy and Prakash include other actors such as non-governmental organizations in the bargaining setting of increasingly internationalized investment regimes.[91] Ramamurti eloquently explains how host country-multinational corporation relations have recently become a 'multi-party' bargaining process that involves international organizations.[92] Others such as Eden and Appel Molot explore the importance of second wave of multinational corporations (latecomers) with regards to existing investors (first movers).[93]

These studies have shown that the typology becomes more complicated once other parties are introduced. A crucial theoretical contribution in this regard comes from Vlado Vivoda's bargaining model for the international oil industry, which utilizes a 'nesting' approach and is especially pertinent for this dissertation. This approach includes firm-, industry-, and country-specific conditions that may affect the relative bargaining capacity of each of the two actors.[94] This model attributes unique resources to each, the oil company and the host government. These resources are specific to the industry and form the basic entry conditions. The unique oil company resources tend to be its 'capital possession, and technological and managerial expertise relative to the host government'. The unique resources of the host government 'include the level of attractiveness of its oil, measured in terms of reserve size, reserve longevity, and potential profitability'.[95] Next, a series of bargaining processes occur within an international context and a

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[90] Vivoda, "Rise of State-Firm Bargaining in the 2000s," 54.
[91] Levy and Prakash, "Bargains Old and New."
[92] Ramamurti R, "The Obsolescing `Bargaining Model'? MNC-Host Developing Country Relations Revisited," *Journal of International Business Studies* 32, no. 1 (2001): 23–39.
[93] Lorraine Eden and Maureen Appel Molot, "Insiders, Outsiders and Host Country Bargains," *Journal of International Management* 8, no. 4 (2002): 359–88, doi:10.1016/S1075-4253(02)00095-9.
[94] Vivoda, "Bargaining Model for the International Oil Industry."
[95] Ibid., 22.

host-country context. Changes in the conditions within the nest—such as (but not limited to) rapid changes in the oil price that transform the entry conditions in the industry—can trigger a re-bargain.

Material considerations are certainly important determinants for changing state treatment of foreign investment. These considerations, however, do not fully explain how and in what ways states change their treatment of foreign investors.[96] Much like some of the original discussions based on host state-multinational corporation relations, this work is concerned with highlighting internal ideological contestations and changes in the outlook of the actors that interact in the global energy market. This study is able to capture some of the complexities in state-foreign company relations in ways that more contemporary bargaining models do not. But the analytical upshot of this work is not simply based on casting the interplay of domestic actors' interests. In order to develop this explanation further, it is important to move beyond the squarely material motivations and 'incentives' that are paramount in shaping the behavior of actors according to OBM models. The manner in which host states engage with global factors may also differ according to dominant and contested ideas that various social alliances employ to impact policy. Even when the motivations of host states align with each other during periods of higher oil prices, or when the conditions of investments make companies 'hostages', the outcomes of policy change may differ due to other factors that are unrelated to the material incentives or the endowments of actors. Ideas are powerful determinants of policy outcomes, and broadly set the context in which national and international debates take place. Indeed, ideas can shape the contours of shifting bargaining conditions. In the next subsection, I discuss various arguments that provide useful conceptualizations of the role of ideas in the enactment of national identity in resource governance.

2.3. Ideational contestations: the paths of meaning and subjectivity

The interests of actors should not be understood as a given or exclusively affected by material exogenous factors such as fluctuating oil prices or the quantity and quality of a country's underground endowments. They can also be shaped and transformed by ideas and beliefs 'about

[96] For an early critique of bargaining theories, see: George Philip, "The Limitations of Bargaining Theory: A Case Study of the International Petroleum Company in Peru," *World Development* 4, no. 3 (1976): 231–39.

what is desirable and how the world works'.[97] Already established as a dominant approach in international relations, constructivist literature has made important contributions towards uncovering linkages between widely held inter-subjective meanings that can influence policy.[98]

Critical scholars in the vein of neo-Gramscian thought considered ideas as inseparable from other categories that formed a 'historic structure'. Cox's famous article published in *Millennium* in 1981 argued that ideas, material capabilities and institutions interact in a given historical structure in reciprocal ways—ideas were inseparable from material capabilities and institutions. Ideas, material capabilities and institutions, in turn, constrained and enabled actors. Cox considered ideas as 'inter-subjective meanings', or those 'shared notions of the nature of social relations which tend to perpetuate habits and expectations of behaviour'. Similarly, ideas were 'collective images of social order held by different groups of people'.[99] At the core of the Coxian perspective was the notion that any given world order was determined by the interaction of these categories.[100] My project is less concerned with the broad functioning of a global order, and instead with the interactions of specific states with global actors. In this context, the central concern herein is with the role ideas play in the shifting preferences of states' interactions with foreign investment.

A more mainstream current of thought grew out of international relations, questioning the core assumptions of the materialist currents of the discipline.[101] While realism and neo-liberal institutionalism based their theoretical apparatus on the assumption that states were self-interested and the central unit of analysis in an international system defined by anarchy, constructivists argued that anarchy was itself largely the result of state agents' interpretation of

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[97] Eric Helleiner, "Conclusion: The Meaning and Contemporary Significance of Economic Nationalism," in *Economic Nationalism in a Globalizing World*, ed. Eric Helleiner and Andreas Pickel (Ithaca, NY: Cornell University Press, 2005), 231.

[98] Eric Helleiner and Andreas Pickel, *Economic Nationalism in a Globalizing World*, Cornell Studies in Political Economy (Ithaca, NY: Cornell University Press, 2005); Rawi Abdelal, Mark Blyth, and Craig Parsons, *Constructing the International Economy* (Cornell University Press, 2015).

[99] R. W. Cox, "Social Forces, States and World Orders: Beyond International Relations Theory," *Millennium - Journal of International Studies* 10, no. 2 (1981): 136, doi:10.1177/03058298810100020501.

[100] Robert Cox, "Gramsci, Hegemony, and International Relations: An Essay in Method," *Millennium: Journal of International Studies* 12, no. 2 (1983): 162–162.

[101] John Gerard Ruggie, *Constructing the World Polity Essays on International Institutionalization*, New International Relations (London ; New York: Routledge, 1998), http://search.ebscohost.com/login.aspx?direct=true&scope=site&db=nlebk&db=nlabk&AN=77232.

the world order. National and cultural identities, in turn, affected state behavior internationally. Similarly, powerful ideas transformed into international norms also affect state actors beyond material interests.

After more than two decades of contributions to international relations, international political economy scholars have recently begun taking stock of the contribution of constructivist insights to current understandings of the global economy. In a recent study, Rawi Abdelal argues that 'constructivism as an approach to IPE emphasizes that policy practices may result from international institutions, international norms (which specify the practices associated with a particular state identity), domestic cultural norms, and national identities'.[102] In a recognized edited volume, Abdelal, Blyth and Parsons identify four main pathways through which constructivism approaches its explanations of empirical puzzles. These refer to meaning, cognition, uncertainty and subjectivity.[103] My framework identifies the pathways of meaning and subjectivity as the bases for ideas complementing bargaining insights to explain the approaches states have taken toward foreign investment in an historical perspective.

A common ideational approach to IPE focuses on the 'meanings with which material facts of the world are endowed'. In contrast with purely materialist approaches, such as bargaining models, which assume that agents act according to material incentives, this line of ideational scholarship considers that 'agents endow the economies in which they are embedded with social purposes'.[104] Ultimately, what social agents struggle to achieve is largely dependent on how they interpret their own identities. Abdelal, Blyth and Parsons recognize that social purposes can be a result of broad contestation or be rather latent and taken for granted by large groups in society. Much of the detailed discussions that will follow in this dissertation take the form of broad contestations around the meaning of national identities, as nations that own specific kinds of natural wealth (in these cases, crude oil), and that of development, as the 'social purpose' of said national wealth. Different social groups, often organized in political parties in parliaments or social movements

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102 Rawi Abdelal, "Constructivism as an Approach to International Political Economy," in *Routledge Handbook of International Political Economy (IPE): IPE as a Global Conversation* (Routledge, 2009), 71.
103 Rawi Abdelal, Mark Blyth, and Craig Parsons, *Constructing the International Economy* (Cornell University Press, 2015).
104 Ibid., 9.

and indigenous confederations, contest the meanings and purposes of oil ownership through time. As we shall see, the capacity of these groups to exert influence is dependent on their ability to employ ideas and discourses that can shift policy decisions and even transform power structures of the state.

Beyond domestic social groups, Barnett and Finnemore have discussed how international organizations are endowed with agency and are capable of fixing meanings and constrain states through different avenues of authority.[105] International norms can enhance certain state actors when norms align with the ways officials interpret national identities.[106] Finnemore and Sikkink demonstrate also that norms can originate at a national level and then can be internationalized through 'norm entrepreneurs' of various kinds. For some time, scholars centered on the diffusion of ideas and norms flowing from the global north to the south but, in recent times, various studies committed in broad terms with a constructivist agenda have illuminated how actors from the global south contributed to norm creation internationally.[107]

Norm diffusion therefore can start from a local setting and flow from south to north or within the periphery. The influence of domestic contestations around norms as well as that of transnational norms in domestic settings is worth casting within the area of resource governance. As will be shown, the notions of production benchmarks and the eventual creation of OPEC emerge as cases in point. Venezuelan nationalists, who ushered the country's identity as a landlord state for much of the twentieth century, created benchmarks of state treatment of foreign investors, which spread to other oil producers.[108] Later on, together with Saudi Arabia, Iran and Iraq, Venezuelan officials agreed on acceptable behaviors of producers in order to protect oil prices. This initial agreement then evolved to the creation of OPEC as an international organization to serve their

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105 Michael N. Barnett, *Rules for the World International Organizations in Global Politics* (Ithaca, NY: Cornell University Press, 2004).
106 Ibid.
107 Amitav Acharya, "'Idea-Shift': How Ideas from the Rest Are Reshaping Global Order," *Third World Quarterly* 37, no. 7 (July 2, 2016): 1156–70, doi:10.1080/01436597.2016.1154433; Kathryn Sikkink, "Latin American Countries as Norm Protagonists of the Idea of International Human Rights," *Global Governance: A Review of Multilateralism and International Organizations* 20, no. 3 (July 1, 2014): 389–404, doi:10.5555/1075-2846-20.3.389; Eric Helleiner, "Southern Pioneers of International Development," *Global Governance: A Review of Multilateralism and International Organizations* 20, no. 3 (July 1, 2014): 375–88, doi:10.5555/1075-2846-20.3.375.
108 Juan Pablo Pérez Alfonzo, *Hundiéndonos En El Excremento Del Diablo* (Caracas: Banco Central de Venezuela, 2011).

states' interests. In this case, as will be shown in chapter 3, Venezuelan nationalists—most notably Juan Pablo Pérez Alfonzo—served as 'norm entrepreneurs'. Simultaneously, Ecuadorian military officials sought to join OPEC in their efforts to assert further control over oil companies and join a larger group of producer nations. For Ecuador, factions of the military embraced international norms guiding oil producers to advance their resource nationalist domestic agendas.

As mentioned, widely held ideas can be used by actors and inform their interests but subjective notions can also shape the contexts in which actors interact and effectively limit or enhance their behavior. Hence, another major pathway through which ideas affect the direction of the policy and economic policy in particular, is through subjectivity. In this case, a different strand of scholarship, committed to post-positivist epistemologies, focus on the value of discourse and identity as a basis for subjects' ability to effect change or to reproduce the status quo.[109] Post-structuralist constructivism stresses the 'constraining and structural role of discourses as opposed to the agential quality of constructivist scholarship that stresses ideas'.[110] For these scholars, norms and identities represent power structures that determine what is possible, through acceptable action, policy and speech. Therefore, the context within which these discursive structures arise becomes crucial for post-structuralist scholars.

The political economy of 'rentier states' has been understood as a result of a complex web of rent-seeking actors in contexts of under-developed political institutions.[111] Beneath the view of utility-maximizing and materially driven 'rent seeking' actors, post-structuralist views of 'petro-capitalist complexes' conceive the state and non-state actors as enacting, and also performing, particular roles and discourses defined by the material dependence on oil.[112] Contributions from political geographers, political anthropologists and ecologists refer to these subjective meanings and the way national constructs are associated with resource ownership, and governance.[113]An early reference within this literature is Fernando Coronil's take on Venezuela as having two

[109] Paul Langley, "Power-Knowledge Estranged : From Susan Strange to Poststructuralism in British IPE," in *Routledge Handbook of International Political Economy (IPE): IPE as a Global Conversation* (Routledge, 2009).
[110] Abdelal, "Constructivism as an Approach to International Political Economy," 75.
[111] Michael L. Ross, "The Political Economy of the Resource Curse," *World Politics* 51, no. 02 (1999): 297–322.
[112] Michael Watts, "Resource Curse? Governmentality, Oil and Power in the Niger Delta, Nigeria," *Geopolitics* 9, no. 1 (2004): 50–80.
[113] Bebbington and 2013; Watts 2004; Kolh and Farthing 2012

bodies: its body politic, and its natural body, which is demonstrated in its subsoil resources. State authority is edified as capable of governing society through controlling the natural body of the nation. In Coronil's work, the state and nation are conceptualized as two separate entities that interact in an actor-spectator fashion, where the latter is expected to magically 'deliver' goods to the former. The bond that makes this theater act possible is oil. In Perreault's words, in Coronil's work, 'oil acts as both a material and ideological force'.[114]

Conceptualized as a subjective construct, the state does not operate as a mere *agent* maximizing a set of objectively derived interests. Seen as *subjects*, state officials are endowed with, and constrained by, socially accepted norms and roles, embodying pre-conceived practices and discourses. The social constructs of a landlord state or, following Coronil's terminology, a 'magical state', can help explain the tensions and contradictions of Venezuela's political elite with the growing neoliberal consensus around the world in the late 1980s and 1990s. For quite some time, the Venezuelan political elite held on to ideas developed throughout the twentieth century about the role of the state as a landlord that ought to extract rents from IOCs, and later, its NOC. This notion remained strong even in the midst of a neoliberal turnaround in other sectors of the economy and clashed with the managerial culture of PDVSA, inherited from the old IOCs. The state-NOC tensions, an internalized version of state-IOC disputes, also reflected subjective ideas of 'the (landlord) state' and 'the firm' (see more in chapter 4).

Post-structuralist scholarship shows how 'geographical imaginaries' can effectively impact resource governance both stemming from civil society activism and government action.[115] The struggles over resource extraction, environmental protection and resistance to neoliberalism have become central components of this research agenda. This body of literature has integrated political economy analysis with cultural politics and symbolic elements that constitute collective ideas in relation to material and ecological resources. The work of these scholars similarly contributes to understanding mediation processes between the state, resources, and society via laws, wealth-distribution mechanisms, technological devices, and most notably through struggles

[114] Tom Perreault, "Nature and Nation: Hydrocarbons, Governance, and the Territorial Logics of 'Resource Nationalism' in Bolivia," in *Subterranean Struggles: New Dynamics of Mining, Oil and Gas in Latin America*, ed. Anthony Bebbington and Jeffrey Bury (Austin, Texas: University of Texas Press, 2013), 71.
[115] Perreault and Valdivia, "Hydrocarbons, Popular Protest and National Imaginaries"; Valdivia, "Governing Relations between People and Things"; Bebbington and Bury, *Subterranean Struggles*.

over national identity, space, and local territory.[116] Moreover, authors in this tradition consider the use of oil governance as part of a larger governmental rationality that is closely associated with the conception of both nation and citizenship.[117] In a recent study, for example, Pellegrini shows that resource nationalism represents a tool of government both for the Bolivian state to enact resource extraction and for social movements to resist it.[118] In this case, the discourse of ownership over natural resources plays a central role in mobilizing competing actors in different directions.

In contemporary times, local struggles have emerged as a result of state action that seeks to govern natural resource extraction for the purpose of rent distribution and pursuit of industrial policies. In fact, the idea of development has been a powerful driver of state action locally, but also transnationally for Third World nations. In Latin America, the developmental imperative emerged as a reflection of what economists and social scientists in the region argued was the subordination of Latin American economies to the interests of the center of capitalism.[119] The widely shared meaning of development at the time was concerned with an international division of labor that distinguished primary commodity producers from industrialized countries was the determinant of this subordination. Transforming the logic of how the global economy presumably functioned became a decisive turning impulse in the 1960s and 1970s. On one hand, industrialization became a central goal, and state policies were designed to achieve it through import-substitution. On the other hand, transforming the subordinate position of the Third World in the global economy forced a shift in the role of the state's control of natural resources.[120]

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[116] Michael Watts, "Resource Curse? Governmentality, Oil and Power in the Niger Delta, Nigeria," *Geopolitics* 9, no. 1 (2004): 50–80.

[117] Lorenzo Pellegrini, "Resource Nationalism in the Plurinational State of Bolivia," in *The Political Economy of Natural Resources and Development: From Neoliberalism to Resource Nationalism*, ed. Paul Haslam and Pablo Heidrich (Routledge, 2016); Valdivia, "Governing Relations between People and Things."

[118] Lorenzo Pellegrini, "Resource Nationalism in the Plurinational State of Bolivia," in *The Political Economy of Natural Resources and Development: From Neoliberalism to Resource Nationalism*, ed. Paul Haslam and Pablo Heidrich (Routledge, 2016).

[119] Fernando Henrique Cardoso and Enzo Faletto, *Dependencia Y Desarrollo En América Latina: Ensayo de Interpretación Sociológica* (Siglo xxi, 1996); Raúl Prebisch, "The Economic Development of Latin America and Its Principal Problems," *Comisión Económica Para América Latina Y El Caribe*, 1950, http://archivo.cepal.org/pdfs/cdPrebisch/002.pdf; Andrés Rivarola Puntigliano and Örjan Appelqvist, "Prebisch and Myrdal: Development Economics in the Core and on the Periphery," *Journal of Global History* 6, no. 1 (2011): 29–52, doi:10.1017/S1740022811000039.

[120] Mark T. Berger, "After the Third World? History, Destiny and the Fate of Third Worldism," *Third World Quarterly* 25, no. 1 (2004): 9–39; Giuliano Garavini, "Completing Decolonization: The 1973 'Oil Shock'and the

In both Venezuela and Ecuador, the meaning of development has taken different forms and these meanings integrate the use of oil as a driver of progress. Undoubtedly, industrialization and social equity have in one way or another been part of these policy actions. This is the case of the notion of 'sowing the oil', which became dominant since the mid-twentieth century in Venezuela or the idea of transforming the 'productive matrix' which is today an important discourse and policy driver in Ecuador. In general, the meanings associated with national development stress the role of the state as fundamental in promoting progress, social justice and growth, while the use and transformation of primary commodities remains at the basis of the development model. In many of these instances, development is linked to oil governance and foreign investment is associated with the broader needs of a modern economy.

Indeed, development ideals guide contemporary state actions that seek to use resource extraction as a way to advance social justice and industrialization. Current left-wing governments are generally understood as governments that have sought to reclaim space for the state to: pursue active economic and social policy; assert sovereignty over natural resources and the wealth derived from them; and promote grassroots activism and participation in a broader commitment to democracy and collective rights.[121] These 'post-neoliberal' regimes seem to be 'committed to maximizing revenue from the rising global demand for energy as a way of subsidizing welfare'.[122] In the 2000s, as the left rose to power in many South American countries together with a commodity price boom, the long-debated possibility of procuring development by leveraging the region's condition of primary commodity producer and exporter surfaced once more.[123]

Struggle for Economic Rights," *The International History Review* 33, no. 3 (2011): 473–87; Vijay Prashad, *The Darker Nations: A People's History of the Third World* (The New Press, 2008).

[121] Grugel and Riggirozzi, "Post-Neoliberalism in Latin America." The democratic credentials of these governments varied and have been seriously questioned in the case of Venezuela but also Ecuador and Bolivia.

[122] Ibid., 8.

[123] Murat Arsel et al., "Property Rights, Nationalisation and Extractive Industries in Bolivia and Ecuador," in *Conflicts over Natural Resources in the Global South: Conceptual Approaches*, ed. Maarten Bavinck, Lorenzo Pellegrini, and Erik Mostert (Leiden, The Netherlands: CRC press/Balkema, 2014); Antulio Rosales, "Going Underground: The Political Economy of the 'left Turn' in South America," *Third World Quarterly* 34, no. 8 (September 1, 2013): 1443–57, doi:10.1080/01436597.2013.831538; Eduardo Gudynas, "Natural Resource Nationalisms and the Compensatory State in Progressive South America," in *The Political Economy of Natural Resources and Development: From Neoliberalism to Resource Nationalism*, ed. Paul Haslam and Pablo Heidrich (New York, NY: Routledge, 2016).

Various scholars have argued that these dynamics demonstrate the rising phenomenon of a new kind of extractivism.[124] By 'neo-extractivism', they refer mainly to the conjunction of the following two processes: the extraction of raw materials as the main activity—or at least one of the most important activities—for the external sector economy and the use of rents derived from extraction for active social policy.[125] Similarly, other authors such as Arsel, Hogenboom and Pellegrini conceptualize this as an 'extractive imperative', wherein resource extraction is needed and its expansion is required to help satisfy social demands, regardless of the prevailing circumstances.[126] In the words of Maristella Svampa, the region has arrived at a 'commodities consensus', which relies on the use of rents to legitimize extraction.[127] Meanwhile, the societal and environmental problems caused by extraction are heightened, provoking social conflicts and the disenfranchising of some social movements and indigenous populations from the post-neoliberal governments that originally sought to empower them.[128]

While Venezuela and Ecuador have promoted ideas of socialism and development associated with resource extraction, scholars and activists have criticized the deepening of the extractivist imperative, which according to them has led to practices of enclosure, control and privatization in alliance with foreign investors. Gudynas states that 'beyond the nationalist rhetoric there has been a return of private investors, even in the oil sector'. In countries of the 'radical left', state companies 'have signed agreements with transnational corporations, under the so-called "migrations" to service contracts and joint ventures'.[129] According to this perspective, the result of this alliance is the emergence of a 'new form of class struggle' between landless and marginalized populations and the forces of extractive capital. In this context, it is suggested that organized capital has in fact used these peripheral states to assert their power through

[124] Bebbington and Humphreys Bebbington, "An Andean Avatar"; Burchardt and Dietz, "(Neo-) Extractivism–a New Challenge for Development Theory from Latin America"; Eduardo Gudynas, "Diez Tesis Urgentes Sobre El Nuevo Extractivismo," in *Extractivismo, Política Y Sociedad*, ed. CLAES (Quito: CAAP/CLAES, 2009).
[125] Burchardt and Dietz, "(Neo-) Extractivism–a New Challenge for Development Theory from Latin America"; Alberto Acosta, *La Maldición de La Abundancia* (Quito-Ecuador: Ediciones Abya-Yala, 2009); Gudynas, "Diez Tesis Urgentes Sobre El Nuevo Extractivismo."
[126] Murat Arsel, Barbara Hogenboom, and Lorenzo Pellegrini, "The Extractive Imperative in Latin America," *The Extractive Industries and Society* 3, no. 4 (2016): 880–87, doi:10.1016/j.exis.2016.10.014.
[127] Maristella Svampa, "Commodities Consensus: Neoextractivism and Enclosure of the Commons in Latin America," *South Atlantic Quarterly* 114, no. 1 (2015): 65, doi:10.1215/00382876-2831290.
[128] Bebbington and Bury, *Subterranean Struggles*.
[129] Gudynas, "Natural Resource Nationalisms and the Compensatory State in Progressive South America," 107.

dispossession and violence.[130] While assessing the validity of the claims raised by authors critiquing neo-extractivism goes beyond the scope of this research, their criticisms remain important points of contention on the ground, especially in Ecuador. Moreover, the use of rent distribution as a legitimizing mechanism by the state represents a significant tool for policy action and provides content to developmental discourse and practices advanced by left-leaning governments.

By integrating the pathways of meaning (focusing on the idea of development and national identity in relation to natural resources) and subjectivity (narrowing in on the emergence of dominant ideas), this framework contemplates important ideational motivations and contestations. As will be explained in greater detail, the historical evolution of ideas around state treatment of foreign capital in the oil sector develops through tensions and disputes among local and transnational actors. In this case, various actors employ different tactics based on ideas that challenge and intervene in the state-IOC bargaining beyond what the material variables of a formal model would predict.

The linkage of natural resources and national interests in a globalized energy industry lends relevance to literature in the wider constructivist realm that highlighted the pertinence of economic nationalism as an interpretative framework in the era of globalization.[131] These works examined nationalism's compatibility with market forces, arguing that economic nationalism can actually encompass a myriad of policy programs, and that it does not exclusively represent the apparently outdated paradigm of (trade) protectionism. In a similar vein, scholars have viewed resource nationalism as potentially encompassing numerous policy options, including liberal and market-friendly policies.[132] In this context, not only is resource nationalism potentially compatible with foreign investment, but foreign investment can also be conceived as instrumental to an agenda of state control (Venezuela) and state-led development (Ecuador).

[130] Pablo Dávalos, *Alianza PAIS O La Reinvención Del Poder: Siete Ensayos Sobre El Posneoliberalismo En El Ecuador* (Bogotá, Colombia: Ediciones desde abajo, 2014).
[131] Helleiner and Pickel, *Economic Nationalism in a Globalizing World*; Eric Helleiner, "Economic Nationalism as a Challenge to Economic Liberalism? Lessons from the 19th Century," *International Studies Quarterly* 46, no. 3 (2002): 307–29; Andreas Pickel, "Explaining, and Explaining With, Economic Nationalism," *Nations and Nationalism* 9, no. 1 (January 2003): 105–27, doi:10.1111/1469-8219.00077; George T. Crane, "Economic Nationalism: Bringing the Nation Back in," *Millennium-Journal of International Studies* 27, no. 1 (1998): 55–75.
[132] See for example Wilson, "Understanding Resource Nationalism."

Shifting one's gaze to the conceptions of national sovereignty in a larger context of a globalized economy provides an understanding of why and how nationalist policy makers partially nationalize oil resources, while at the same time encouraging foreign investment in the oil sector.

2.4. Conclusions

State treatment of foreign investment has for long been understood through the lens of obsolescing bargaining models. While early bargaining model studies considered important strategic state notions of development, OBM literature has remained largely centered on material variables in its more recent iterations. This theoretical perspective is important in that it incorporates: (a) crucial material variables that are focused on the evolution of the industry in each specific market; and (b) exogenous factors—especially in recent literature—such as fluctuations in the oil price. While the bargaining literature considers industry concentration as an important variable, it has been slow in incorporating the new actors that have emerged in recent years in the global energy market, namely SOEs from non-western countries.

The main theoretical criticism of OBM is that states should not be considered unitary utility-maximizing actors; instead, they are diverse. The theoretical approach employed herein bridges the material and rationalist approach embedded in contemporary bargaining literature with ideational approaches in order to better explain the historical changes in state treatment of foreign investment. As will be shown, states also respond to important ideational drivers that are contingent upon national identities and the subjectivity of diverse actors. Indeed, different groups within states can affect economic policy through ideological contestations that do not necessarily respond to material rationalities. In this case, I propose to incorporate constructivist insights with the broader material variables that affect state-company relations. The changing meanings of development will be a recurrent theme in these ideational variables as well as the subjective identities that different state actors hold with regard to natural resources.

The advantage of this complementary perspective is that it gives weight to agency, both in terms of the rational position of actors, and in the subjective and historical conditions in which ideas and identities are built. At the same time, it recognizes the structural constraints on these actors' agencies. My claim is that rationalist and ideational approaches can complement each other and lead us into broader reflections on our understanding of international politics where the role of ideas and material capabilities interact in important ways.

In the following chapters, I will delve into an historical narrative of the two case studies. The objective is to weave into the argument a detailed exploration of state treatment of foreign investment, the interactions of the changing bargain conditions, the internal ideological contestations and ideas that inform these shifts. Resource nationalism and foreign investment are therefore conceived in relation to each other and from an historical perspective. In doing so, this work will demonstrate how particular trends emerge through time and are affected by the particularities of global contexts and the defining actors.

Chapter 3
The slow process of shifting bargains:
from open doors to stringency in Venezuela's treatment of foreign investment in the oil sector

3.1. Introduction

For much of the twentieth century, Venezuela's political economy was marked by contention between the state and transnational corporations over the conditions upon which oil extraction occurred. Starting with an open-door dictatorial regime, this contention evolved to a point wherein the state gained knowledge and confidence over time, increasing its capacity to extract ground rents from companies. After the stabilization of party democracy in 1958, no more concessions were granted. Once companies were certain that concessions would not be renewed, they decreased investments in exploration and enhancement, increasing the state's incentives to take over companies' sunk assets. Indeed, the contractual agreements signed in 1943 and 1956 became obsolete by the late 1960s. Nationalization was an inevitable outcome of these long-term legal and political struggles.

Nevertheless, different interpretations of how the state takeover should happen emerged within the Venezuelan political system. In 1971, a law promoted by left parties was approved stating that all installations would revert to state control once the 40-year contracts expired in 1983 and 1996. The state was under no obligation to compensate companies. In 1975, a nationalization law was approved under the auspices of the ruling social-democratic party, AD. The law anticipated state takeover; it included compensation to companies and also left a window for state association with companies under technical assistance contracts (Article 5). The 1975 law demonstrated that the history of control over the oil industry was far from settled, and the linkage with foreign capital was not completely sealed off either. Article 5 allowed for concrete alliances with foreign companies, and the creation of a national holding company with considerable autonomy meant the internalization of IOCs' logics and interests into parts of the state.

In this chapter, I explain how Venezuela came to a complete nationalization of its oil industry in 1976, illustrating the pinnacle of resource nationalism in the country and the point of most stringent relations between the state and foreign companies in contemporary history. I argue that the complete nationalization can be explained in part by the politics of obsolescing bargains and the entrenchment of specific ideas that became important to most political actors in Venezuela's political system. These ideas were often understood and mobilized differently by distinct actors and coalitions of actors. After fifty years of concessionary system, Venezuela's political system was infused with powerful notions surrounding the need to use the nation's natural resources for the improvement of society as a whole. Notions of state-led development, and socialization of wealth, were intrinsically linked with the use of oil rents and popularized as 'sowing the oil'. The use of natural resource wealth for development and the upholding of landlord states' sovereignty over the oil industry also promoted multilateral efforts to enhance Third World nations' power. Venezuela was a protagonist in these efforts and its experience was crucial in the diffusion of norms internationally, leading to the creation of OPEC.

This chapter demonstrates that the state-IOCs bargain of 1943 became obsolete in the late 1960s and the early 1970s. The set up of the new arrangement was largely determined, however, by conflicting ideas around the use of oil wealth held by different actors, mostly political parties and foreign companies. The state held a monopoly over the industry from 1976 onward. But it also 'nationalized' the interests of foreign companies through the creation of a national holding, which had considerable autonomy.

The chapter will unfold in the following way. First, it will review the liberal concessionary system set up by Juan Vicente Gómez's regime. Second, it will explore the emergence of nationalist movements in the country and the attempts of the post-Gómez regimes to better regulate the industry and the hiatus of military rule between 1952 and 1958, which interrupted the democratization process initiated in 1935. Third, the chapter will examine the nascent bi-partisan democracy and the reemergence of nationalism until the oil industry nationalization was decreed in 1976.

3.2. The concessionary system

'You know about oil. You can make the laws. We are novices on the matter'.[133]
Juan Vicente Gómez to foreign companies' lawyers during discussions around the 1922 hydrocarbons law.

The era of liberal concessions in Venezuela started with the regime of Juan Vicente Gómez (1907-1935), characterized as a 'liberal tyranny'. Gómez assumed the presidency with the project of pacifying the country through a strong dictatorial rule. The regime was organized under the so-called Venezuelan positivist thought, which assumed that the 'organic constitution' of Venezuelan society was inept for democracy.[134] According to ideologues such as Laureano Vallenilla Lanz, this failure was the result of features such as climate, racial make-up, history and geography. Vallenilla Lanz argued that the 'organic' constitution of Venezuelan society tended to follow strong men.[135] Upon seizing power, the economy was in chaos and Gómez 'sought to restore order by inviting foreign capital to invest with the guarantee of labor peace and flexible business conditions'.[136] Indeed, Venezuela established itself as the Latin American country with the most liberal policy toward foreign investment at the time. Gumersindo Torres, twice industry minister under Gómez,[137] said that the country's laws were 'the best in the world for oil companies'.[138] The government granted large concessions to individuals who later leased or transferred them cheaply to foreign companies. One of the largest examples was a lease of 27 million hectares, covering ten out of the country's 20 states and one of its federal territories.[139]

The regulatory capacity of the government was linked to the characteristics of the dictatorial rule; members of the Gómez family became officials in charge of granting concessions, which

[133] Quoted in Betancourt, *Venezuela, Política Y Petróleo*, Tomo 1: p. 75. from a *Fortune*'s report published in 1937.
[134] Santos and Vallenilla Lanz, "Debate Sobre El Cesarismo Democrático."
[135] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*.
[136] Coronil, *The Magical State*, 76.
[137] I purposefully use the term 'industry minister' when referring to *ministro de fomento*. This term has been translated as 'development minister'. However, at the time, the idea of development did not have the resonance, let alone the meaning we now attribute to it. Thus, I use the term 'industry'.
[138] Quoted in Betancourt, *Venezuela, Política Y Petróleo*, Tomo 1, 73.
[139] Lieuwen, *Petroleum in Venezuela*; Betancourt, *Venezuela, Política Y Petróleo*; McBeth, *Juan Vicente Gómez and the Oil Companies in Venezuela, 1908-1935*.

provoked a wave of corruption in Venezuela related to selling lands to allies and later to investors.[140] The financial features of these contracts focused on an annual tax of 1 bolivar (Bs.) per hectare and 2 Bs. per ton produced. The duration of contracts oscillated between 30 to 50 years.[141] The state imposed taxes but it did not levy royalties for 'the right to extract'.[142] The companies were also exonerated from import fees for any items required for production. These conditions also allowed companies to invest in roads, pipelines, refineries, housing and required infrastructure that the government was unwilling to fund.[143]

The Royal-Dutch Shell Corporation acquired most Venezuelan concessions between 1913 and 1915. The regime welcomed Shell's entry into the country and it expected to increase production capacity.[144] In turn, the British-Dutch early entry provided them an advantage over US companies that started to compete later on. Companies' interests in Venezuela grew for geopolitical reasons, as its geographical location meant cheaper transport costs compared to other producing countries, and also because it offered extraordinary conditions for business, particularly compared to revolutionary Mexico.[145] The first major commercially viable well began production in 1914; in 1918 oil exports from Venezuela began to flow out of the country's ports and grew steadily in the 1920s.[146] At this point in history, it is clear that the state-foreign companies' bargain was beneficial to companies. While the state sought to provide incentives for companies to invest in the early stages of the industry, the government also had an ideological commitment to unfettered regulations, as long as it remained in absolute political control of the country.

3.2.1. Gumersindo Torres: initial regulation attempts

Dissatisfied with the personal benefits gained from the incursion of foreign companies in the oil business, Gómez appointed Gumersindo Torres industry minister in 1918, who was then in charge of dealing with matters relating to petroleum. Torres initiated a process of legal

[140] Tugwell, *The Politics of Oil in Venezuela*; McBeth, *Juan Vicente Gómez and the Oil Companies in Venezuela, 1908-1935*.
[141] Salazar-Carrillo and West, *Oil and Development in Venezuela During the 20th Century*; McBeth, *Juan Vicente Gómez and the Oil Companies in Venezuela, 1908-1935*; Mommer, *La Cuestión Petrolera*.
[142] Mora Contreras, "Derechos de Propiedad, Compañías Petroleras, Estado Y Renta En Venezuela."
[143] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*.
[144] Coronil, *The Magical State*.
[145] Lieuwen, *Petroleum in Venezuela*.
[146] Salazar-Carrillo and West, *Oil and Development in Venezuela During the 20th Century*.

transformations to increase state regulation over the industry. He stated that up until that point concessions had been granted 'thoughtlessly' and the country had therefore 'obtained little or no benefit at all from them'.[147] Torres commissioned research in the most important producing countries at the time; the United States and Mexico, wishing to make Venezuela's regulatory framework on par with its counterparts. In 1920 the first hydrocarbons law was passed. It brought all concessions to a 30-year period; the exploration area was delineated to 60,000 hectares while exploitation plots were delineated to 200 hectares. Surface taxes were levied between 2 to 5 Bs. per hectare and an 8 to 15% royalty for the right to exploit the land was imposed (see table 3.1 for a summary below).[148] Even though companies were exempt from import and export taxes, the state as a proprietor of the subsoil began for the first time to directly extract benefits as a *rentier* through royalties.[149]

Important innovations came about with Torres' provisions. Half of the exploration areas given in concessions had to be returned to the state to create a 'national reserve' for future exploitation by the state or to be auctioned for private exploitation. Mendoza Potellá, an oil expert and university professor in Venezuela, claimed in an interview that 'the area in concession was to be delineated as a chessboard, dividing black and white lots between the areas for the concessionary and reserved areas'. In a three-year period of exploration, 'the concessionary could not foresee the most productive areas',[150] so the state assured a portion of national interest in each concession. Lastly, in 1918 Torres created the Direction General of Mines at the ministry of industry, which aimed to train both engineers and decision makers with the required technical and political capacities to regulate the industry.[151] Torres' regulatory attempts were geared toward increasing the state's technical capacity and knowledge to be better equipped to regulate companies in the future.

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147 Quoted in: McBeth, *Juan Vicente Gómez and the Oil Companies in Venezuela, 1908-1935*, 43:23; See also: Mommer, *La Cuestión Petrolera*.
148 Lieuwen, *Petroleum in Venezuela*; McBeth, *Juan Vicente Gómez and the Oil Companies in Venezuela, 1908-1935*; Salazar-Carrillo and West, *Oil and Development in Venezuela During the 20th Century*.
149 Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*.
150 Both quotes from an interview with author in Caracas, July 2014.
151 Martín Frechilla, "Ni Bendito Ni Maldito. Visión de Conjunto Del Impacto Del Petróleo En La Sociedad Venezolana."

Companies from the US were interested in the Venezuelan market but no concession had yet been granted to them. Based on their interest in Venezuela's market, these companies fiercely opposed the 1920 law and directly pressured Gómez to overrule it and to dismiss Torres from the ministry.[152] Gómez replaced Torres and eased the terms of the law in 1922. The companies managed to make the government reduce royalties to 9% and to continue the exemptions on imports. The new law softened leasing conditions allowing for large concentrations of land given to concessionaires for forty years (see table 2 below).[153] The interests of American corporations grew steadily in the 1920s, surpassing British-Dutch investments. In 1929, Venezuela had received US$ 100 million in investments.[154] In the same year, the oil industry employed over 27,000 workers in the country, contributed over 10% of the GDP, and its rents accounted for roughly 20% the government's revenue.[155] The Standard Oil of New Jersey (SONJ) gradually increased its power over Venezuela's oil industry under its affiliate Creole (with 50% of the national industry), Royal Dutch-Shell with 35% and, finally Gulf Co. with 14%. In 1936 Gulf sold half of its assets to Creole and Shell, effectively making the industry a concentrated duopoly until its nationalization in 1976.

Venezuela became the world's main oil exporter and second producer behind the US at the end of the 1920s. In this context, Torres was appointed minister of industry once again in 1929. Torres established a technical secretariat within the ministry to draw up a set of regulations that would implement the law of hydrocarbons. The ministry developed regulations to collect taxes from the companies, measure production, and prevent spills and accidents. The logic behind this was that the nation as owner of subsoil minerals had an interest in regulating extraction. Torres was explicit about this:

> … once the legislature grants mining rights to extract, it is not by any means leaving it up to the arbitrariness or caprice of the concessionary to do so. [On this matter], the nation is intimately interested, as it partakes in the benefits of the

[152] McBeth, *Juan Vicente Gómez and the Oil Companies in Venezuela, 1908-1935*.
[153] Coronil, *The Magical State*.
[154] González Casas, "Nelson A. Rockefeller Y La Modernidad Venezolana: Intercambios, Empresas Y Lugares a Mediados Del Siglo XX."
[155] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*; Salazar-Carrillo and West, *Oil and Development in Venezuela During the 20th Century*.

> extracted product, but mostly as the owner of the mineral before it is extracted and the owner of that which remains underground.[156]

Mommer and Bautista Urbaneja argue that Torres' actions demonstrate the beginning of the state's self-awareness as a landowner that would try to impose conditions on the leasing concessionary in order to improve the recuperation of the mineral even at the expense of increasing costs.[157] This self-identity will become an important component of Venezuela's modern conceptions of nationhood[158] and, as we shall see, it will also impact the state relationship with extracting companies, including its own.

Under the auspices of the technical secretariat, six engineers were awarded scholarships and sent to the US to be trained in different areas of the geological process. These individuals became the seeds for modern oil and geological engineering faculties in Venezuela. Both the secretariat and the director general of mines were the precursors of what later became the ministry of mines and hydrocarbons.[159] Regulating the oil industry and learning about oil was a simultaneous process that gradually increased confidence vis-á-vis foreign companies but also provoked important transformations within the modern state. Such transformations were especially significant as oil revenues became more important and Torres was a prominent figure in the process of increasing state control over companies.

Venezuela had been largely dependent on agricultural production, and despite with some downturns, coffee and cacao production remained important through the 1920s. The Great Depression changed this. When the US dollar depreciated after 1933, many Latin American economies devalued their currencies to keep pace with the dollar, yet the Venezuelan government decided otherwise. As a result, the bolivar appreciated rapidly.[160] Pedro Tinoco, then

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[156] Quoted in Mommer, *La Cuestión Petrolera*, p. 89.
[157] Mommer, *La Cuestión Petrolera*; Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*.
[158] Juan José Martín Frenchilla, "Ni Bendito Ni Maldito. Visión de Conjunto Del Impacto Del Petróleo En La Sociedad Venezolana," in *Petróleo Nuestro Y Ajeno: La Ilusión de Modernidad*, ed. Juan José MARTÍN FRECHILLA and Yolanda Texera Arnal (Caracas: Universidad Central de Venezuela, CDCH, 2005); Fernando Coronil, *The Magical State: Nature, Money, and Modernity in Venezuela* (University of Chicago Press, 1997); Miguel Tinker Salas, "The Enduring Legacy: Oil," *Culture, and Society in Venezuela (Durham: Duke University Press, 2009)*, 2009, 1900–1938.
[159] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*.
[160] Ibid., 47.

minister of finance, negotiated a gentlemen's pact between oil companies, banks and the government in 1934 to fix the value of the bolivar; an agreement that maintained the currency overvalued.[161] In the words of Coronil: 'a strong bolivar, whose value was unrelated to the productivity of domestic labor, raised the price of agricultural exports and made them uncompetitive on the world market and reduced the costs of imported goods, thus inhibiting local production and promoting imports'.[162] Tinoco's policy was seen as an extra-fiscal measure to extract benefits from oil companies as they had to exchange more dollars for their activities in Venezuela, while it also made imports cheaper and helped satisfy increasing social demands.

The phenomenon known as the 'Dutch disease' became endemic in Venezuela after 1934 when the government agreed to keep the currency overvalued, and annihilated the prospects of agricultural exports. The Tinoco Agreement created an economy that has been characterized—with only short interruptions—by an overvalued currency until today. The governmental elite chose to apply different forms of subsidies to agricultural producers aiming to strengthen their position domestically. In this way, the government established itself as the central mediator of rent distribution in the country. The channeling of these rents to private hands translated into processes whereby economic and social actors claimed portions of this rent to the state.

In sum, during the Gómez dictatorship, there were only incipient attempts to bring the oil industry under state regulation. These attempts were largely influenced by the individual figure of Minister Torres and noticeably undermined by the power of foreign companies and governments. In this period, however, the seed of knowledge and technical capacity was planted in a growing state bureaucracy that would later help improve the state's bargaining position. Moreover, in ideational terms, the notion of a landlord state that sought to extract rents from the industry was established in Venezuela's elite and incipient state apparatus.

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[161] García Banchs, "La Política Monetaria de Los Países Miembros de La OPEP."
[162] Coronil, *The Magical State*, p. 87.

Table 3.1 Evolution of the concessionary system's regulatory features in Venezuela

Government / legislation	Regulatory features	Financial features
Gómez 1907-1920 Liberal concessions	• Large land concessions (up to 27 million hectares). • Concessions lasted up to 50 years.	• 1 Bs. per hectare. • 1 Bs per ton produced. • Companies were exonerated from import and export taxes. • No royalty was levied.
Gómez, first hydrocarbon law 1920 by Gumersindo Torres	• Concessions were delineated to 60,000 hectares. • Exploitation areas delineated to 200 hectares. • Creation of national reserves. • 30 year concessions.	• Surface tax between 2 and 5 Bs. per hectare. • 8 to 15% royalties. • Companies were exonerated from import and export taxes.
Gómez, 1922 law by US pressure	• Concessions extended to 40 years • Concessions delineated to 10,000 hectare per concession and 500 hectare for exploitation parcels.	• Surface tax between 2 and 5 Bs. • 9% royalties. • Companies were exonerated from import and export taxes.
Medina Angarita, 1943 *Ley convenio*	• Concessions lasted 40 years. • Same area extensions and national reserve was preserved.	• Royalties 16.6% (one sixth). • Income tax 12%. • Import and export taxes were levied for the first time.
AD triennium 1945-1948 *Ley convenio*	• All regulatory principles remained. • No more concessions policy	• Additional tax was imposed to ensure a 50% split in profits between state and companies.
Pérez Jiménez, 1950-1958 *Ley convenio*	• In 1956 and 1957 new concessions were granted in national reserves areas.	• *Fifty-fifty* principle was preserved.
Edgar Sanabria, Junta de Gobierno, 1958 *Ley convenio*	• All regulatory principles remained. • No more concessions.	• Additional tax was increased to ensure at least 60% profits for the state.
Rafael Caldera, 1971 Reversion law (proposed by left-wing party MEP)	• No concession will be renewed. • No compensation would be given. • Companies were liable to keep infrastructure and investments.	• A fund valued at 10% of companies' assets was to be created and reimbursed in 1983 and 1996 if infrastructure was well-maintained.
Carlos Andrés Pérez, 1975 Nationalization law	• Nationalization of all foreign assets under a national holding, PDVSA. • Strategic associations with foreign companies allowed for special projects with the approval of both chambers of Congress.	• All financial features from the 1943 law remained in place, now with temporary exceptions given to PDVSA.

3.3. Post-Gómez era: from *ley convenio* to the fifty-fifty

Until now, the state treatment of foreign investment has been briefly summarized in the context of a fierce dictatorship. It would be easy to state that there were two sets of interests clearly defined in the bargain between companies and the government during Gómez's rule because societal participation in public life was strongly curtailed. Gómez's death on December 17, 1935 started to change this. His death led to nationalist and popular movements throughout the country. In fact, much popular anger targeted oil companies, as they were associated with the regime.[163] Active political movements hoped for rapid democratic change, particularly those involving student leaders who had led rebellions in the past (known as the Generation of 28, a year of massive student protests) and who were either exiled or imprisoned.[164] In this context, Gómez allies appointed General Eleazar López Contreras, then Minister of War and Marine, as President. López Conteras met the regime's traditional qualifications (being a military man and born in the Andes) but he also showed signs of opening to a gradual process of democratization. Manuel Egaña, who was industry minister under López Contreras, pushed for change in the tax structure of the oil industry but faced a series of legal battles in court and direct diplomatic pressure from the US.[165] The government hence announced in 1938 that it would no longer grant oil concessions.

In 1936, López Contreras launched the February Program as a modernizing project that sought to keep up with social demands in an organized manner. It also upheld the notion of 'amplified positivism', which stated the need for these pressing policies to be carried out by a selected group of educated individuals and highly technical state bureaucracies.[166] The February Program and López Contreras' initial opening gave rise to an urban intelligentsia that defended this sort of 'technical democracy' to solve social problems.[167]

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[163] Singh, "Oil Politics in Venezuela during the López Contreras Administration (1936–1941)"; Coronil, *The Magical State*.
[164] Betancourt, *Venezuela, Política Y Petróleo*.
[165] Coronil, *The Magical State*; Singh, "Oil Politics in Venezuela during the López Contreras Administration (1936–1941)."
[166] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*.
[167] Ibid., 75.

The figure of Arturo Uslar Pietri, an upcoming intellectual and state bureaucrat, emerged in this context. In 1936 Uslar Pietri wrote a famous op-ed urging to 'sow the oil'. This idea turned out to be a central component of the evolving regime and a principle that gave meaning to the notions of development in Venezuela.[168] According to Uslar Pietri, Venezuela urgently needed to productively transform the massive wealth stemming from the subsoil into modern industrialized agriculture. Otherwise, he argued, the country would face the damning consequences of wasting energy and resources, and would find itself unprotected in the future.[169] While Uslar Pietri was a conservative figure closely associated with the government, his idea of 'sowing the oil' soon became an important driving force for Venezuela's emerging political actors and this idea was later associated with moves for national development.

López Contreras' plans for gradual transformation encountered resistance both from conservative military sectors and from emerging nationalist forces, most of which were closely associated with radical anti-imperialist movements. Conservatives were skeptical of the growing political opening. The more revolutionary critics sought faster changes focused on universal and secret suffrage and a sort of oil democratization. Oil workers organized the first general strike in December 1936, provoking a sharp decline in output, and the regime reacted by backtracking on its initial opening and by banning opposition parties and repressing union actions.[170] The strike has been considered as a milestone in the popular struggle for workers' rights and democracy in the country, while López's response to end the strike by force was a demonstration of his commitment to the Gómez legacy.[171]

The Generation of 28 defended an emerging discourse about democracy.[172] While most members agreed on the anti-imperialist nature of their endeavor, the main source of dispute amongst them was the role of class struggle. A multi-class nationalist strand, led by Rómulo Betancourt, centered on a peasant-worker alliance and the need to push for democratic change toward social harmony. The Marxist strand, led by Gustavo Machado, was more focused on the overthrow of

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[168] Arráiz Lucca, *El "Trienio Adeco" (1945-1948) Y Las Conquistas de La Ciudadanía*.
[169] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*.
[170] Singh, "Oil Politics in Venezuela during the López Contreras Administration (1936–1941)."
[171] Quintero, *Antropología Del Petróleo*.
[172] Coronil, *The Magical State*, 91.

landed and bourgeois class domination.[173] Machado and others founded the Communist party while Betancourt founded the National Democratic Party (*Partido democrático nacional* or PDN). In 1941, the PDN would give way to the modern party organized under Betancourt's leadership known as *Acción Democrática* (AD). As I will explain, this division within the Generation of 28 and its different political agendas would heavily impact our understanding of Venezuela's oil policy and the state's relationship with foreign companies from the 1930s until today, not least because its members remained in power until the 1990s.

The PDN promoted large economic reforms centered on industrialization and strengthening the role of the state in oil management.[174] One of the PDN's programmatic documents stated, 'economic nationalism is for us the creation and defense of national industry and the exploitation of our large natural resources on behalf of the totality of the Venezuelan people'.[175] Thus early in the 1940s, the PDN articulated the purpose of state control over the oil industry for the purpose of development. In parallel, the notion of sowing the oil was emerging in the official elites. In contrast with the evolving professional military in government and the Communist party, the PDN's oil nationalism was defended *together* with the promotion of liberal democracy. During the years of 1936-1941 demands for democratic rights emerged. These included the rapid incorporation of women in politics, who took part in the emerging political parties, and their suffrage movement, which rose to the highest levels in national debates.[176]

In the context of a centralized and largely military regime, the governing party, following the tradition of military Andean men, chose Isaías Medina Angarita as the new candidate for President in 1941. Medina was chosen President in second-degree elections by the government-controlled parliament. Medina Angarita, in turn, pushed for the most audacious legal reform since Torres' time due not only to domestic pressure but also to exogenous factors. Medina was influenced by Mexico's revolutionary elite, which forced a full nationalization in 1938. Similarly, the unraveling of World War II made the US more wary of stick diplomacy as the war

173 Singh, "Oil Politics in Venezuela during the López Contreras Administration (1936–1941)."
174 Arráiz Lucca, *El "Trienio Adeco" (1945-1948) Y Las Conquistas de La Ciudadanía*.
175 Coronil, *The Magical State*, 96.
176 Arráiz Lucca, *El "Trienio Adeco" (1945-1948) Y Las Conquistas de La Ciudadanía*.

effort required unrestricted oil supplies.[177] Medina wrote to president Roosevelt pledging to intercede on behalf of Venezuela's interests vis-à-vis foreign companies. As Venezuelan historian Rafael Arráiz Lucca pointed out in an interview, 'companies were wary of the extreme positions producing states could eventually take. Following the Mexican example, they were very cautious'.[178] Interestingly, concerns over Mexico's example and the rise of the Good Neighbor policy in the US had already impacted the State Department's position toward oil companies in Venezuela. Hence, Roosevelt asked companies to give in to the government's demands.[179] This policy turn had been in the works since Nelson Rockefeller's activism in Venezuela, which had included a pledge to Creole in 1937 to develop policies similar to what we now know as 'corporate social responsibility'.[180]

A new agreement between the state and IOCs was underway. This new agreement would be marked by the international factors described above, which constrained foreign companies vis-á-vis the Venezuelan government. Increased knowledge within state structures born out of Torres' policies also gave the host government increasing maneuvering capacity. Different domestic factions became active in pushing for further transformations in the state's treatment of foreign investment endorsing ideas of national development. This intensified activism was clearly marked by a more democratic context, one that differed greatly from the initial years of the industry when Gómez ruled the country with an iron fist.

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[177] González Casas, "Nelson A. Rockefeller Y La Modernidad Venezolana: Intercambios, Empresas Y Lugares a Mediados Del Siglo XX"; Singh, "Oil Politics in Venezuela during the López Contreras Administration (1936–1941)."
[178] Interview with author, Caracas May 2014.
[179] Coronil, *The Magical State*.
[180] González Casas, "Nelson A. Rockefeller Y La Modernidad Venezolana: Intercambios, Empresas Y Lugares a Mediados Del Siglo XX"; Concessionaires in Venezuela radically transformed the areas in which they settled. They did so at a rapid pace, generating high concentration of poor household construction in nearby areas to the selective neighborhoods built for managers and foreign workers. Rockefeller visited Venezuela in various occasions and joined forces with López and later with leaders of *Acción Democrática* to make modern interventions in Venezuela's largest cities as part of larger development and modernizing attempts. See also: Tinker Salas, "The Enduring Legacy."

3.3.1. Ley convenio and Pérez Alfonzo's abstention vote

Under improved external conditions, Medina followed more democratic reforms by de-criminalizing political parties and trade union activities.[181] Medina also started negotiations to change the legal framework governing oil extraction. In 1943, the President put forward in Congress a new hydrocarbons law that had been negotiated with foreign companies and the State Department.[182] AD, now with representation in Congress, opted to abstain when voting the law, denouncing it as a *ley convenio* or agreement law.[183] The most important provision of the law was a complete renegotiation of concessions, which ought to solve all legal breaches in the previous contracts. This renegotiation included drafting new concessions to the same companies in exchange for their commitment to follow the new regulations. The new royalty would be one sixth (16.33%) of output, the income tax imposed on companies would be 12%, and customs fees were to be applied for company exports and imports (see table 2 above).[184] The law also obliged companies to build refineries in Venezuelan territory.[185] This provision finally reversed the logic implanted by Gómez to willingly give away possible downstream linkages of the industry to nearby Caribbean islands.[186]

According to the proponents of the 1943 law, the new royalty together with all the other taxes and fees imposed on the companies, elevated the state's participation on the oil industry's profits to 50% and set the possibility to increase it to 60%.[187] AD vote abstention in Congress was based on the fact that the new law 'meant an absolute forgiveness of all prior vice [in concessions] and relinquished any claim that could emerge from illegal concessions'.[188] Juan Pablo Pérez Alfonzo, AD congressman, argued that even if the law meant an improvement of the conditions *ex ante*, it did not secure a 50% appropriation of the industry's profits by the state. Pérez Alfonzo's speech in Congress set a new bar in terms of nationalist objectives for the Venezuelan state. It aimed at a

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[181] Immersed in the context of World War II, Medina followed the trends in allied countries to de-criminalize Venezuela's Communist Party. Also in the context of the war, the Communist Party, following instructions from Moscow, gave its support to Medina's government.
[182] Tugwell, *The Politics of Oil in Venezuela*.
[183] Betancourt, *Venezuela, Política Y Petróleo*.
[184] Estados Unidos de Venezuela, "Ley de Hidrocarburos."
[185] Darwich, "Petróleo En Venezuela."
[186] Coronil, *The Magical State*.
[187] Mommer, *La Cuestión Petrolera*.
[188] Pérez Alfonzo, "Voto Salvado Del Doctor Juan Pablo Pérez Alfonzo," 140.

compensation for historical illegal appropriations and put forward 'an economic redemptory plan', based on education, social welfare and modernization.[189]

Two important domestic processes were manifest in 1943. First, tied to its democratic ideals, AD appropriated the idea of 'sowing the oil' as its own and made it part of its political program. At this point, 'sowing the oil' and the use of oil revenues for national development became clearly a point of national consensus among most active political factions. Second, the *Ley convenio* became the last agreement between the state and IOCs under the concessionary system. After that time, there would only be changes to taxation levels that increased state intake from companies' profits. The *Ley convenio* was also the result of an agreement between the government forces and the Communist Party, which had become allied as a result of the Comintern's decision to support class alliance movements and the allies' efforts in the war.[190] The support of Venezuela's Communist Party to the Medina regime would remain a crucial point of contention against AD in the future and an important division among Venezuelan resource nationalist forces.

3.3.2. Trienio adeco: the fifty-fifty

The transition to democracy and further control over the oil industry were important goals of an emerging political force that found support in an increasingly politicized population. AD was undoubtedly the most representative of these political forces, but other political organizations appealed to unions, professional and student movements, the private sector and religious organizations. The Communist Party on the revolutionary side had a formidable political organization in trade unions, while the emerging social-democratic Unión Repúblicana Democrática (URD) integrated progressive figures from the previous government elite as well as emerging student leaders. Lastly, the Comité de Organización Política Electoral Independiente (COPEI), Christian-democrat, found support in the more conservative sectors of society.

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[189] Pérez Alfonzo, "Voto Salvado Del Doctor Juan Pablo Pérez Alfonzo."

[190] Manuel Caballero, *Latin America and the Comintern 1919-1943 /* Cambridge Latin American Studies ; v. 60 (Cambridge [Cambridgeshire] : Cambridge University Press, c1986, Cambridge [Cambridgeshire] ;New York: Cambridge University Press, 1986).

Close to the end of his tenure in 1944, Medina was pressured to give the final step to allow free and universal elections. Yet, he did not 'betray his tradition' and instead chose to maintain second-degree elections, where party lists were elected to Congress and the parliament would in turn elect the President. Medina promoted the candidacy of an Andean diplomat, ambassador in Washington, Diógenes Escalante.[191] Betancourt offered to support Escalante's candidacy in exchange for his commitment to call for free and universal suffrage before the end of his tenure.[192] Escalante agreed with AD's proposal but upon his return, his health deteriorated and he was unable to run for President. The frail agreement that kept the regime together fell apart. AD joined an emerging group of military officials (Unión Patriótica Militar, UPM) that resented their loss of influence in government.[193] On October 16, 1945 the rebellious military factions assaulted different fronts. In three days, Medina surrendered to the rebels and was forced into exile. A civilian-military junta was sworn in with Betancourt at the presidency.[194] In 1946, a new Congress was elected under universal suffrage and it was in charge of writing a new constitution and electoral law. Women and illiterate persons were allowed to vote for the first time. Presidential elections were held in 1947 and AD's candidate, novelist Rómulo Gallegos, won by a landslide (75% of the vote).[195]

During the three-year period of AD administration or the *trienio adeco* (AD's triennium), a simultaneous process of political opening with hegemonic consolidation took place. The party enhanced the creation of unions, professional colleges (*gremios*) and, despite a tense relationship with elites, the consolidation of new entrepreneurs.[196] Betancourt appointed Pérez Alfonzo as industry minister who would strengthen the regulatory and technical structures dedicated to hydrocarbons. The government used the 1943 law to increase oil taxes. It introduced a new tax on additional profits in 1948; this tax was automatically levied on companies any time a sudden increase in profits broke the even distribution of gains between companies and the state. This arrangement was known as the *fifty-fifty*.[197] The AD administration also established a 'no more

[191] Arráiz Lucca, *El "Trienio Adeco" (1945-1948) Y Las Conquistas de La Ciudadanía*, 49.
[192] Betancourt, *Venezuela, Política Y Petróleo*; Coronil, *The Magical State*.
[193] Coronil, *The Magical State*.
[194] Throughout much of Venezuela's democracy, the 1945 coup would be known as 'the October revolution'.
[195] Arráiz Lucca, *El "Trienio Adeco" (1945-1948) Y Las Conquistas de La Ciudadanía*; Coronil, *The Magical State*; Betancourt, *Venezuela, Política Y Petróleo*.
[196] Coronil, *The Magical State*.
[197] Mora Contreras, "Derechos de Propiedad, Compañías Petroleras, Estado Y Renta En Venezuela."

concessions' policy, initiating Pérez Alfonzo's conservationist agenda.[198] Despite fears from companies, the AD administration decided not to nationalize the oil industry and opted to protect the stability of government revenues. The long-term aim of the regime was to replace the concessionary system altogether and set up a national oil company.[199]

The decisive push for the even split of gains or the *fifty-fifty* agreement (which would be used internationally as a reference point for other oil producing states in following years) would be remembered as a ground-breaking nationalist victory. A more critical reading of this history argues that in fact the 1943 law alone allowed for even further state participation and the windfall tax assured gains remained within the 50% margin.[200] Those critical analyses would be associated with the left. The communist party had supported the Medina regime in the context of the war and was a strong defender of the terms of the 1943 law.[201] Thus, two strands of nationalism emerged in Venezuela by the mid-twentieth century. Forces on the left of the political spectrum largely supported the 1943 law and the 1948 *fifty-fifty* was defended by the social-democratic party AD. The former strand would reach its end goal with the approval of the reversion law of 1971. The latter, would find its most significant threshold in the nationalization process of 1975.[202]

3.3.3. Back to military rule: the New National Ideal

A growing sectarian attitude by AD alienated many of its potential civilian allies, and it soon also found resistance within the military. The military rose up again in November 1948 in a coup d'état that overthrew Gallegos. AD and the Venezuelan Communist Party (PCV) went clandestine *ipso facto*, while the two other main parties, URD and COPEI, justified the affair as being due to the AD's sectarianism. General Marcos Perez Jiménez organized an *ad hoc*

[198] Darwich, "Petróleo En Venezuela."
[199] Tugwell, *The Politics of Oil in Venezuela*.
[200] Mommer, *La Cuestión Petrolera*; Salvador de la Plaza, *Estructuras de Integración Nacional* (Caracas: Editora San José, 1973).
[201] Mendoza Potellá, *Nacionalismo Petrolero Venezolano En Cuatro Décadas*.
[202] There was a conservative strand of nationalism as well, which was mostly represented by Uslar Pietri, Alberto Adriani and Mario Briceño Irragorri, who saw oil as a threat to the essence of national identity, better represented by agriculture. Thanks to Venezuela's prominent historian, Tomás Straka, for our lengthy conversation about this topic.

triumvirate together with Laureano Vallenilla Lanz,[203] son of Gómez's ideologue, and with the head of the political security Pedro Estrada by 1950. Systematically eradicating public activism, civil and political rights, the military tried to relinquish the partisan legacy of AD. Pérez Jiménez's 'New National Ideal' focused on transforming the nation through improving its 'physical environment', as a way to evolve from its 'natural backwardness'.[204] Against this background, the Junta held elections in 1952 to elect a constituent assembly and legitimize the regime. Despite the authoritarian context, opposition parties decided to participate and AD's activists, after promoting a boycott of the election, decided to vote for the URD candidates.[205] The result was an overwhelming victory for URD that was reported by the media in Venezuela and abroad. Pérez Jiménez and Vallenilla Lanz did not recognize the results and made Pérez Jiménez *de facto* President on December 2 1952.[206]

The dictatorship kept the *fifty-fifty* agreement, although in average terms the central government reduced its share of rents appropriation. In absolute terms, the rents contribution to government revenue increased eleven times, mostly due to the reversal in the 'no more concessions' policy. Venezuelan production increased once more thanks to companies' pressures, using the argument that Venezuelan oil 'was losing out in the world market to oil from the Middle East' due to their more favorable conditions.[207] While this tactic worked for the companies, the Junta sent a group of Venezuelan representatives to the Middle East in 1949 to begin dialogue around price protection.[208] This was a first if unsuccessful attempt by Venezuela to create an oil cartel. Notwithstanding, Pérez Jiménez offered national reserves up for exploitation under a competitive mechanism that allowed the entrance of new companies in 1956.[209]

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[203] Laureano Vallenilla Lanz Jr. dropped his mother's last name in order to be homonymous to his father.
[204] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*; Coronil, *The Magical State*.
[205] Betancourt, *Venezuela, Política Y Petróleo (Tomo II)*; Coronil, *The Magical State*.
[206] It is hard to overstate Vallenilla's autocratic credentials (in a region where autocrats have already been common). The regime's disregard for the popular will can be summarized by Vallenilla Lanz's statements in his memoirs: 'I know the worth of votes in Venezuela. Votes are obtained through deceit, falsehood, slander, or coercion. Each side uses the means at its disposal. Demagogues appeal to suffrage. The others go to arms in order to impose their will. In both cases the origin of Power is spurious and can be purified only by an efficient and intelligent government performance', quoted in Coronil, *The Magical State*, p. 164.
[207] Tugwell, *The Politics of Oil in Venezuela*, 47.
[208] Darwich, "Petróleo En Venezuela"; Prashad, *The Darker Nations*.
[209] Tugwell, *The Politics of Oil in Venezuela*.

Despite a relatively strong economic performance, the dictatorship failed at building a social base for its policies. Corruption in the highest levels of the military was seen as a pillage of the nation's wealth and the elite that largely benefitted from its project eventually withdrew its support in the midst of soaring discontent over government debt obligations to local contractors. The elite's discontent was framed as a critique of the dictatorship's disrespect for civil and political rights, but also of the government's unwillingness to channel natural resources' wealth for the improvement of society as a whole. This change shifted the military's commitment. An up-and-coming professional and modern military sided with a well-organized and unified clandestine opposition. In December 1957, the regime organized a plebiscite under complete control over institutions and a silenced opposition. This time around, rigging the election was costly for the regime and its power crumbled within weeks.

On January 23, 1958 a civil-military rebellion forced Pérez Jiménez and his closest family members to flee the country en route to the Dominican Republic, where Rafael Trujillo governed with an iron fist. He would later end up exiled in Franco's Spain. As Coronil points out 'the 1958 revolution was neither a traditional military coup nor a mass uprising from below. Rather, it was, in a peculiar and real way, the crystallization of collective discontent'.[210]

In terms of the oil policy, the period from 1936 to 1958 saw important changes in the configuration of state-company relations. A wave of nationalist policies was advanced thanks to changing international conditions, such as the specter of Mexico's nationalization, the US Good Neighbor policy and the market pressures stemming from World War II. These external factors slowly tilted the balance of the bargain in favor of the state. But new democratic parties, mainly AD, also challenged these policies, demanding a tougher stance on companies. A nationalist discourse and also platform for action was developed in this period, particularly with Pérez Alfonzo as a leading figure and the prominence of ideas such as the pursuit of state-led development under the banner of 'sowing the oil'. The changes in the bargaining conditions were reinforced and delineated by internal disputes and ideational contentions. Overall, the state increased its capacity to extract ground rents reaching at least 50% of profits. Simultaneously, with the 1943 law the concessionary system was kept in place but an end date was also stamped

[210] Coronil, *The Magical State*, 212.

on the system. In forty years, all concessions would revert to the state. This end date initiated a process of bargain between the state and companies that eventually, in the obsolescing bargain parlance, sunk investments and increased incentives to nationalize. Despite the hiatus that the Pérez Jiménez military regime represented for the stabilization of a democracy, there were no major changes in terms of oil governance, except for the opening of new concessions in 1956.

3.4. *Puntofijismo* and the Great Venezuela: national and global processes of shifting state-foreign companies' bargaining power

AD was wary of its own sectarian politics of the past and decided to foster a commitment of governability with the other two main moderate parties, URD and COPEI. The pact was sealed in Rafael Caldera's house named Puntofijo—thus the regime that emerged from it was regarded as *puntofijismo*. They agreed to broad institutional alliances to maintain democracy and even governing pacts if necessary, with the understanding that each party would accept to alternate in government given electoral defeat.[211] The exclusion of the communists was justified as they were ultimately committed to 'another sort of dictatorship'—that of the proletariat.[212] This exclusion led the PCV to resort to guerrilla warfare for over a decade.[213] Even before the formal transit to democracy, the January 23 rebellion had an effect on oil policy. Edgar Sanabria, then President of the civil-military Junta that transitioned the government to democracy, decided in December 1958, just a few days before the elected government of Betancourt took office, to break the *fifty-fifty* agreement. Sanabria increased state participation of the oil industry's profit to an average of 65%.[214] This change in the tax codes was forced by an urgent need for higher government

[211] The pact was supposed to last the entire first democratically elected government between 1959 and 1964. It formally collapsed before then when URD withdrew support to Betancourt's government. Nevertheless, the pacted dynamics remained among AD and COPEI roughly until the 1990s.
[212] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*, 229.
[213] As we shall see, this split would have an impact in the future interpretations of Venezuelan democracy and its oil policy as well. Important figures in Chávez's oil policy would come from communist circles. AD's attitude against the PCV can be understood in line with the cold war politics that had permeated Latin American countries and the larger policies enacted by social-democratic elites. AD suffered one major division at this point, and the Movimiento de Izquierda Revolucionaria (MIR) joined the guerilla as well. But AD's ferocious anti-communism started much before and was already strong during the triennium. See also: Tinker Salas, "The Enduring Legacy."
[214] Mora Contreras, "Derechos de Propiedad, Compañías Petroleras, Estado Y Renta En Venezuela"; Tugwell, *The Politics of Oil in Venezuela*; Darwich Osorio, "Petróleo En Venezuela En El Siglo XX. De La Inexperiencia Institucional a La Pericia."

revenues to satisfy growing public demands and it was agreed upon with the incoming administration to fulfill future commitments.[215]

During Betancourt's government, an already experienced Pérez Alfonzo was in charge of the ministry of mines and hydrocarbons. Pérez Alfonzo promoted five clear policy lines that became reference points for Venezuela's oil policy for the next two decades and had an impact in much of the third world. The 'petroleum pentagon' could be summarized in the following way. First, the government committed to cease granting any more concessions to foreign companies. Second, it focused its efforts on creating a NOC to give Venezuelans managerial capacity in petroleum, aiming at gradually replacing the concessionary system with a national monopoly. Third, it maintained and improved the levels of profit for the state. Fourth, the government developed a conservation policy for the resource by protecting reserves, reducing production and defending prices. Lastly, and tied to the former goals, the government fostered a basis of coordination with other oil producing countries to exert their power in defense of the resource, its market price and business conditions vis-á-vis concessionaires.[216] Clearly influenced by structuralist thought developed by Raúl Prebisch, Pérez Alfonzo and the Venezuelan government had the double goal of improving the structural position of primary commodity producers, particularly those of crude petroleum, and encouraging industrialization.

3.4.1. OPEC: norm entrepreneurship made in Venezuela

The IOCs' strategy to influence production levels in Venezuela and the Middle East to improve their market conditions was challenged in the late 1950s. A cooperative proposal was seen with better eyes this time as a reformer in Saudi Arabia, Abdulla al-Tariqi, Director of Mines in the Saudi government, advocated nationalist ideas that resembled those the Venezuelans had pursued between 1936-1948.[217] Venezuela and Iran were invited as observers in 1959 to the first Arab Petroleum Congress in Nasser's Cairo. Pérez Alfonzo engineered a stealth meeting with Tariqi and both agreed with an Iranian representative on an unwritten pact—known as the Maadi

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[215] Tugwell, *The Politics of Oil in Venezuela*; Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*.
[216] Garavini, "Completing Decolonization"; Darwich Osorio, "Petróleo En Venezuela En El Siglo XX. De La Inexperiencia Institucional a La Pericia"; Prashad, *The Darker Nations*.
[217] Garavini, "Completing Decolonization."

Pact—to keep prices stable. The rest of the agreement resembled Pérez Alfonzo's Petroleum Pentagon. It centered on the creation of NOCs, the advancement of refining in producers' territories, the protection of state profits following the Venezuelan threshold of 60-40, the agreement among all parties before making any change in prices, and enhancing cooperation on conservation, production and exploitation.[218] As the norm diffusion literature points out, there are different mechanisms through which norms 'travel' as well as different origins that can include the periphery of the international system.[219] The case of the Petroleum Pentagon, although had national origins, became a 'transnational norm' that flowed from Venezuela to other oil producing nations.

The following year, in 1960, OPEC was created in Baghdad after the Seven Sisters unilaterally decided to drop prices to 1950 levels in reaction to increasing competition from Italy's ENI and from the USSR. At the time, the five founding members of OPEC represented 83% of total world output.[220] This was among the boldest moves made by third world nations in the global economy. While the obsolescing bargain explanations account for nationalist stances to enhance control because of price hikes or as a result of investments' maturity, the creation of OPEC responded largely to ideational motives. OPEC was indeed an action by producers to impact prices, but it was also a crystallization of emerging notions about the role of natural resources in the pursuit of development. This initiative served as a precursor—more than a decade before the launching of the New International Economic Order (NIEO)—of third world stances on the governance of the global economy as 'oil producers anticipated the creation of UNCTAD by giving birth to their own co-operative structure in 1960, to deal with the declining price of commodities'.[221] It was also a stance from third world countries to take part in multilateral cooperation from their position of sovereign states. Betancourt defended this move as a nationalist position in consonance with multilateral behavior. Recalling the creation of OPEC, he argued in a speech

[218] Prashad, *The Darker Nations*, 184; Mora Contreras, "Derechos de Propiedad, Compañías Petroleras, Estado Y Renta En Venezuela," 93.
[219] Martha Finnemore and Kathryn Sikkink, "International Norm Dynamics and Political Change," *International Organization* 52, no. 4 (1998): 887–917; Amitav Acharya, "Who Are the Norm Makers? The Asian-African Conference in Bandung and the Evolution of Norms," *Global Governance: A Review of Multilateralism and International Organizations* 20, no. 3 (July 1, 2014): 405–17, doi:10.5555/1075-2846-20.3.405.
[220] Mora Contreras, "Derechos de Propiedad, Compañías Petroleras, Estado Y Renta En Venezuela."
[221] Garavini, "Completing Decolonization," 476.

years later: ‘we are in an interrelated world; nobody can aspire to make exclusively national decisions, nationalism is not incompatible with internationalism’.[222]

OPEC initiated a gradual shift in the balance of power away from IOCs to producer states. This shift was not in any way a process of absolute power change; it was rather a negotiated process that enhanced states’ control over operations while the Seven Sisters remained important cooperation entities and exerted pressure in local as well as global markets. The footprints of these changes can be found in Venezuela’s historical process of acquiring knowledge and exerting its power as a landlord state through state regulation. Other partners in the Middle East and North Africa effectively adopted Venezuelan benchmarks of rents appropriation as acceptable norms, beginning with the *fifty-fifty* agreement.[223] As Pérez Alfonzo puts it, ‘the example-demonstration of Venezuela’s measures and government policies… transcended to other exporter countries with whom we had initiated contact’.[224] The ideational underpinnings of these policies were twofold. First, they appealed to a notion of subjectivity as Venezuelan officials identified their country as an oil producer with the ‘right’ to extract royalties and benefits from the fruits of the soil. Pérez Alfonzo describes it this way: ‘for the first time in the international history of oil an concessionary country exercised its sovereign right to change unilaterally the tax and royalty rates’.[225] Secondly, such measures responded to a sense of international justice toward the owners of natural resources.[226]

During the 1960s, low prices remained the norm but producer states had initiated different mechanisms to exert further control on rents and price, while seemingly unrelated events also contributed to subsequent upturn of prices. Muhammar al-Qaddafi’s increasing tax revenues from concessionaires in 1961 was an important innovation. Moreover, at the end of the decade, what was thought as the ‘peak of oil’ had been reached in both the United States and Venezuela.[227] The peak oil notion contributed to Venezuela’s position at OPEC’s meeting in

[222] Betancourt, *El Petróleo de Venezuela*, 27.
[223] Betancourt, *El Petróleo de Venezuela*; Garavini, “Completing Decolonization.”
[224] Pérez Alfonzo, *Hundiéndonos En El Excremento Del Diablo*, 288.
[225] Ibid.
[226] Rómulo Betancourt, *El Petróleo de Venezuela*, 3ra Edición (Barcelona, Spain: Editorial Seix Barral, 1978).
[227] Garavini, “Completing Decolonization.”

1971 in favor of conservationism and price protection. Lastly, US president Richard Nixon's unilateral abandonment of the dollar-gold standard put an upward pressure on oil prices.[228]

In 1973, a concerted move by Arab countries known as the oil embargo on western powers in a political response to the Yom Kippur war provoked a dramatic price increase. This price hike was concomitant to a radicalization of the thirdworldist movement. Third world nations advanced a code of economic rights for developing countries and sought to strengthen the Non-Aligned Movement (NAM). The NAM sought 'the extension to the international economic system of the redistributive framework that had been consolidated in the social democracies of Western Europe after World War II'.[229] A largely symbolic outcome of this movement was the approval of UNCTAD's NIEO document in the United Nations' general assembly in 1974. Indeed, 'the call for a NIEO followed on the heels of the 1973 oil crisis and the demonstration by the OPEC of its ability to set the price of oil'.[230] While the NIEO was never implemented and the implications of the oil price increase actually generated the basis for crises both in developed and developing countries that precipitated neoliberal restructuring, it consolidated the final steps for nationalization in major oil producing nation-states. It also meant an important ideational mobilizer for third world nations that sought to attain more control over their natural resources. For Pérez Alfonzo, the history of OPEC 'has shaken the world and feeds hopes to build a new economic order'.[231]

3.4.2. Conservationism and the shifting bargain: Pérez Alfonzo's 'no more concessions' and the reversion law

During Pérez Alfonzo's tenure in the ministry, the Corporación Venezolana de Petróleos (CVP) was created in order to gain expertise at all levels of the oil industry from extraction to commercialization, transport and management. The CVP, created in 1960, remained a small enterprise during the 1960s, which worked well under AD's conservationist paradigm as concessionaires continued to extract oil and the government did not wish to contribute with

[228] Prashad, *The Darker Nations*.
[229] Berger, "After the Third World?," 24.
[230] Ibid.
[231] Pérez Alfonzo, *Hundiéndonos En El Excremento Del Diablo*, 288.

meaningful production of its own to drive prices down further.[232] Pérez Alfonzo's conservationist policy derived from his understanding, mistaken as it was, that proven oil reserves had reached their limit and Venezuela's crude was close to exhaustion. But most importantly, Pérez Alonzo was at the core a nationalist who wished to limit concessionaires' extraction because of his belief that the remaining crude should be under the absolute control of the state. Lastly, he heralded a notion that non-oil related revenue was required to increase faster than oil revenues for diversification to be possible.[233]

Throughout the 1960s, the major oil companies had no incentives to invest, as it was clear that once concessions expired in 1983 and in 1996 there was a consensus that they would not be renegotiated. Both Creole and Shell organized around the Petroleum Chamber, which in turn influenced the major local business confederation, FEDECAMARAS.[234] The most important public figure to represent companies' interest was Uslar Pietri, then independent senator, and well-known public speaker, who argued that the government theses of the peak oil were largely speculative in nature and further claimed the state was technically incapable of substituting foreign companies. The companies defended their positions in the political arena, opposing the government's attempts to expand its claim on oil rents. Companies decided to make their presence in the country the least costly. As a result, underinvestment ensued, which led to aging infrastructure and equipment, lower exploration and stagnant reserves. Concessionaires increased production to the highest possible capacity in search of the 'last possible drop' of crude; production reached 3.7 million bpd in 1967.[235] This evolution represented a process wherein the obsolescing bargaining was shifting toward the state but private companies remained in control over operations and thus used their power to maintain profitability in the long-term.

In the process of handing over the government from AD to COPEI's Rafael Calera for the first time in 1969, there was increasing concern around the prospects of the oil industry at the time when contracts would end. Most concessionary contracts would expire in 1983 (those granted by Pérez Jiménez would end in 1996), and there were fears that Venezuela 'might inherit rusting

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232 Tugwell, *The Politics of Oil in Venezuela*.
233 Pérez Alfonzo, *Hundiéndonos En El Excremento Del Diablo*; Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*; Philip, *Oil and Politics in Latin America*.
234 Tugwell, *The Politics of Oil in Venezuela*.
235 Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*.

dilapidated equipment and run-down, depleted oilfields'.[236] The problem was to be 'resolved' by a bill introduced in parliament from the Movimiento Electoral del Pueblo (MEP)—a left-wing division within AD—which had backstage support of Pérez Alfonzo and much of the left. Congressman Álvaro Silva Calderón joined forces with AD's nationalist faction and it slowly gained the support of COPEI.[237] The reversion law, approved in 1971, contemplated a complete return of assets, infrastructure and the entire inventory of the oil industry to the state upon completion of the contracts in 1983 and 1996—with no compensation. In order to prevent a deepening in the disinvestment dynamic, companies were to create a fund of up to 10% of the value of their installation, which would be reimbursed if they were well maintained.[238] The reversion law basically respected ending the terms of the concessions based on the 1943 Medina law, and culminated in the process of power shift with full nationalization.

Despite fierce opposition from companies, the reversion law was passed with almost absolute consensus in Congress: 'in fact, there was little the companies could do, so extensive was their loss of political influence in Venezuela'.[239] Moreover, the terms of the anticipated service contracts became less attractive for companies, and their capacity to exert influence in the government was clearly on the decline. Even if there was growing agreement on the idea of full nationalization, in 1972 it was not a topic any major political figure embraced. Only small left-wing parties like MEP, as well as PCV and MAS called for a rapid advancement of the reversion.[240]

With the reversion law, we see a clear shift in the bargaining power of the state versus companies. The lead-up to the reversion law was gradual, as I have explained so far. It was a process marked by knowledge acquisition since the Gómez regime that crystalized with the 1943 hydrocarbons law. This process of learning was also accompanied by the flourishing of ideas that linked natural resource ownership with development and a relatively stable party system. Most importantly, the flow and establishment of these ideas, while contextualized in a national setting,

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[236] Tugwell, *The Politics of Oil in Venezuela*, 118.
[237] Philip, *Oil and Politics in Latin America*.
[238] Silva Calderón, *Reversión Y Nacionalización En El Sistema Legal de Los Hidrocarburos En Venezuela: Acopio de Escritos Y Textos Legales*; Tugwell, *The Politics of Oil in Venezuela*.
[239] Tugwell, *The Politics of Oil in Venezuela*, 121.
[240] Sader Pérez, *Hacia La Nacionalización Petrolera*; Martz, "Policy-Making and the Quest for Consensus."

were also globalized through multilateral initiatives such as OPEC and the NIEO. Underneath these shifts in the bargaining conditions and the strengthening of new ideas, there were also important disputes between nationalist factions that sought to implement changes in state-foreign companies' arrangements.

3.5. Nationalization: a dream come true or a truncated project?

At the end of Caldera's administration, a multi-layered process was taking place in Venezuela's political economy. First, Venezuela's rentier capitalism was reaching its peak; in 1973 the state appropriated about 80% of the entire oil industry's profits from royalties, taxes and other rents.[241] Second, the industry was suffering from underinvestment and much of the light crude that was found in the western part of the country had been extracted during more than 50 years of the concessionary system. Most untapped oil reserves were located in the eastern Orinoco river belt; much of it was heavy and extra heavy crude. Third, the economy was already extremely dependent on oil rents, as around 90% of foreign currency came from oil exports and various economic and social actors negotiated rents from the state through a highly centralized and party-based political system.[242]

In December 1973, Carlos Andrés Pérez, AD's presidential candidate, won with a resounding result that also gave him ample majorities in both chambers of Congress. High oil prices were seen as a sign to launch a radical program of industrialization and modernization anchored in oil. Pérez 'dramatically presented this conjuncture as being Venezuela's historic opportunity to overcome underdevelopment, to achieve its second independence and construct the Great Venezuela'.[243] Despite having been cautious in his rhetoric during the campaign, as soon as Pérez assumed the presidency in 1974, he set up a diverse presidential commission of petroleum reversion. As such, he also called for a national consensus on the matter.[244] In his first speech as President, Pérez stated, 'we see the necessity of advancing the process to fix once and for all a new nationalist and national petroleum policy. It will be the National Congress which says the

[241] Mommer, "Subversive Oil."
[242] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*.
[243] Coronil, *The Magical State*, 237.
[244] Mommer, *Global Oil and the Nation State*.

final word, but not by exercise of a simple parliamentary majority; rather, by decision of the entire nation'.[245] In fact, the presidential commission took on various proposals that had already emerged from Congress.[246] The presidential commission worked then on a unifying bill, which was introduced for congressional debate in 1975.

Full nationalization was, in a nutshell, a matter of national consensus by that point. In Philip's words 'the nationalization was (as far as any step of this magnitude can be) a quiet, consensual affair which showed, as clearly as anything could, the lack of serious political conflict in the country'.[247] It was in fact the result of a long process of knowledge creation and the unfolding of a series of political contestations between the state and foreign concessionaires. It was 'the logical, perhaps the only, response to a gradually woven web of political and economic constraints which fit into place during 53 years of oil production'.[248]

Nevertheless, as it has been noted already, different factions within Congress interpreted differently how state takeover should occur and in which terms the state should nationalize the industry. The draft law that 'reserved to the state the industry and commercialization of hydrocarbons' (nationalization law from hereafter) was thoroughly debated and, contrary to Philip's claim, there was no consensus around what *kind* of nationalization the country should undertake. The law's main provisions included: the nationalization of the oil industry beginning in 1976, thus ending all concessions; the creation of a holding company whose sole shareholder would be the state (PDVSA); the protection of workers in the industry during the transition; the compensation of foreign concessionaires; and the possible association of the state with foreign companies in operations where technical assistance would be required (the famous Article 5).[249]

As a result of successful campaigning by conservative forces and companies themselves through their media apparatus (concessionaires owned Venezuela's only TV station at the time as well as

[245] Martz, "Policy-Making and the Quest for Consensus," 489.
[246] Silva Calderón, *Reversión Y Nacionalización En El Sistema Legal de Los Hidrocarburos En Venezuela: Acopio de Escritos Y Textos Legales*.
[247] Philip, *Oil and Politics in Latin America*, 293.
[248] Ibid.
[249] Betancourt, *El Petróleo de Venezuela*; Vallenilla, *La Apertura Petrolera: Un Peligroso Retorno Al Pasado*; Silva Calderón, *Reversión Y Nacionalización En El Sistema Legal de Los Hidrocarburos En Venezuela: Acopio de Escritos Y Textos Legales*; Congreso de la República, "Ley Orgánica Que Reserva Al Estado, La Industria Y El Comercio de Los Hidrocarburos."

the largest network of radio stations), some of their concerns were taken into consideration at the time of drafting the law. Their concerns centered on the capital needed to run exploration and expand extraction as well as the alleged incapacity of the Venezuelan state to manage the industry. It was argued that the state could not handle the complexity of the industry and its linkages with the global economy, as up until this point foreign concessionaires had handled issues regarding transport and commercialization from their headquarters.[250] These concerns were the justification for Article 5, according to which the state may 'enter into agreements of association with private entities, but with participation such that will guarantee state control, and for a limited duration'.[251] Nationalists from the left, now with the support of Pérez Alfonzo, fiercely opposed Article 5, arguing that this was in fact an obstacle to true nationalization; it meant a 'truncated nationalization'.[252] This is, in short, an important cleavage point between the two strands of nationalism I have described above. With Article 5 the left thought, 'real nationalization' as per the reversion law terms, was betrayed. As Mendoza Potellá put it hyperbolically in an interview, 'the 1975 law really meant the *negation* of nationalization'.[253]

COPEI supported their criticism via Caldera's address to Congress from his position as senator.[254] Citing personal experience, he said that as far as he was concerned 'never had great oil transnational corporations supported Venezuela's steps toward greater sovereignty over its resources. Rather, I have come to the realization that every time they have been able to erect obstacles, they have done so'.[255] The final wording of the law allowed those 'association agreements' in vague terms especially arguing the impossibility to reach joint-venture status, something the left feared, as it would grant assets to foreign companies on Venezuelan soil once more. In his address to the senate, Betancourt stated his support of the article, as 'it speaks of only two possibilities, one of operational contracts with the oil enterprise that will manage the

[250] Mommer, "Venezuela, Política Y Petróleos"; Silva Calderón, *Reversión Y Nacionalización En El Sistema Legal de Los Hidrocarburos En Venezuela: Acopio de Escritos Y Textos Legales*.
[251] Congreso de la República, "Ley Orgánica Que Reserva Al Estado, La Industria Y El Comercio de Los Hidrocarburos."
[252] In Venezuelan popular language, the word 'chucuta' refers to cut dogs' tails. Pérez Alfonzo and others argued this was a 'nacionalización chucuta' in reference to an incomplete, truncated process. He argued 'if the majority of Venezuelans had ways to express themselves on the issue, nationalization would be a nationalization from head to tail, not a chopped off [*chucuta*] one' Pérez Alfonzo, *Hundiéndonos En El Excremento Del Diablo*, 234.
[253] Interview with author, Caracas July 2014.
[254] The 1961 constitution gave former presidents a seat in the Senate for life. They tended to use it just for matters of great importance in national politics.
[255] Rodríguez Araque, *El Proceso de Privatización Petrolera En Venezuela*, 78.

entire industry or association contracts that will not be approved without consent from both chambers of Congress'.[256] Later, he said: 'in reference to association contracts the article never stipulates joint-ventures'.[257] As we shall see in chapter 5, during *chavismo*, joint ventures ironically became the preferred mechanism of association by the left in power. During the 1975 nationalization debates, joint ventures were not contemplated by neither AD or the communist nationalist factions.

The other concerns posed by the managerial leadership of concessionaires were resolved by an administrative arrangement with the new national enterprise. In short, PDVSA would inherit the managerial culture of Creole, Shell and Menegrande and they would be transformed into subsidiaries of PDVSA, known as Lagoven, Corpoven and Maraven. Thus 'the affiliates maintained the original structure of the concessionaires, operating the same areas, exercising the same activities, and with the same personnel, apart from the foreigners at the highest levels of management, who were replaced by their Venezuelan deputies'.[258] State control would be exercised through a board of directors and a president of the company (CEO) appointed by the executive power. Humberto Calderón Berti, who served as liaison between the Ministry of Energy and the presidential commission on reversion, stated in an interview that the idea was that PDVSA operated 'as a private firm, with financial autonomy and granted with mechanisms that would impede its politicization and the government's intervention'. The Minister of Energy and Mines would preside over the board but, formally, it had no say in the appointment of its members. The state would still collect taxes and royalties from the company, maintaining its role as landowner and rentier state.[259] As Philip explains:

> The oil company managers who moved over after the nationalization made it clear that they would only remain in Venezuela if their managerial autonomy was respected. Government, too, was aware of the dangers of destroying the efficiency of the oil sector in a country whose economy was almost completely dependent

[256] Betancourt, *El Petróleo de Venezuela*, 28.
[257] Ibid., 29.
[258] Mommer, *Global Oil and the Nation State*, 207.
[259] Mommer, "Venezuela, Política Y Petróleos."

> upon oil. Since the political elite had largely organized the Venezuelan state around oil rents, they did need those rents to continue to flow.[260]

Neither the left parties nor COPEI were convinced by the wording of Article 5. Despite all efforts to reach an agreement, the nationalization law passed with AD votes alone and those of a pro-Pérez Jiménez minor party.[261]

The form that full nationalization took in 1976 sought to maintain the technical capacity of the Venezuelan oil industry. This was achieved through state regulation but also through granting autonomy to PDVSA's managerial structure. At the same time, the state left a window open for strategic associations with IOCs in case it was deemed necessary. There were, however, important provisions required for such associations of technical assistance to take place. They had to be approved by both chambers of Congress and they could not, by any means, undermine state control. Ultimately, joint ventures and other forms of association that would grant foreign companies rights to own assets were completely ruled out.

3.6. Conclusions

During much of the past century, the Venezuelan state relationship with oil companies was marked by a constant negotiation over the terms of rent appropriation. The state's regulatory capacity grew gradually over time and with it, its ability to exert greater control over the oil industry. The liberal concessionary system was associated with Gómez's political system of dictatorial rule and arbitrariness. As I have argued, the struggles for democracy in Venezuela were intimately linked with the enhancement of state control over the oil industry and this control was considered a prerequisite for national development, captured in the idea of 'sowing the oil'. Already in the 1920s, efforts to increase state control translated into notions of a landlord state, which began to impact the formation of Venezuela's modern state and its national identity. Yet, at an early stage, the improvement of the state's bargaining capacity was influenced by exogenous factors, such as Mexico's nationalization and Roosevelt's more lenient policy toward producer states like Venezuela. As the bargaining capacity of the state improved,

[260] Philip, "When Oil Prices Were Low," 366.
[261] Karl, *The Paradox of Plenty*.

its main focus was for several decades to maximize its rent appropriation. An important threshold was the 1943 law, which despite criticism from AD nationalists, drew a road map to an end of concessions, and increased state appropriation of rents via royalties and income tax. Later, the *fifty-fifty* system marked a point of nationalist victory.

The political regime that emerged in the mid-century assumed that oil was going to run out in the foreseeable future. Moreover, it expected not to renew the concessions signed with foreign companies in 1943 and 1956. These assumptions reflected the obsolescing bargaining process between the state and companies. Companies had the incentive to stop investments, whilst the state had the incentive to speed up the process of nationalization. Thus 'nationalization was an inevitable outcome of a long process of rent maximization'.[262] Domestically, the idea of development associated with national ownership over oil was conceptualized as 'sowing the oil', which became a dominant view that most of the political establishment shared. Internationally, the Venezuelan state played a leading role in disseminating new international norms concerning the practices of the landlord state and the role of natural resource ownership in the pursuit of development that had in the creation of OPEC a symbolic achievement.

Nationalization was indeed an inevitable step of a long process of knowledge creation and increased state assertiveness vis-á-vis foreign companies. Nevertheless, nationalization was also a contested issue and reflected important ideational contentions. Leftist nationalists preferred confiscation and complete state takeover of companies' installations after concessions ended in 1983 and 1996, granted in the 1971 reversion law. The ruling party AD, with strong congressional majorities, anticipated the reversion and conceded the possibility of signing future technical assistance agreements with foreign companies. Article 5 was a result of these concessions. Touted as a betrayal to true nationalization, Article 5 remained a point of criticism by the left and it will impact its political activism in coming decades. Most importantly, the state granted autonomy to the national company, PDVSA in order to procure new investments and to protect the oil industry's technical capacity. As will be discussed in the next chapter, this granted autonomy internalized the struggles and bargains around control within the realm of the state and contributed to important material but also subjective struggles between the state and PDVSA.

[262] Mommer, "Venezuela, Política Y Petróleos," 67.

Chapter 4
Opening borne out of autonomy:
PDVSA's victory over the state and the sinking of the 'sowing the oil' ideas

4.1. Introduction

In the previous chapter, I analyzed the historical evolution of the Venezuelan rentier state with reference to the main conflicts and bargains that occurred between the state and foreign companies until full nationalization took place in 1976. I argued that nationalization was the result of long-lasting disputes between the state and IOCs but also the *kind* of nationalization that was agreed upon in 1975 was the result of internal disputes between different social actors. The nationalization model that prevailed, heralded by AD and influenced by conservative actors and foreign companies themselves, allowed for eventual associations with IOCs and provided administrative and technical autonomy to PDVSA, the newly created NOC.

PDVSA's autonomy meant the internalization of IOCs' logics and interests into part of the state. In a context when the national developmental model faced important challenges and the decay of the 'sowing the oil' project was evident, the government appropriated PDVSA's investment fund and conflict between government and company ensued. The tensions between the state and its own company, which sought to develop its own autonomy away from state control, provoked a process that has been labeled in the literature as brewing 'a state within a state'.[263] A new liberal phase of PDVSA's internationalization and opening to foreign investment occurred in the 1980s and 1990s. New investments flowed into the industry, boosting production at the end of the 1990s. This phase occurred in tandem with the crumbling of the political system and a growing desire to modernize the country's economy.

In this chapter, I explain how the oil opening was initially a plan developed by PDVSA to achieve its goals of becoming a world leading energy firm. It was at first resisted by state actors, mostly AD in the second presidency of Carlos Andrés Pérez, despite the President's commitment to wider neoliberal reforms. Once Pérez left the presidency, both PDVSA's opening and structural adjustment policies were advanced at the expense of the *puntofijo* political system. The

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[263] Bernard Mommer, *Global Oil and the Nation State* (Oxford University Press, USA, 2002).

oil opening began a new investment cycle with strong incentives for IOCs to invest under a flexible framework. PDVSA used Article 5 of the nationalization law to advance this liberal framework—a framework severely criticized by the left. Low oil prices, the opening of marginal and untapped fields and the extraction of heavier crudes characterized the conditions of the new bargain that strongly benefited foreign investors.

The ideational imperatives of this liberal turn were significantly contested, as neoliberal values infused skepticism in different social and state actors. The chapter argues that the oil opening noticeably responded to an internal maneuver by PDVSA to develop its own plans and increase its autonomy. PDVSA's plans contradicted pre-conceived notions of the role of the state. While the political apparatus remained committed to the traditional ideas of the state as a landlord and rentier state (committed to maximize rents), PDVSA's management imposed its view of an oil producer (committed to maximize production). Interestingly, for government officials, state control over PDVSA was required in the midst the neoliberal state restructuring. PDVSA defied the government's control by promoting a liberal policy of its own, mirroring major oil producers globally.

The chapter will unfold as follows. First, it will discuss the main features of Venezuela's political economy in the post-nationalization period and the rationale behind granting autonomy to PDVSA. It will then analyze the 'great turnaround' attempted by Carlos Andrés Pérez second administration toward a more liberal economic framework and his government's resistance to PDVSA's plans. Third, it will explain the process of oil opening led by PDVSA. Lastly, it will briefly explore president Caldera's hesitant endorsement of neoliberal policies and the crumbling of the *puntofijo* political system during his second time in the presidency.

4.2. Autonomy vs. control over the national oil company and the 'indigestion' of rents

With nationalization began a renewed relationship between the Venezuelan state and the oil industry. At first sight, the state now monopolized the industry. It directly engaged in trade relations with crude buyers abroad, while its own national company extracted the resource and was in charge of supplying domestic consumption. The state-company relationship seemed to be one of submission but, in reality, it turned out to be more complicated. As Dunning points out 'nationalization marked the beginning of a long downward trend in the Venezuelan state's percentage take of rents'.[264] The long process of underinvestment in which foreign concessionaires had been purposefully engaged obliged the government to actually reduce PDVSA's fiscal burden. Corporate tax was temporarily reduced to 59%, royalties were brought back to the 16.6% levels of 1943 and there was a 10% exemption from corporate tax in export profits.[265] These fiscal provisions were offered in order to allow the company to reinvest and develop further the industry. In the initial context of the 1970s, these sharp declines were not felt dramatically hard as, overall, oil revenues spiked due to price increases. Between 1972 and 1975, Venezuela's fiscal income more than tripled and Venezuela's GDP per capita reached the same level as that of West Germany, while it doubled Italy's.[266] Similarly, in the first decade of its existence, PDVSA managed to accumulate an investment fund of over US$ 5 billion.[267]

At the same time, Pérez launched a massive development plan, known as the 5th Development Plan, with an ambitious industrial policy, focused on basic industries and linkages of heavy metals, automotive and energy intensive industries.[268] These industries were either owned by the state or heavily protected by price mechanisms and subsidies. This control allowed the possibility to carry out clientelistic-type relationships between loyal worker unions, business and the presidency. The goal was to reduce poverty and expand demand through price controls and boosting employment. The public sector doubled its payroll. Import substitution was to be strengthened in alliance with a broader regional strategy under the Andean Pact.[269] However, Pérez also had deep political ambitions, as he was allowed by Congress to govern by decree in various areas, including the economy.[270] In fact, Pérez governed beyond the tacit party-based agreements of *puntofijismo* and led a more personalistic project that was independent from the 'old guard' of his party, and from Congress. In this case, a group of business elites that had supported his election received beneficial treatment from the state (the famous group of cronies were known as the 'twelve apostles') and several other factions claimed rents in the name of the

[264] Dunning, "Endogenous Oil Rents," 384.
[265] Mommer, *Global Oil and the Nation State*.
[266] Karl, *The Paradox of Plenty*.
[267] Mommer, "Venezuela, Política Y Petróleos."
[268] Coronil, *The Magical State*; Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*.
[269] Coronil, *The Magical State*.
[270] Karl, *The Paradox of Plenty*.

Great Venezuela project. Despite attempts to create a fund with half of oil revenues to insulate the economy from future shocks, the fund ceased to receive any funding from 1975 and its US$ 3.5 billion were spent during the Pérez administration, at the discretion of the President.[271]

Pérez Alfonzo labeled this period a moment of general 'indigestion' of rents, wherein corruption and other speculative practices had become commonplace.[272] His critique at the moment centered on the ethical consequences of windfall revenues, rather than the political economy of a peaking rentier state, as other scholars would later explore in more detail.[273] Nevertheless, the image of indigestion is illustrative, just as the title of his book encapsulated the idea of the country 'sinking in the devil's excrement'. While rent maximization began to decline, its capacity to be absorbed productively also shrank due to policy mechanisms such as an overvalued currency, a highly protected internal market, and closed avenues for investments in potentially profitable enterprises monopolized by the state. For Baptista, this was the gradual exhaustion of rentier capitalism in Venezuela, as a sharp decline in private investment was coupled with a decline in its profitability, which found a more rewarding destiny abroad.[274] Simultaneously, PDVSA's managerial elite remained highly trained and remunerated, in contrast with its regulating counterpart, now the Ministry of Energy and Mines. The company viewed the political elite with caution and was wary of any type of political intervention from the state, still then not engaging in direct conflict. As Mommer pointed out in an interview, 'supposedly, PDVSA was a pillar of the party democracy that birthed it, but it turned out not to be true, it was really a subversive force'.[275]

4.3. The 'great turnaround': neoliberalism and contested internationalization

Parallel to government spending and capital flight, Venezuela accumulated massive foreign debt, conceived as a way to leverage industrial policy by committing future rents. International private lending was a pervasive phenomenon at the time due to the need to recycle petrodollars from the

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[271] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*; Karl, *The Paradox of Plenty*.
[272] Pérez Alfonzo, *Hundiéndonos En El Excremento Del Diablo*.
[273] Coronil, *The Magical State*; Karl, *The Paradox of Plenty*; Baptista, *Teoría Económica Del Capitalismo Rentístico*; Mommer, *La Cuestión Petrolera*.
[274] Baptista, *Teoría Económica Del Capitalismo Rentístico*.
[275] Interview with author, Caracas July 2014.

international banking system. In turn, 'international credits were seen as desirable because Venezuela, backed by its oil as collateral, could get favorable terms during the recession that plagued the industrialized countries'.[276] Nevertheless, as price fluctuations began to affect the national treasury at the end of the 1970s, the model of rent distribution and market protection faced problems.

COPEI's candidate was elected President in the 1978 elections in spite of internal fissures within AD. President Luis Herrera Campins initially experienced an oil price boom with the spike of prices in 1979 and attempted to delay market reforms, especially a possible IMF-backed loan. Yet, oil prices then collapsed at the start of the 1980s. Capital flight became endemic, reaching over US$20 billion between 1980-1982. PDVSA had also autonomously acquired debt internationally to develop its investment plans. Herrera's government, 'unable to control state enterprise short-term borrowing, raided the investment funds of PDVSA'.[277] In 1982, the Central Bank's president Leopoldo Díaz Bruzual proposed the repatriation of PDVSA's foreign funds. Humberto Calderón Berti, then Minister of Energy and Mines, opposed the idea, joining the concerns of PDVSA managers. Calderón Berti remembers that he 'anticipated the disastrous consequences of such measure: those funds will soon evaporate'.[278] Díaz Bruzual's proposal prevailed and the government forced the repatriation of up to US$8 billion from PDVSA's assets in September of 1982 and obliged the company to exchange all its export funds via the Central Bank. The government sought to improve national accounts to place the country in a better position with foreign banks.[279] However, the system of price controls and overvalued currency proved unsustainable as oil prices kept declining. On February 18 1983, the government decided to devalue the currency after two decades of stability at 4.3 Bs per dollar. That 'black Friday' was to be remembered as the mark of the downward turn of Venezuela's rentier capitalism but also, that of its *puntofijista* political system.

As Calderón Berti and PDVSA executives anticipated, the company's earnings were eroded by devaluation. The company had thus far insulated itself from the workings of the state and

[276] Karl, *The Paradox of Plenty*, 26:153.
[277] DiJohn, *From Windfall to Curse?*, 237.
[278] Telephone interview with author, October 2016.
[279] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*.

considered its managerial behavior politics-free, but after 1982, it felt as though politics had looted the company. More broadly, PDVSA's managerial elite was critical of the failure of the government industrial policies and previous attempts at 'sowing the oil'.[280] From 1983, PDVSA worked on different strategies to regain its financial (and, clearly, political) autonomy. Meanwhile, the government tried to juggle the new times of austerity by maintaining price controls and setting up currency controls to prevent further capital flight. Further, a system of multiple exchange rates was set up.

An ambitious plan of 'internationalization' was carried out from 1983, whereby PDVSA bought foreign refineries. The justification of this move was to assure markets for Venezuelan oil but it was also geared toward purchasing assets before liquid funds could be taxed and appropriated by the state. PDVSA's managers wanted to avoid further erosion of its funds for public spending and decided to purchase 50% of VEBA Öel in Germany in 1983.[281] Luis Guisti, who would later become PDVSA's CEO, describes this step as the NOC's 'realization of the need to have vertically integrated chains' to locate Venezuelan crude in international markets.[282] In fact, Guillermo Aveledo Coll argues that 'this project of internationalization and vertical integration finds its roots in the Christian-democratic oil agenda laid out by Caldera'.[283] In practice, however, according to Mommer, PDVSA sold light crude to its affiliate in Germany at discounted prices to leave a larger margin of profits abroad.[284] The plan that PDVSA advanced was to develop a network of refining, commercialization and transport firms both in Europe and the US. The process of internationalization had to slow down in the midst of a change in government in 1984, but in 1986 the company purchased 50% of Citgo's holdings in the US, even despite opposition from the government of Jaime Lusinchi, becoming one of the boldest business transfers from a company in the developing world to the north.[285] Throughout the decade, while the government supported OPEC policies of price protection, PDVSA saw it as a handicap to the company's plans. Internationalization could not expand as production and exports declined.

280 Mommer, "Venezuela, Política Y Petróleos"; Philip, "When Oil Prices Were Low."
281 Mommer, "Venezuela, Política Y Petróleos."
282 Telephone interview with the author, August 2015.
283 Telephone interview with the author, March 2016.
284 Mommer, "Subversive Oil."
285 Luong and Sierra, "The Domestic Political Conditions for International Economic Expansion."

From the mid-1980s, there is a clear process whereby the conflict that had traditionally occurred between the state and IOCs transferred to the state and its NOC. The tipping point of the conflict was the government's repatriation of PDVSA's investment fund, which added to considerations of a technical nature, propelled the company to seek vertical integration through internationalization. PDVSA sought to become closer to its natural markets, the US, Europe and, once again, Caribbean islands where the country's refining capacity had been installed during the Gómez regime. PDVSA's policies were largely influenced by its identity as a major oil producer, rather than an agent of a landlord state.

4.3.1 The great turnaround vs. PDVSA's internationalization

In 1988, Carlos Andrés Pérez was elected once more to the presidency. This time he promised a 'great turnaround' in Venezuela's political economy. In fact, the country's accounts allowed for little choice. Both Herrera and Lusinchi's administrations had kept costly controls and subsidies, and acquired more debt while feeding an unsustainable system of foreign exchange that dilapidated international reserves. Between Herrera and Lusinchi, foreign debt increased from US$ 9 billion to US$ 43 billion.[286] A sharp decline in average income affected the poorest sectors of society and popular unrest was soaring, due to high inflation and scarcity in basic staples.[287]

Pérez appointed a highly respected team of liberal-minded economists to the cabinet who, like their peers in other Latin American countries, were commissioned to execute bold economic restructuring.[288] This group of *técnicos* had been trained in US economics and business departments and most of them were based in Caracas' famous private business administration school IESA.[289] The government was no longer interested in putting off an agreement with the IMF and pursued a package of structural adjustment policies to modernize the economy according to new international norms. Indeed, Pérez had endorsed neoliberal reforms as the new principle of development for Venezuela. As soon as the government took power, it launched a 'package' of structural adjustment policies. These policies included 'the unification and massive

[286] Coronil, *The Magical State*.
[287] Corrales, "Do Economic Crises Contribute to Economic Reform?"; Di John, "Economic Liberalization, Political Instability, and State Capacity in Venezuela."
[288] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*.
[289] Di John, "Economic Liberalization, Political Instability, and State Capacity in Venezuela."

devaluation of the exchange rate, trade liberalization, privatization and financial deregulation […] freeing of interest rates, elimination of nearly all restrictions on foreign investment, and the introduction of tax reforms, including the introduction of value-added taxes'.[290] While Pérez had campaigned to bring the good old times of prosperity back, he started his government with the announcement of austerity measures, privatization and liberalization. Beyond transforming deeply entrenched economic policies in Venezuela, Pérez himself had made a personal ideological turnaround that was unwelcomed by the masses and even by the political establishment. Indeed, the measures lacked 'the constitution of new political and social identities' and they failed to 'gather popular support or even strong parliamentary backing'.[291]

Within a few weeks of the Pérez administration inauguration, protests erupted due to increasing transport fares that had been adjusted according to new petrol prices. Riots soon became endemic in most urban areas of the country in a spontaneous and disorganized manner. Massive looting took place targeting supermarkets and other retailers and after hours of inaction and inability to cope with the uprising, the government responded with heavy-handed repression by the National Guard and police. Official accounts acknowledged 277 killed in five days, while human rights organizations claim over 400 deaths.[292] The popularly known *caracazo* demonstrated not only the government's inability to communicate and convince its constituents of the need to reform, but also that society lacked effective forms of 'mediation' to communicate with those in power.[293] The party democracy established in 1958 not only had economic deficiencies but its political legitimacy was seriously questioned. From then on, Pérez's reforms became more contentious and gradual, as the political establishment was wary of the costs and mistrusted the President's ability to gather consensus for adjustments.

Interestingly, it has been scarcely acknowledged that Pérez's reformist turn did not extend to oil policy. He appointed Celestino Armas Minister of Energy and Mines, a traditional *adeco*, who had opposed PDVSA's internationalization and was fully supportive of OPEC quotas.[294] Arturo Sosa Pietri was appointed PDVSA's president. In an interview, Monaldi claimed that Pérez

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[290] Ibid., 109.
[291] Davila, "The Rise and Fall and Rise of Populism in Venezuela," 232.
[292] Coronil, *The Magical State*; López Maya, "Venezuela after the Caracazo."
[293] López Maya, "The Venezuelan Caracazo of 1989."
[294] Philip, "When Oil Prices Were Low." Interview with Humberto Calderón Berti, October 2016.

sought to bring 'PDVSA to the government's control by appointing an outsider as CEO' but ultimately failed to achieve his goal.[295] Armas had denounced in Congress PDVSA's strategy to channel profits abroad through price differentials between the company's headquarters and its affiliates.[296] The ministry decided to halt PDVSA's internationalization and ordered the company to cease its intentions of purchasing the other half of Citgo's assets in 1989.[297] The government continued to support its traditional role of a landlord state in its relation to oil, even despite the administration's broader embrace of neoliberalism. Despite the government's attempts, Sosa became an ally of PDVSA's executives and with his lead, the company refuted the government's decision and opted for the purchase. Upon Pérez's demand to resell half of Citgo's assets, PDVSA 'dragged its feet' and the relationship between the company and the presidency deteriorated further.[298] The process of internationalization continued even in spite of the government's opposition. PDVSA evaded state control and continued to operate with increasing autonomy.

The company built up a strong network of 19 refineries in the US, Europe and the Caribbean and up to 14,000 gas stations in the US in the early 1990s.[299] By the end of the decade, the number of refineries had increased to 30.[300] Sosa's aim was to turn PDVSA into a 'global energy company' and, indeed, it became a major force in refining and transport, one of the world's top oil firms. PDVSA was, however, unable to make the Ministry of Energy allow its expansion in extraction, which only took place due to the first Iraq war and the need to increase Venezuela's OPEC quota.[301] Before finally leaving his post as PDVSA's CEO, Sosa and other executives planned ways to open up Venezuela's upstream sector to foreign investors. Their concern was to keep PDVSA's extraction levels up to OPEC quotas while boosting extraction in alliance with foreign investors above that level.

The conditions of the Pérez administration became increasingly ungovernable, as a group of military plotters took on arms to overthrow the President in February 1992. The coup leader,

[295] Telephone interview with author, July 2015.
[296] Mommer, *Global Oil and the Nation State*.
[297] Philip, "When Oil Prices Were Low."
[298] Mommer, *Global Oil and the Nation State*, 211.
[299] Boué, "El Programa de Internacionalización de Pdvsa."
[300] Luong and Sierra, "The Domestic Political Conditions for International Economic Expansion."
[301] Philip, "When Oil Prices Were Low."

then Lieutenant Hugo Chávez, stated that the ideals of his movement were based on the legacy of independence hero Simón Bolívar and that it sought to combat corruption and re-found the basis of the state, through a constituent assembly.[302] Another coup attempt took place in November that year. During their time in prison, the plotters argued that the state-led repression of the 1989 popular revolt created a turning point in their movement, enticing them to act against the political establishment.[303] As Mommer explains, both unrelated subversive elements that rose against the state—PDVSA seeking more autonomy on the one hand, and nationalist factions within the military, on the other—emerged in the 1980s and provoked important cleavages in the political system in the 1990s.[304] Pérez was finally impeached in 1993, after several attempts, in a judicial movement that was allowed by AD in Congress. An interim presidency of Ramón J. Velázquez, an independent with strong ties with AD, finished his term in office, marked by a continuation of reformist policies initiated in 1989 but inscribed in the traditional pact-making approach of *puntofijismo*.

4.4. Apertura: PDVSA's temporary victory over the state

PDVSA pursued a legal mechanism in early 1991 to open the upstream of the industry for foreign investment. It sought a favorable interpretation of Article 5 of the nationalization law from the Supreme Court based on analyses from its own legal team.[305] A leading figure in this process was a top executive of the company, Luis Giusti, who would later become CEO. The interpretation of Article 5 basically erased jurisprudence from previous laws, and the nationalization law was given prevalence. PDVSA had to follow three conditions in order to develop alliances with foreign investors.[306] As Giusti recalls, first the country or PDVSA 'had to remain in control of all operations', second, 'agreements had to be signed for a limited period' and, third, 'they had to be approved by the two chambers of Congress'.[307] PDVSA developed an aggressive lobbying strategy in Congress and simultaneously drafted contracts with ample room

[302] Coronil, *The Magical State*.
[303] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*.
[304] Mommer, "Subversive Oil."
[305] Mommer, *Global Oil and the Nation State*.
[306] Ministerio de Energía y Minas, "Venezuela:: Exploración Y Producción En Areas Nuevas, 1995. Marco de Condiciones. Aprobadas Por El Congreso de La República de Venezuela Para La Celebración de Los Convenios de Asociación."
[307] Telephone interview with author, July 2015.

for establishing the conditions of 'control' that it would exert on the new ventures. The mechanism devised was to create *comités de control* or control committees, integrated by PDVSA and the foreign investor, wherein the former 'always had the last word'. For Giusti, the company 'always acted in strict compliance with the law'.[308]

After the coup attempt in 1992, Alirio Parra replaced Celestino Armas as Minister of Energy and Mines. Parra favored the oil opening, and faced no resistance from the executive. The oil opening thus became state policy.[309] That year, PDVSA was allowed to open a first round of auctions for operating service agreements (OSA) in marginal fields, with low or no production. The bidding mechanism for the operations was not based on law, as the concessionary system was, but on a contractual model drafted by PDVSA. In these contracts, in order to minimize political risk, PDVSA was to compensate the investor in case of changing conditions by the state. Similarly, controversies were to be settled through international arbitration, a clause heavily criticized by the left in Congress. Lastly, PDVSA's assets abroad served as a 'shield' by means of guarantees of investors' interests. A crucial point here is PDVSA's increased authority over other agencies, mainly the Ministry of Energy and Mines. Secondly, the terms of the contracts were designed to be welcoming for new investors, as the market environment was marked by low prices. In short, the terms of the bargain benefitted the investors.

In this first round of auctions, three OSA were signed as service contracts.[310] PDVSA would pay a service fee to the operator for the extracted crude, and the fee was to be calculated through a deflator of the consumer price index in the US for crude oil, so that it correlated to oil prices (light crude in this case). The fee was settled as 70% in the case of Guárico Oriental contract and 54% for Monagas sur and Pedernales.[311] However, only the first one was a marginal field of light crude while the other two were heavy crude fields, so the fee for the latter contracts was often higher in terms of the market value of oil, because they in fact extracted crudes of much lower value than the reference price.

[308] Telephone interview with author, July 2015. See also: Ministerio de Energía y Minas, "Venezuela:: Exploración Y Producción En Areas Nuevas, 1995. Marco de Condiciones. Aprobadas Por El Congreso de La República de Venezuela Para La Celebración de Los Convenios de Asociación."
[309] Interviews with Humberto Calderón Berti and Fernando Egaña.
[310] Manzano and Monaldi, "12 The Political Economy of Oil Contract Renegotiation in Venezuela."
[311] Rondón de Sansó, *El Régimen Jurídico de Los Hidrocarburos: El Impacto Del Petróleo En Venezuela*.

The implication of these contracts was that PDVSA absorbed the contractors' commitments with the state, as they were considered service providers and not extractive companies. This meant 'an arrangement whereby oil was produced and sold to PDVSA at a discount, out of which PDVSA—not the private investor—would pay rents and royalties'.[312] The royalty rate of 16.6% was paid by PDVSA. The corporate tax was calculated under the non-petroleum reference of 34% instead of the petroleum rate of 67% and the operator would be reimbursed its capital investment (see table 4.1 below).[313] Ultimately, PDVSA replaced the ministry as the regulator and engaged in contractual relations directly with foreign operators. The project was finally approved by the commission of mines and energy and later by both chambers of Congress, with opposition from the left and support of AD and COPEI.[314]

For the second round of auctions, the government was transitioning from the Velázquez interim presidency to Caldera's second tenure in office. Caldera was elected in 1993 under a personal, non-partisan platform as his strong leadership clashed with an emerging reformist group within COPEI. In an unlikely move by a conservative leader, he allied with most traditional leftist parties. Caldera had a staunch anti-reform rhetoric supported by both moderate socialists (MAS) and the PCV. Nevertheless, his government had little support in Congress, still dominated by AD and COPEI. At this point, PDVSA's executives continued their lobbying with parliamentarians for support of the company's investment plans. A close ally in this case became COPEI, which Caldera once led. Luis Giusti was appointed CEO, with hopes to build good relations between government, PDVSA and Congress.[315] PDVSA was now ready to push for a grand plan to attract massive foreign investment in marginal fields, mainly in the Orinoco river belt but also in other parts of the country such as in off-shore areas of the Caribbean.

The government, facing a deep crisis of the banking sector, was eager to welcome fresh investments and, unlike the Pérez administration, was less critical of PDVSA's opening than it

[312] Mommer, *Global Oil and the Nation State*, 214.
[313] Rondón de Sansó, *El Régimen Jurídico de Los Hidrocarburos: El Impacto Del Petróleo En Venezuela*.
[314] Mommer, "Venezuela, Política Y Petróleos."
[315] Philip, "When Oil Prices Were Low."

was of a wider structural adjustment plan.[316] Fernando Egaña, former Minister of Communications under Caldera, explains it in this way 'a determining factor in the government's oil policy was the economic crisis the country was facing'. Egaña stressed that with oil prices around US$10, and a banking crisis incubating in the financial system, the government 'saw in the oil opening an alternative policy to face the looming crisis'.[317] The attitude of the Caldera administration toward opening the oil sector for investment was influenced both by the context of an economic crisis but also by the increasing power the company had acquired within the state structure. Calderón Berti argues that Caldera's acceptance of the oil opening was the result of Giusti's personal lobbying of the President.[318]

The second round of auctions took place between 1992 and 1993. This round involved 13 new service contracts for OSAs but a new association agreement or strategic association contracts for crude enhancement and the development of new camps were also approved for the Orinoco river belt. Four joint-ventures were created with large IOCs, including ExxonMobil, BP, Chevron, ConocoPhillips as well as Total and Statoil. In all these ventures, PDVSA had minority shares, from 15% to 49%. For the first 10 years, the royalty rate was set at 1% and corporate tax was agreed under the non-oil reference of 34%.[319] In a third round, 18 new OSAs contracts were auctioned as well as risk exploration agreements under revenue-sharing schemes. The government auctioned 10 camps but 8 received worthy biddings. This round offered a large area of 1.3 million hectares.[320] The royalty payment would be 1% for oil discovered under a certain internal rate of return (geared toward extra-heavy camps) and 16.6% for discoveries with a higher rate of return. The corporate tax was 67% and the revenue sharing level was agreed at 50% for the state. Fourteen companies were awarded contracts for 39 years, and three commercial viable discoveries were made and subsequent joint-ventures were created (see table 3 below).[321]

[316] Ibid.
[317] All quotes from a telephone interview with author, October 2016.
[318] Interview with author, October 2016.
[319] Manzano and Monaldi, "12 The Political Economy of Oil Contract Renegotiation in Venezuela."
[320] Rodríguez Araque, *El Proceso de Privatización Petrolera En Venezuela*.
[321] Manzano and Monaldi, "12 The Political Economy of Oil Contract Renegotiation in Venezuela."

When the third round of auctions was up for congressional approval, Alí Rodríguez Araque, head of the mines commission and congressman for the opposition left-wing party *Causa Radical* (Causa R), developed a comprehensive critique of the opening strategy. He stated that the *apertura* had the objective of 'decreasing to the minimum the petroleum royalty'.[322] He argued that those who were subject to regulation (PDVSA and its partners) integrated the control committees instead of the state, creating a clear conflict of interest. For Rodríguez Araque, this amounted to a deliberate plan to privatize PDVSA.[323] Some argue that indeed PDVSA executives were explicit about their idea of privatizing the company.[324] Most importantly, the *apertura* meant a final move from PDVSA to replace the ministry in the regulation of the upstream level of the industry.[325] In his speech in Congress, Rodríguez Araque cited president Caldera when he was a senator in 1975 and rejected Article 5 of the nationalization law, pointing at the threats to the national interest that this kind of associations entailed.[326] The arguments expressed by the Causa R fraction in Congress were at the time considered rooted in old-fashioned nationalism that neither traditional political parties nor the moderate left shared. This view was inspired by what some pejoratively called a 'petroleum stinginess' inherited from Pérez Alfonzo,[327] while the leaders of *apertura* did not hesitate to call this 'strident group of university professors', a bunch of 'autarkic nationalists'.[328]

These contrasting nationalist narratives find their origins in the Medina-Betancourt cleavage I analyzed in chapter 3 as well as its continuation through the reversion versus nationalization dispute of the 1970s. Left wing nationalists would later gain more prominence—with a pragmatic variance supporting joint ventures—during the Chávez's government.[329] The evolution of the leftist position would be closely associated with the state's fears about PDVSA's autonomy and also the opening's capacity to bring about an increased output of heavier crude through massive investments.

[322] Rodríguez Araque, *El Proceso de Privatización Petrolera En Venezuela*, 15.
[323] Rodríguez Araque, *Antes de Que Se Me Olvide: Conversación Con Rosa Miriam Elizalde*.
[324] Philip and Panizza, *The Triumph of Politics*.
[325] Mendoza Potellá, *Nacionalismo Petrolero Venezolano En Cuatro Décadas*.
[326] Rodríguez Araque, *El Proceso de Privatización Petrolera En Venezuela*.
[327] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*, 353.
[328] Mendoza Potellá, *Nacionalismo Petrolero Venezolano En Cuatro Décadas*, 346.
[329] Rodríguez Araque, *Antes de Que Se Me Olvide: Conversación Con Rosa Miriam Elizalde*.

Manzano and Monaldi argue that 'in terms of investment and production, the oil opening was a major success'. In summary, the *apertura* brought '32 operating agreements, eight exploration at risk and profit-sharing agreements, four strategic associations and one association agreement for production of Orimulsion'.[330] Between 1994 and 2006, over US$ 25 billion in investment entered the industry. For Giusti, the amount was up to 'US$ 40 billion'.[331] More significantly, PDVSA's plan to increase production was achieved. The OSA contracts were producing up to 600,000 bpd by the end of the 1990s. The other association agreements produced 200,000 bpd then and totaled 650,000 by the mid-2000s. In terms of production, PDVSA waged an intense battle with the government and OPEC. Giusti recalls: 'I had to fight in OPEC, despite the fact that I was not the Minister' to increase production. The logic of the operating company, rather than that of a landlord state, was clear in his reasoning. For him, 'Venezuela had silently and gently accepted a quota of 2.15 million bpd, which did not correspond with the nation's reality, our population, our reserves'.[332] While the material justifications for this policy were clear from the perspective of the company (need of investments to increase production), the managerial discourse reveals the contrasting logics between the firm and the (rentier) state, even if the latter formally owned the former.

By 1998, Venezuela had increased its output by 800,000 bpd. PDVSA argued that heavy and extra-heavy oil was not oil but bitumen and this move justified breaking the OPEC quotas, as the conventional fields' production remained stable. For Philip, 'it was possible to argue in 1994, when PDVSA was only modestly in breach of its OPEC quota, that Venezuela was simply becoming a more individualistic, less team-spirited, member of OPEC in recognition of the fact that its good behavior in the past had not been recognized'.[333] Yet, he continues, 'this argument was clearly unsustainable by early 1998. There can be little doubt that 800,000 b/d is a high enough to influence the world price of oil. This means that[…]Venezuela is increasing its oil income by less than it is increasing production'.[334] Mommer also blamed PDVSA for low oil

[330] Eljuri and Tejera Pérez, "21st-Century Transformation of the Venezuelan Oil Industry."
[331] Telephone interview with author, July 2015.
[332] Telephone interview with author, July 2015.
[333] Philip, "When Oil Prices Were Low," 372.
[334] Ibid., 373.

prices: 'world petroleum prices broke down again, and this time it was PDVSA to blame, not the ministry or OPEC'.[335]

The struggle of PDVSA against the state not only translated into greater autonomy to operate abroad but also effectively imposed a new framework that governed investments in the country. The company had replaced the Ministry in its regulatory capacity and it also contradicted the government's foreign policy priorities by actively challenging OPEC's quotas. At the end of Caldera's administration, PDVSA had successfully achieved its managerial integration from the holding structure left after nationalization, it also internationalized and integrated its transport and commercial circuits abroad while it opened the country's untapped reservoir to international investors. These mixed ventures allowed incorporating some 800,000 b/d of output into the market, a significant figure that would later become crucial for the Venezuelan state to maintain. The conditions of the new associations benefited foreign companies, as the context of the bargain was favorable to them. Oil prices were low, the type of crudes to extract was of a heavier nature, and the exploited camps required initial and significant investments.

335 Mommer, *Global Oil and the Nation State*, 209.

Table 4.1 Evolution of the regulatory features under nationalization and *apertura* in Venezuela

Period/round of auctions	Type of contract	Regulatory features	Financial features
1976-1991	• National monopoly. • Association contracts for technical assistance.	• PDVSA merged into a holding with three major operators: Maraven, Lagoven and Corpoven and other affiliates. • Managerial autonomy was preserved.	• 67% income tax, reduced to 59% initially. • 16.6% royalty. • 10% exemption in income tax for export profits.
1991 First round of auctions, *apertura*	•3 Service contracts, Operating Service Agreements.	• International arbitration was introduced in case of controversies. • PDVSA's debts and assets abroad were collateral for investments. • A control committee between PDVSA controlled ventures.	• Service fee raged between 54% and 70% of oil price. • PDVSA covered the royalty. • Income tax lowered to 34%.
1992 Second round of auctions	•13 OSAs •4 joint ventures for enhancing extra-heavy crude.	• Regulatory features remained. • PDVSA held minority shares in joint-ventures.	• Join-ventures had a 1% royalty for the first 10 years and a 34% income tax.
1996 Third round of auctions	• 18 OSAs. • Risk exploration (RE) agreements, revenue-sharing schemes	• Up to 39-year contracts and joint ventures for new discoveries under RE agreements.	• 1% royalty for low rate of return and 16.6% for higher rates of return. • 67% income tax and up to 50% profit sharing.

4.5. A hesitant endorsement of neoliberalism

Venezuela suffered a catastrophic financial crisis in 1994 due to lack of oversight and banks' mismanagement, which put 54% of the banking system at risk. In total, more than a third of banks went bankrupt and were subject to state intervention.[336] The government pursued exchange

[336] Pedro A. Palma, "La Economía Venezolana En El Quinquenio de 1994-1998: De Una Crisis a Otra," *Nueva Economía* Año VIII, no. No. 12 (April 1999): 97–158.

and capital controls during 1994 and most of 1995, with meager results.[337] The costly bail out to the banks meant increasing inorganic money that spurred inflation. By the end of 1995, the state of public accounts forced the government—although reluctantly—to opt for major reforms labeled the *Agenda Venezuela*. These reforms were similar to the Pérez package, focusing on liberalization of prices and controls, privatizations, increasing gasoline prices, freeing interest rates and increasing the value added tax. At this point, Caldera's overall economic policy was in line with policy of opening up the oil sector. The government's approach to foreign investment became generally open and aligned with broader regional trends. The President appointed Teodoro Petkoff, former guerrilla commander and leader of the moderate leftist party MAS, Minister of Planning and the head of this package of reforms. Together with the liberal policies, some social programs were adopted to mitigate the effects of the adjustment and to prevent massive popular unrest.

In fact, Caldera was suspicious about the plan, mainly due to his entrenched statist tradition but also due to his fears that a popular outbreak similar to the *caracazo* could happen again. President Caldera publicly said that he had no other choice but to go ahead with the reforms.[338] As Egaña said in an interview, 'the depth of the economic crisis was the main driver for the application of structural adjustment policies, well beyond any ideological consideration'.[339] In short, Caldera's administration neoliberal policies were more the result of constraining economic circumstances than a consequence of ideological conviction. The reforms pursued a radical restructuring of labor laws and social security provisions, which were highly controversial, and implied important resistance. Protests became common during the 1996-1998 period. The Caldera administration followed the principles of party alliances in Congress and committed to a tripartite corporate commission that included the main labor organization, the main business confederation and the government to negotiate wage levels and labor reforms. Yet, the tripartite commission was largely composed of like-minded representatives that lacked a significant social base.

337 Javier Corrales, "Do Economic Crises Contribute to Economic Reform? Argentina and Venezuela in the 1990s," *Political Science Quarterly* 112, no. 4 (1997): 617–44, doi:10.2307/2657694.
338 Coronil, *The Magical State*, 354.
339 Interview with author, October 2016.

The IMF offered a stand-by loan upon the implementation of the *Agenda Venezuela*. Eventually, the economy seemed to finally adjust to some 'market fundamentals'; the GDP grew at a 6.4% rate and inflation was reduced to 37% in 1997, after peaking at 103% in 1996, when price controls were lifted and devaluation took place.[340] These results were did not match the IMF and government's expectations, which sought to bring inflation below 20%. The oil price did not help strengthen the reforms and deep-rooted popular discontent was not channeled through the traditional party system in the midst of increasing poverty and marginalization. Poverty levels had reached 86%, including a 65% of extreme poverty,[341] which fuelled the complete discredit of the political system. At the end of the 1990s it was clear that the consensus around development through rent redistribution and 'sow the oil' plans had crumbled. But the new liberal paradigm had not taken root either. Neoliberalism was finally endorsed by political elites but after years of reluctance and clumsy implementation. The social bases of *puntofijismo,* however, did not follow this consensus.

In 1998, the time was ripe for a rupture in a so far stable political system that had already faced substantial challenges in the past two decades. Hugo Chávez toured the country after his release from prison in 1997 and unified a heterogeneous political movement with the support of some traditional left-wing parties (including MAS and PVC, which had been part of Caldera's administration). His candidacy gained strength with time. His anti-system rhetoric was tilted toward nationalist sentiments, promising the re-foundation of the state through a constituent assembly and wiping out the old, corrupt, and dismissive political elite, with a bottom-up movement that included marginalized populations. Chávez's movement—at this point, it was largely a personal platform organized around a new political party called Movement V Republic—promised a still unspecified form of 'participatory democracy' as opposed to 'representative democracy' and opening space for representation of the masses, at least in discourse. This movement included members of the traditional left and university professors, together with an important group of former military men associated with the clandestine subversive faction that rebelled in 1992.[342] Traditional parties did not manage to gather support

[340] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*; Buxton, "Economic Policy and the Rise of Hugo Chávez."
[341] Buxton, "Economic Policy and the Rise of Hugo Chávez."
[342] López Maya, "Hugo Chávez Frías."

for their presidential candidates and finally ended up rallying around a businessman and conservative governor with ties to COPEI. Chávez's discourse 'brought to the fore issues of race and poverty in a country upheld by a (white) elite as a model for racial equality'.[343] Unsurprisingly, the result was a whopping victory of over 56% of the vote for Chávez and a strong mandate to overhaul Venezuela's party democracy and with it, its oil policy.[344]

4.6. Conclusions

As I have shown in this chapter, the struggles for rent appropriation and control over the oil industry did not end with nationalization. With nationalization, a decline in rent appropriation from the state ensued, as a result of a deliberate decision to give autonomy to the nascent NOC, PDVSA. Later, the government's intervention on PDVSA's foreign funds provoked an intensification of PDVSA's desire for autonomy and the company slowly undermined the regulatory capacity of the state. The national enterprise developed several strategies to enhance its financial independence and increase production. Internationalization and vertical integration was the first one. Later, PDVSA lobbied the Supreme Court to advance a lax interpretation of Article 5 of the nationalization law that allowed the effective constitution of a new legal framework governing investments in the resource sector. In fact, PDVSA replaced the Ministry of Energy and Mines as the regulator of the oil industry and opened the Orinoco river belt for a new cycle of investments. This new cycle was marked by consistently low oil prices. Following obsolescing bargain insights, foreign companies had the upper hand in the bargain, but the host state's interests seemed rather blurred by the emergence of another actor, Venezuela's NOC.

This classic case of a principal-agent problem has been explained as the rise of a 'subversive' force within the state. As it has been noted in this chapter, the AD strand of nationalists even until the second Pérez presidency attempted, unsuccessfully, to exert control over PDVSA in spite of its internationalization and opening plans. Running in the background of this history is the failure of successive governments to make Venezuela's economy *independent* from oil. The country's dependence on oil rents, however, never ceased. The plans that the government carried out to 'sow the oil' were always associated with, and largely dependent on, oil rents. The

343 Buxton, "Economic Policy and the Rise of Hugo Chávez," 123.
344 López Maya, "Hugo Chávez Frías."

political economy of the country was distorted by policy mechanisms, which protected various economic actors, but also hampered their competitiveness and incentivized clientelism and corruption.

While neoliberal policies had already been established as an important consensus in policy circles of Latin America, in Venezuela, political parties, businesses and organized workers remained skeptical even despite initial government support for them. Oil opening was first instituted despite the AD government's opposition. Later, the oil opening was recourse for the Caldera administration to postpone the application of neoliberal reforms. By the end of the 1990s, the government implemented both the oil opening and structural adjustment at the expense of the wrecking of *puntofijismo* political system. The social bases of the traditional parties did not follow their endorsement of state restructuring and the trade unions, business confederations and professional *gremios* lacked representation in the masses.

In sum, the opening of the oil sector in the 1990s responded primarily to a preconceived plan by PDVSA. In ideational terms, opening was, rather than an outcome of commitment to neoliberal policies, a result of the company's own managerial culture. PDVSA saw itself mostly as an oil producer rather than an agent of the landlord state's interests. The company's managerial elite interpreted its own place in the country and the energy market as a large oil producer. In this period, these ideational disputes embodied in the conflict between PDVSA's autonomy versus the state's desire for control, carried heavier weight in the determining of state treatment of foreign investment. PDVSA imposed its view on foreign investment on other public institutions despite government opposition. The type of association with foreign investors that resulted was largely influenced by the early stage of investments in marginal and heavy crude camps, so these material variables benefitted companies. The market context was marked by low oil prices, further contributing to a flexible regulatory framework.

Chapter 5
'Red, very red': the politics of PDVSA's control and the use of foreign investment in Venezuela's socialist rentierism[345]

'There cannot be a socialist project if our country does not have command and control over its wealth, its natural resources and its economy'.[346]
Hugo Chávez,
May 1 2007, on occasion of the 're-nationalization' of the Orinoco river belt

5.1. Introduction

Building on the last chapter's discussion about the conflicts between the state and PDVSA, this chapter explores how in the early stages of the Bolivarian regime, state-PDVSA tensions became unsustainable. The initial efforts to seize control over the company were met by fierce opposition, including attempts by the managerial elite of the company to overthrow the government. The failure of these attempts, in turn, prompted the full takeover of PDVSA by the government. The new state-company relationship helped reinvigorate Venezuela's rentierism but with new distinctive features, including its linkages with foreign investment.

I argue that the current relationship between the state and foreign companies is a hybrid model that incorporates important mechanisms of state control but where foreign investment is crucial to achieve the state's objectives. The joint-venture framework was approved by law in 2001 but the government chose to keep the oil opening contracts in place for the first few years of the administration until existing contracts expired. In 2007, however, the Chávez administration shifted its relations with foreign companies forcing the complete migration of contracts signed under the *apertura* to joint-ventures offered to foreign companies with state majority shares. This partial nationalization only began once investments in the Orinoco belt had been producing considerable results and with a sustained increase in international oil prices. Investors' costs were considerably sunk and the government used the largest world oil reservoir as a bargaining chip for companies to accept the new terms. The government simultaneously pursued increased

[345] Parts of this Chapter have already been published in an article for the *Canadian Journal of Development Studies*.
[346] Hugo Chávez, *Pensamiento Petrolero Del Comandante Chávez* (Caracas: Ministerio del Poder Popular para Petróleo y Minería/ PDVSA, 2013), 157.

state control and enhanced diversification of investors, potentially exerting control over a less concentrated industry. The rise of China in this case became instrumental for state objectives as Chinese SOEs offered better investment and cooperation conditions to the state, which leveraged advantageous deals with investors. The ideas that prevailed in this period were centered on a socialist project, which featured prominently direct government control over the distribution of rents as a mechanism of political control and legitimation. As Hugo Chávez emphasized during the partial nationalization of the Orinoco river investments, control over the oil industry was a foundational element of his socialist project. Yet, paradoxically, this project was only made possible through continuing association with foreign investment.

Existing explanations of the turn towards more nationalist policies towards IOCs in Venezuela have tended to focus on either the material incentives rooted in obsolescing bargain arguments[347] or the role of (socialist) ideology.[348] As I have mentioned, the imperative of control over PDVSA is a fundamental factor that has been largely ignored in these explanations. The government's ideas of socialist rentierism prevailed over the identity of PDVSA's managerial elite who wanted to keep autonomy of the company, mirroring large global oil producers. Moreover, the impact of changes in the global energy market of the past few years, especially the rise of China in the global economy offered the Venezuelan state the possibility to enhance this hybrid model. In consonance with the broader contributions of this dissertation, in this chapter I show the importance of highlighting a broader diversity of actors beyond the dyad explored in OBM models, both within the state and among IOCs to explain the shifts in state-foreign companies' relations, while also stressing ideational contestations in explaining state linkage with foreign investment. I demonstrate the Bolivarian strategic need for and use of foreign investment in Venezuela's oil sector. But, in an historical perspective, this study underscores that foreign investment has been far more important for revolutionary nationalists today than it was in the 1970s when nationalists pursued full nationalization as an ultimate goal. In this case, the state's

[347] Ruben Berrios, Andrae Marak, and Scott Morgenstern, "Explaining Hydrocarbon Nationalization in Latin America: Economics and Political Ideology," *Review of International Political Economy* 18, no. 5 (2011): 673–97; Osmel Manzano and Francisco Monaldi, "12 The Political Economy of Oil Contract Renegotiation in Venezuela," *The Natural Resources Trap: Private Investment without Public Commitment*, 2010, 409.

[348] Javier Corrales and Michael Penfold, *Dragon in the Tropics: Hugo Chavez and the Political Economy of Revolution in Venezuela* (Brookings Institution Press, 2011); Diego Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela* (Caracas: Alfa, 2013); Ramon Espinasa, "Commentary: Not Just a Distributional Matter," *The Natural Resources Trap: Private Investment Without Public Commitment*, 2010, 467.

alliance with foreign companies in order to advance its political goal of controlling PDVSA, proves the relevance of the agency of Venezuela's state and, paradoxically, its own vulnerability.

The chapter is organized as follows. First, I analyze the initial reforms that the Chávez administration put into place and how these measures provoked conflicts with various sectors and interests, most notably the managerial elite of PDVSA. Second, I examine the campaign 'full oil sovereignty' that the government carried out until 2007. Third, I explain how association with foreign investment is conceived as vital for the control of PDVSA and the sustainability of a new type of rentierism that emerged in Venezuela under the Bolivarian regime. I focus particular attention on the Venezuelan government's dynamic relationship with China because it has become the most lucrative one for the Venezuelan government. Fourth, the chapter finishes with a characterization of the recent economic crisis in Venezuela and how the government continues to use foreign investment strategically for the survival of the Bolivarian model of socialist rentierism.

5.2. The emerging conflicts in the re-foundation of the country

Upon taking office in 1999, the Chávez government went through a long process of political instability until 2003. In that period, the Bolivarian political movement sought to implement a series of drastic changes to the operation of the Venezuelan state and its relationship with society, whilst contending with a strong political opposition to those very changes. This resistance was carried out both through institutional strategies such as Congressional opposition and legal challenges in the Supreme Court, as well as more subversive means such as a coup attempt and the sabotage of the oil industry.[349] During this time, Venezuela also became the subject of increasing media and scholarly attention, after decades being relegated to an uncommon normalcy in the Latin American region.[350] As a result, this period has been studied extensively, albeit through a prism of polarization that remains present today. Within this

[349] Barry Cannon, "As Clear as MUD: Characteristics, Objectives, and Strategies of the Opposition in Bolivarian Venezuela," *Latin American Politics and Society* 56, no. 4 (2014): 49–70, doi:10.1111/j.1548-2456.2014.00248.x.
[350] Steve Ellner and Daniel Hellinger, *Venezuelan Politics in the Chávez Era : Class, Polarization, and Conflict* (Boulder, Colo; London: Lynne Rienner, 2003).

conflict, the role of oil, and the national oil company in particular, plays an especially central role.

5.2.1. The Bolivarian constitution

Hugo Chávez promoted the writing of a new constitution as a way to re-found the nation-state. In doing so, he invoked the 'constituent power' of the sovereign—'the people'—through the means of a referendum. Chávez lacked the super-majority in Congress that would have allowed him to enact a constitutional re-writing through a congressional mandate. Despite resistance from the previous regime, the Supreme Court allowed the referendum to take place and later on to call elections for a Constituent Assembly. The assembly was elected with an overwhelming majority of *chavista* constituent members, in charge of writing the new constitution. Furthermore, the Supreme Court eventually resolved conflicts of overlapping power between Congress and the Constituent Assembly in favor of the latter, dissolving Congress in 1999.[351]

Despite the social enthusiasm that the Constituent Assembly produced and its role in producing a national debate around political, social and economic issues, the writing of the constitution was a centralized, top-down process managed by Chávez's inner circle and led by a moderate political operator who controlled the Assembly.[352] The new constitution strengthened the role of the executive in various areas, such as in the armed forces where the President could now appoint generals without parliamentary approval. Meanwhile, the National Assembly—now a unicameral entity with both proportional and majoritarian representation—could give the President legislative powers in any area of national interest, even in the absence of a national emergency. The constitution further eliminated public financing of political parties, making it harder for minorities to be represented, increasing incentives for illegal appropriation of public funds to benefit a political group and enabling powerful economic actors to influence policy.[353] However, the constitution also upheld progressive implementation of human rights agreements at the international level and promoted popular participation in legislative processes, further enabling

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[351] Corrales and Penfold, *Dragon in the Tropics*.
[352] Ryan Brading, "From Passive to Radical Revolution in Venezuela's Populist Project," *Latin American Perspectives* 41, no. 6 (2014): 48–64, doi:10.1177/0094582X14521991.
[353] Margarita López Maya, "Hugo Chávez Frías: His Movement and His Presidency," *Venezuelan Politics in the Chávez Era: Class, Polarization and Conflict, Boulder: Lynne Rienner*, 2003.

the possibility for elected officials to be recalled once they had completed half of their term in public office.

The new constitution ratified the mandate of national ownership over hydrocarbons and minerals. In terms of the oil industry and its management, the 1999 constitution established that PDVSA would continue to be a holding company whose only shareholder was the Venezuelan state. Nevertheless, the wording of the constitution stipulated that this requirement did not pertain to its affiliates, including joint ventures and strategic associations.[354] PDVSA was to remain a state-owned enterprise but all its affiliates could, in principle, be privatized. According to Mommer, PDVSA successfully lobbied the constituent assembly in the writing of Article 303 in order to allow a process of slow privatization. In essence, Mommer suggests that since 'PDVSA does not produce a single barrel of oil', the managers' idea was to turn the company into a 'licensing agency' with private companies operating on the oil fields.[355]

5.2.2. The new oil policy

The objectives of the new oil policy promoted by Chávez centered around three main issues: strengthening OPEC and bringing Venezuela back to its traditional landlord position of defending prices; restoring the regulatory capacity of the Ministry of Energy and Mines over the industry in general and over PDVSA in particular, and in doing so maximizing rent acquisition via royalties.[356] Chávez first appointed Alí Rodríguez Araque as Minister of Energy and Mines. Rodríguez Araque was a former congressman for Causa R, and well-known oil nationalist who relentlessly opposed the *apertura* (see chapter 3). General Guaicaipuro Lameda was asked to lead the company in 2000 in order to carry out further reforms the government deemed to be of strategic importance. Lameda had previously been in charge of the national budget office and his appointment was initially seen with skepticism within the company as he was a military man

[354] Ronald Balza Guanipa, "De La Planificación Centralizada a La Regulación de La Economía: Propuesta de Transición Gradual Para Venezuela," in *Venezuela 2015: Economía Política Y Sociedad*, ed. Ronald Balza Guanipa (Caracas: Fundación Konrad Adenauer Universidad Católica Andrés Bello, 2015).
[355] Bernard Mommer, *Global Oil and the Nation State* (Oxford University Press, USA, 2002), 223.
[356] Luis E. Lander, "La Reforma Petrolera Del Gobierno de Chávez," *Revista Venezolana de Economía Y Ciencias Sociales* 8, no. 2 (August 2002): 185–87; Margarita López Maya and Luis E. Lander, "Venezuela, Golpe Y Petróleo," *OSAL: Observatorio Social de América Latina*, no. 2 (June 2002): 15–18.

rather than an oil expert, but Chávez highlighted his academic credentials and lauded him as a capable technocrat.[357]

The goals of the oil policy at home had clear resonance with the government's goals internationally. The objective of reunifying OPEC was a priority that produced quick results as Chávez invited the heads of state to a meeting held in Caracas in 2000. At this point, Chávez had already showed signs of his willingness to go against the grain of international politics, being the first western leader to visit Iraqi President, Saddam Hussein, since the Iraqi invasion of Kuwait in 1990. Still, Chávez's active diplomacy paid off, playing a role on successfully reactivating OPEC quotas and unifying objectives from the main producers. As prices began to spike in 2000, Rodríguez Araque was greeted with respect by other OPEC members who offered him the position as the organization's new secretary general in the midst of disagreements between Gulf ministers.[358] Chávez then named Álvaro Silva Calderón, author of the reversion law of 1971, as his new Minister of Energy. In order to carry out the rest of its oil policy objectives, the government approved in 2001 a new organic law of hydrocarbons via presidential decree. The year before the National Assembly had partially surrendered its legislative power to the executive through 'an enabling law' that allowed the President to legislate in various areas.[359]

The historical antecedents cited in the law recalled the 1829 decree authored by independence leader Simón Bolívar who, borrowing from Spanish jurisprudence and continuing the spirit of the mines ordinance of New Spain signed in 1784, declared that the Republic would be the sole owner of mines and bitumen. The law stipulated that 'the state reserved activities of yield exploration, extraction, collection, transport and initial storage' all of which were denominated 'primary activities' (upstream). The law also secured ownership over existing refineries and their potential expansion or improvement. However, the law also considered the inclusion of mixed companies through joint-ventures, mandating a state company to own at least 50% assets. According to the law: 'the state is obliged to intervene directly in the business, overcoming the role of simple rent collector that had until the time of nationalization; moreover, it allows the

[357] Fernando Coronil, "Venezuela's Wounded Bodies: Nation and Imagination During the 2002 Coup," *NACLA Report on the Americas*, February 2011, 33–40.
[358] Alí Rodríguez Araque, *Antes de Que Se Me Olvide: Conversación Con Rosa Miriam Elizalde* (La Habana: Editora Política, 2012).
[359] López Maya and Lander, "Venezuela, Golpe Y Petróleo."

state to keep real control and it gives decision-making power in all businesses and operations in companies that take part in reserved activities'.[360]

In terms of its financial features, the new law increased the extraction royalty to 30%, while reducing corporate tax from 67.7% to 50%. The corporate tax of the non-petroleum sector was reduced to 30% from 34%. The hydrocarbons law allowed the state to keep levying non-petroleum sector corporate tax to extra heavy crude projects. However, most heavy crude oil projects operating through service contracts would pay oil-sector corporate tax. Ultimately, the state could never levy a royalty lower than one sixth (16 2/3%).[361] The law sought to erode the oil opening, as it did not contemplate operating contracts henceforth. Yet, it still offered incentives that made investments more attractive in contrast to the conditions that ruled prior to the *apertura*.[362] The government argued that these tax and royalty conditions were easily met by the ongoing projects as their extraction costs had already shrunk due to improved technologies and enhanced learning in the areas. The new law revoked the 1943 hydrocarbons law, the 1971 reversion law and the 1975 nationalization law together with three other minor laws, all of which had remained in place until then. As part of the larger change in oil policy, the government initiated solidarity exchanges with Cuba, which involved trading oil for access to healthcare practitioners and other social programs.

5.2.3. An 'apolitical' coup

Together with the hydrocarbons law, Chávez approved a package of 49 laws that varied from land reform and banking to elementary education oversight. All of these were approved in absence of significant debate within society at large. Once enacted, however, the reforms attracted considerable public attention (both in favor and against their implementation), provoking protests that intensified over time. In December 2001, the largest business confederation, FEDECAMARAS, called for a 24-hour national strike in protest against the

[360] República Bolivariana de Venezuela, "Decreto Con Fuerza de Ley Orgánica de Hidrocarburos," Law (Caracas, November 13, 2001).
[361] Ibid.
[362] Lander, "La Reforma Petrolera Del Gobierno de Chávez."

package of laws and demanded that the government rectify its authoritarian tendencies.[363] The government's position remained firm, however, defended by fiery speeches given by Chávez, rallying against the 'oligarchy' and party elites. Both the reforms and government's discourse in turn spurred opposition from civil society activists associated with the political opposition and the members of the PDVSA managerial elite who feared further government intervention over their autonomy. In February 2002, PDVSA's president, Guaicaipuro Lameda, backing other managers of the company, publicly criticized the hydrocarbons law and was subsequently removed from his post. Chávez was facing probably the lowest popularity ratings in his entire tenure as President, with polls showing 30% of support.[364] Initial fractures within his movement also surfaced between those that sought even more radical transformations and a moderate reformist side that progressively joined the opposition and traditional political forces to demand the withdrawal of the laws Chávez had approved by decree.

As legislative issues regarding land distribution and private education oversight attracted attention from Venezuelan society and media, PDVSA began to enter into open conflict with the President. Chávez appointed Gastón Parra Luzardo as PDVSA's president, after firing Lameda. Parra Luzardo was the fourth president of the company in just three years and came from an academic background. He was a dependency theory scholar, having no managerial experience in oil.[365] Moreover, Chávez promoted a group of revolutionary supporters to managerial positions of the company in breach of the meritocratic procedures that had been traditional to the governance structure of the company previously. Former manager Eddie Ramírez recalled years later: 'we never objected to the President's appointments of the company CEO and board members, that was his prerogative […]'. But he went on, 'what we objected to was the appointment of internal directors that came from our own ranks: they were good professionals but did not have enough merit to be directors, except for the fact that they were in favor of the revolution. We thought that violated [PDVSA's] meritocracy'.[366]

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363 López Maya and Lander, "Venezuela, Golpe Y Petróleo."

364 David R. Hults, "Petróleos de Venezuela, SA (PDVSA): From Independence to Subservience," *Victor et Al., Eds, Oil and Governance*, 2012, 418–77.

365 Coronil, "Venezuela's Wounded Bodies: Nation and Imagination During the 2002 Coup."

366 Manuel López, "El Paro Petrolero Convocado El 4 de Abril de 2002 Desencadenó Los Hechos Del 11-A," *El Correo Del Orinoco*, April 11, 2012, 5.

The corporate leadership of PDVSA made its discontent public in a manifesto published in national newspapers, in early April of 2002. The managerial elite of the company, wary of political interference, became increasingly politically active and developed a militant movement that rallied support from various sectors of society, mostly represented in FEDECAMARAS, and the AD-identified workers' union, Confederación de Trabajadores de Venezuela (CTV). The corporate leadership of PDVSA, with the support of the business organization and the largest trade union, asked the President to restore meritocracy by removing the newly appointed managers. Conversations with the new CEO failed, as he abided by the President's decisions, and confrontation ensued. Chávez dismissed the entire body of dissident managers at PDVSA on live television during his Sunday show *Aló Presidente*.[367] The dismissal provoked an unprecedented action from PDVSA's top managers: a call to strike against the government. It was not a workers' strike in the traditional sense, as they were not making demands for increased wages or working conditions but instead demanded the shareholder—the state—to respect the company's corporate culture and autonomy. A one-day strike was followed by a general strike from the business corporation and the workers' confederation and street protests on April 11. Hundreds of thousand protesters gathered outside one of the corporate buildings of PDVSA—rebranded as the 'square of meritocracy'—and it was suddenly transformed into a march to the presidential palace to demand the President's resignation.[368] A coup d'état was underway. In the midst of killings by snipers (both of government supporters and opposition protesters), top generals of the army ousted the President for just over a day.[369] Some reports document at least some financial and moral support from the United States government to the opposition cause.[370]

The short-lived government of Pedro Carmona Estanga, former head of FEDECAMARAS, summarily dissolved the parliament, members of the Supreme Court, governors, electoral council and nullified Chávez's 49 executive decrees. Carmona as a *de facto* President renamed Lameda as PDVSA's CEO. Within hours, PDVSA made public its decisions to immediately stop oil shipments to Cuba and initiate an aggressive campaign to recuperate markets. PDVSA was

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[367] Hults, "Petróleos de Venezuela, SA (PDVSA)."
[368] Margarita López Maya, "Una Aproximación Al Golpe de Estado Del 11 de Abril Y Sus Causas," *Journal of Iberian and Latin American Research* 8, no. 1 (2002): 117–28, doi:10.1080/13260219.2002.10431765.
[369] Brading, "From Passive to Radical Revolution in Venezuela's Populist Project."
[370] Edgardo Lander, "El Papel Del Gobierno de Los EE.UU. En El Golpe de Estado Contra El Presidente Chávez. Una Exploración Preliminar," *OSAL: Observatorio Social de América Latina*, June 2002, 5–9.

located as the center of oil policy once more, abrogating competences that belonged to the head of state and the Ministry of Energy.[371] Nevertheless, equally strong street demonstrations calling to reinstate Chávez to power fueled a military operation from loyal garrisons that brought him back on April 14.[372] Upon his return, Chávez's attitude seemed less intransigent and sought basic reconciliation with his adversaries. A sign of this new attitude was his decision to rectify his previous removal of PDVSA's staff. Top managers were reinstated in their posts and Parra Luzardo was dismissed, while Alí Rodríguez Araque was asked to return from Vienna to head the company. Judges from the Supreme Court pardoned coup plotters and Chávez reformed his cabinet to include more conciliatory figures.

The dynamic of street demonstrations and institutional rupture continued in the months ahead. The militant opposition took over a public square at the east of Caracas, Plaza Altamira, where it kept constant mobilization. Military men joined the protests at the square over time until over one hundred commanders had declared their opposition to the government. Nevertheless, Chávez never withdrew the 49 laws. On December 2, FEDECAMARAS called for a general strike that was supported by the workers' confederation and the media calling for Chávez's resignation. The next day the strike was extended, as it would be everyday for the next two months, and PDVSA's managers soon joined, this time with the support of thousands of workers in various of the company's installations around the country. Oil production stopped, oil shipments stalled and economic activity came to a standstill for weeks. Long line-ups emerged in gas stations and cooking gas disappeared for consumers in one of the world's largest oil producing countries. The strike leaders thought the government could not withstand this pressure and the President's resignation would come. Rodríguez Araque claims that: 'PDVSA was not only a state within the state, it sought to overcome the state and the nation'.[373] Throughout these struggles, however, the battles between government and opposition had a strong symbolic weight. They seemed to signify irreconcilable forces of 'the people' (generally those who are poor and have been historically marginalized) versus 'civil society' (seen as apparently autonomous productive

[371] Fernando Coronil, "State Reflections: The 2002 Coup against Hugo Chávez," in *T. Ponniah and J. Eastwood, Eds*, 2011, 37–65; López Maya and Lander, "Venezuela, Golpe Y Petróleo."
[372] López Maya, "Una Aproximación Al Golpe de Estado Del 11 de Abril Y Sus Causas."
[373] Rodríguez Araque, *Antes de Que Se Me Olvide: Conversación con Rosa Miriam Elizalde*, 141.

forces of society with democratic and modern values).[374] Again, these symbolic struggles were also present with respect to the oil company, as the government sought to impose a renewed notion of social justice associated with ownership over oil, while PDVSA defended its own image of a global oil corporation.

While the government did not repress the protest openly, apparent government supporters carried out violent paramilitary attacks, including a one-man shooting that killed three civilians and injured dozens in Plaza Altamira. In time, the armed forces and organized government supporters also took over the oil industry. A famous incident was the navy's takeover of the oil tanker Pilín León that had been anchored by its captain in the navigable waters of Maracaibo Lake. The oil company, which had stopped almost completely, was eventually taken over by the government with the leadership of Rodríguez Araque, the military and government supporters. After losses of billions of dollars, the strike lost strength and its leaders formally abandoned it in February 2003 with a mass mobilization to collect millions of signatures to recall Chávez's government in national referendum. This time, the government announced that all PDVSA workers who joined the strike had been dismissed due to unjustifiable absence from the workplace. Through these dismissals, the government successfully purged the company of some 18,000 workers (more than half its total payroll), a truly radical corporate restructuring.[375]

The battle over the oil company ended with full government control. The government centralized PDVSA's management and even gave up several of its administrative buildings in Caracas and other parts of the country to new higher education projects. The isolation of PDVSA's managerial elite since nationalization was such that it was unable to comprehend the process of societal change that had begun in the country. Even somewhat sympathetic accounts of the strike assert that it was 'a profound misjudgment rooted in the management's history of independence'[376] and 'an extreme and miscalculated reaction'[377] to Chávez's provocations.

[374] Brading, "From Passive to Radical Revolution in Venezuela's Populist Project"; George Ciccariello-Maher, "Constituent Moments, Constitutional Processes Social Movements and the New Latin American Left," *Latin American Perspectives* 40, no. 3 (May 1, 2013): 126–45, doi:10.1177/0094582X13476001; López Maya, "Una Aproximación Al Golpe de Estado Del 11 de Abril Y Sus Causas."
[375] Corrales and Penfold, *Dragon in the Tropics*; Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*; George Philip and Francisco Panizza, *The Triumph of Politics* (John Wiley & Sons, 2013).
[376] Hults, "Petróleos de Venezuela, SA (PDVSA)," 420.

Meanwhile, as a result of the strike, the government opted to privilege loyalty over technical capacity in the management of the industry and has exerted since then different mechanisms of political control over PDVSA that have negatively impacted its business capacity. Indeed, the initial recovery of the company was remarkable after the strike, but it has never reached pre-strike levels. Oil production remained below 3 million bpd in the following years which, even discounting OPEC quota restrictions, was significantly below Venezuela's capacity. The loss of human capital meant 'a real and sustained setback to PDVSA's productive potential'.[378] The government chose to sacrifice the technical expertise of the company for the expediency of having a compliant company. Ultimately, the goal of advancing a renewed form of rentierism, now under socialist principles, prevailed over building a strong NOC even if different from the old PDVSA. Venezuelan political expert Margarita López Maya argues that 'Chávez never overcame the 2002 trauma, and the government never set up a sustained training mechanism to equalize the new personnel's capacity with the one that existed previously'.[379] The notions of the state as a landlord and a rentier state prevailed, while PDVSA's image of an outward oriented oil company was significantly curtailed.

The government assured control over the company in 2003 but only much after that did it start to develop mechanisms to implement the changes it sought in oil policy. This process of implementation was gradual and it materialized with the Full Oil Sovereignty campaign. Meanwhile, struggles between government and opposition continued, but the opposition was then fractured after several defeats. In August 2004, the recall referendum took place with a Chávez solid victory, while the opposition claimed fraud.[380] The year 2005 was crucial. It was an election year to renew the entire National Assembly and despite disagreements within the opposition, the coalition decided to boycott the elections, arguing institutional bias and threats of fraud. This weakened the opposition further. The government—and Chávez personally—managed to control the parliament and from the National Assembly it was able to exert its influence in every other public power. Since then, the vast majority of electoral council members, judges in all courts, the prosecutor general, comptroller general and Ombudsman have

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[377] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*, 404.
[378] Philip and Panizza, *The Triumph of Politics*, 131.
[379] Interview with author, Caracas July 2015.
[380] Coronil, "State Reflections."

acted like government representatives rather than autonomous authorities.[381] Hence, decisions to overrule the oil opening would later come from both parliament and the Supreme Court. The opposition decided to regroup into an electoral and constitutional platform in 2006 but it was too late. Chávez won his second reelection by landslide, now openly promoting a socialist agenda, surfing the wave of high oil prices, complete institutional control and a formidable international setting with left-leaning leaders governing most of South America.[382]

5.3. Full oil sovereignty: mixed-companies type of nationalization

The government action that started roughly in 2005 and ended in May 2007 with the migration of all contracts signed under the oil opening to joint-ventures was known as an era of 're-nationalization'.[383] Scholars and analysts have pointed out that the intention of the Venezuelan regime in this process was to enhance state control and leave private investors subject to the will of the state.[384] The logic of this strategy, however, was notably *not* to bring all assets back to state ownership (as it had been in the 1970s nationalization) but rather to continue the association with foreign investment under a scheme that assured full operational control by the state. There are several reasons for this. In what remains of this chapter, I will spell out how the different material and ideational motivations are interwoven and how they are affected by different actors' interests. The material motivations responded to the state's interest of attaining more rents from oil extraction, which was mostly possible with the input of foreign investment. There are also ideational motivations that refer to the wider foreign policy of the government, its desire to protect its political project and its commitment to advancing a socialist model. In sum, during the surge of Bolivarian resource nationalism, asserting state control was conceived as possible because of association with foreign investors. The association with foreign companies has been instrumental in the development of the Bolivarian model of socialist rentierism.

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381 Scott Mainwaring, "From Representative Democracy to Participatory Competitive Authoritarianism: Hugo Chávez and Venezuelan Politics," *Perspectives on Politics* 10, no. 04 (2012): 955–67.

382 Javier Corrales and Michael Penfold-Becerra, "Venezuela: Crowding out the Opposition," *Journal of Democracy* 18, no. 2 (2007): 99–113; Javier Corrales, "A Setback for Chávez," *Journal of Democracy* 22, no. 1 (2011): 122–36; Mainwaring, "From Representative Democracy to Participatory Competitive Authoritarianism."

383 Hildegard Rondón de Sansó, *El Régimen Jurídico de Los Hidrocarburos: El Impacto Del Petróleo En Venezuela*, 3rd Edition (Caracas: Editorial Arte, 2012); Elisabeth Eljuri and Victorino J Tejera Pérez, "21st-Century Transformation of the Venezuelan Oil Industry," *Journal of Energy & Natural Resources Law* 26, no. 4 (November 2008): 475–98, doi:10.1080/02646811.2008.11435196.

384 Eljuri and Tejera Pérez, "21st-Century Transformation of the Venezuelan Oil Industry."

After the new hydrocarbons law was approved in 2001, the disputes between the government and PDVSA impeded efforts to change the terms of the relationship with foreign companies. Even government officials assumed that the new legal framework would be applied only to new investments, and that the contracts already underway would remain in place until they expired.[385] This idea was based on the principle of non-retroactivity and the respect to law-abiding contracts.[386] However, once the government assumed control over PDVSA (in the context of rising oil prices), it faced new incentives to change the terms of the ongoing contracts. First, the initial investments in the 32 operating OSA contracts for light and medium heavy crudes were already set and production was flowing reasonably well. The association contracts and four joint ventures at the Orinoco belt had already committed investments and production was underway. Second, the new oil price was significantly higher than the reference price when the contracts were signed. As Philip and Panizza argue 'the desire to renegotiate the contracts, in itself, was understandable […] it could well be argued that the general increase in international prices after 2000 might have made it irresponsible to do anything else'.[387] Monaldi asserts that it was a prototypical scenario where the sunk costs of the industry made investors 'prisoners of the changing conditions' of international prices and government bargaining.[388] Traditional obsolescence bargain incentives became crucial for the government, which already questioned the legitimacy of the oil opening.

The government increased all royalties from 1% to 16.3%, concerning projects that were already producing at full capacity. Later, the government increased corporate tax on the Orinoco investments.[389] In March 2006, Rafael Ramírez, PDVSA CEO and Minister of Oil, declared before the National Assembly the executive's desire to migrate all contracts to joint-ventures, asking the parliament to approve a model for new contracts, while forcing investing companies to negotiate the migration to the new framework. In his speech, Ramírez argued that the rationale for the change was rooted in the notions of national sovereignty over natural resources as

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385 Bernard Mommer, "Venezuela: Un Nuevo Marco Legal E Institucional Petrolero," *Revista Venezolana de Economía Y Ciencias Sociales* 8, no. 2 (2002): 201–7.
386 Julian Cardenas Garcia, "Rebalancing Oil Contracts in Venezuela," *Hous. J. Int'l L.* 33 (2010): 235.
387 George Philip and Francisco Panizza, *The Triumph of Politics* (John Wiley & Sons, 2013), 133.
388 Telephone interview with author, July 2015.
389 Corrales and Penfold, *Dragon in the Tropics*.

protected by the UN resolution 1.803 from 1962. Ramírez stressed that all operating contracts violated the principles of sovereignty. According to him, the state, 'captured by PDVSA's technocratic and transnationalized elite' gave up on the rights of the landlord to levy royalties over extraction and relinquished its capacity to regulate the business.[390] He stressed the idea that these agreements violated the nationalization law of 1975 because private contractors were given concessions disguised as service contracts. Moreover, the fact that PDVSA gave legal guarantees to the investors and potential disagreements could be elevated to international arbitration allegedly violated the constitution and Venezuelan laws.[391]

Two weeks after the draft contract was submitted to the parliament, it was approved unanimously. This was not surprising, given that the parliament had no opposition members until a handful of dissenting *chavistas* became a minority opposition faction in 2007. The minister's arguments about the illegitimacy of the 1990s contracts were used to support the new framework. The contract model stated that an integrated joint-venture had to be created with majority shares for the Venezuelan operating firm, PDVSA's filial CPV. The new contract was to last for 20 years. It regulated an immediate return to the regular royalty and corporate tax levels (33% and 50%, respectively); in some cases where the production of extra heavy crudes was determined, a lower royalty of 20% or 16 2/3% could be levied (see table 4 below).[392] The parliament also approved a law of 'regularization' in April that determined the associations approved during the oil opening to have been illegal.[393] As this process was ongoing, companies were forced to pay compensation to the state for the foregone fiscal burdens during the *apertura*.[394] Notwithstanding, in 2008 the government imposed a new tax that 'operates as a surcharge royalty' and is imposed any time the basket of oil increases above the US$ 70 mark. If the price is above US$ 70, a 50% tax is imposed on the differential between the actual price and

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[390] Rafael Ramírez, "Palabras Del Ministro de Energía Y Petróleo Y Presidente de PDVSA, Rafael Ramírez, Ante La Plenaria de La Asamblea Nacional Sobre El Modelo de Empesas Mixtas." (Caracas: Ministerio de Energía y Petróleo / PDVSA, March 23, 2006).
[391] Ibid.; Rondón de Sansó, *El Régimen Jurídico de Los Hidrocarburos: El Impacto Del Petróleo En Venezuela*.
[392] República Bolivariana de Venezuela, "Proyecto de Modelo de Contrato Para Las Empresas Mixtas Entre La Coporación Venezolana de Petróleo S.A. Y Las Entidades Privadas," Law (Caracas, March 31, 2006).
[393] Rondón de Sansó, *El Régimen Jurídico de Los Hidrocarburos: El Impacto Del Petróleo En Venezuela*.
[394] Osmel Manzano and Francisco Monaldi, "12 The Political Economy of Oil Contract Renegotiation in Venezuela," *The Natural Resources Trap: Private Investment without Public Commitment*, 2010.

US$ 70 and when the price goes above US$ 100 the tax imposed is 60%.[395] This marked the first progressive reform to the fiscal code governing the oil industry since the fifty-fifty.

Table 5.1 Main features of Venezuela's new framework of joint ventures

Regulatory features	Financial features	Compensatory measures
• Contracts last 20 years • At least 50% of assets belong to the state's operator, CVP. • All associations were turned into joint-ventures with 60% assets for the CVP.	• Royalty 30%. • Income tax for the oil sector 50%. • Royalty for extra heavy oil projects 16.3%.	• All companies were forced to migrate to joint-ventures. • The state charged around US $ 400 million in compensation for fiscal burden foregone.

A senior attorney who represented private companies in this process, mentioned in an interview that the sector considered this an illegal move from the government. The private sector's main argument was that a newly imposed framework became retroactive. This private attorney, the government made a 'confiscatory action' by forcing all service contracts to migrate to joint-ventures and deeming them illegal in a 'retroactive change of legal regime'.[396] In response to the arguments of companies, a senior member of the government's legal team states that the contracts had been comparable to 'privatizing acts' that were 'absolutely null' in their origin. In this case, the state was confronted with a problem of restoring legality and needed to eliminate 'invalid associations that violated public order'.[397] She illustrated the case by posing a question: 'imagine if in Venezuela a law had been approved to privatize rivers, seas and lakes, and therefore transferred to individuals, could it be argued that those who benefitted from these privatizing acts had legally acquired rights?'[398] In other words, the government justified the application of the new framework to contracts signed previously, on the grounds of illegitimacy.

[395] Ibid., 444.
[396] Telephone interview with author 2016
[397] Hildegard Rondón de Sansó, Interview with author 2016
[398] Hildegard Rondón de Sansó, Interview with author 2016

ExxonMobil and ConocoPhillips were the two major private IOCs that did not settle with the government and opted to file cases of arbitration against the state, though most other companies decided to accept the new terms of engagement, or settled an expropriation of assets agreement, with compensation from the state. Despite the reputational damages the legislation changes may have caused the government, the legislation proved successful in facilitating companies' compliance with the new framework. Ivan Capriles, a researcher on Venezuela's oil policy, asserts that this was because 'companies were fully aware of the strategic resources that exist in the Orinoco belt'. Capriles went on, 'this is a profitable business even despite the change of conditions'.[399] For a corporate attorney interviewed 'it was a matter of costs: many companies preferred to keep the business going rather than engage in a long and expensive arbitration process'.[400] In this context, a senior official in the ministry of oil also claimed that 'companies did not want to lose out from the riches of Orinoco'.[401] Indeed, 'Venezuela is one of the very few countries with abundant oil reserves that is currently open to foreign investors'.[402] Recent research demonstrates that the Venezuelan government strategically used access to the largest world crude reservoir as a bargaining chip to force renegotiation.[403] This strategy was successful, in part, because if companies decided to leave, the costs of re-entry were anticipated to be even higher at a later date.

5.3.1. Market diversification and multipolarity: building alliances and self-protection

The Venezuelan government had plenty of reasons to keep foreign investors in the Orinoco belt. A corporate attorney who represented oil companies during the nationalization process points out that one reason was 'to keep getting the capital and technology it needed to develop these fields'.[404] In a more strategic sense, a PDVSA spokesperson noted that 'these are largely empty territories [near the Orinoco belt, see Map 1 below] that need vast investments'. Thus, it was logical for the state to seek sharing risks and costs with third party partners in a generally costly business. Nonetheless, the government also sought to accomplish other goals with involving

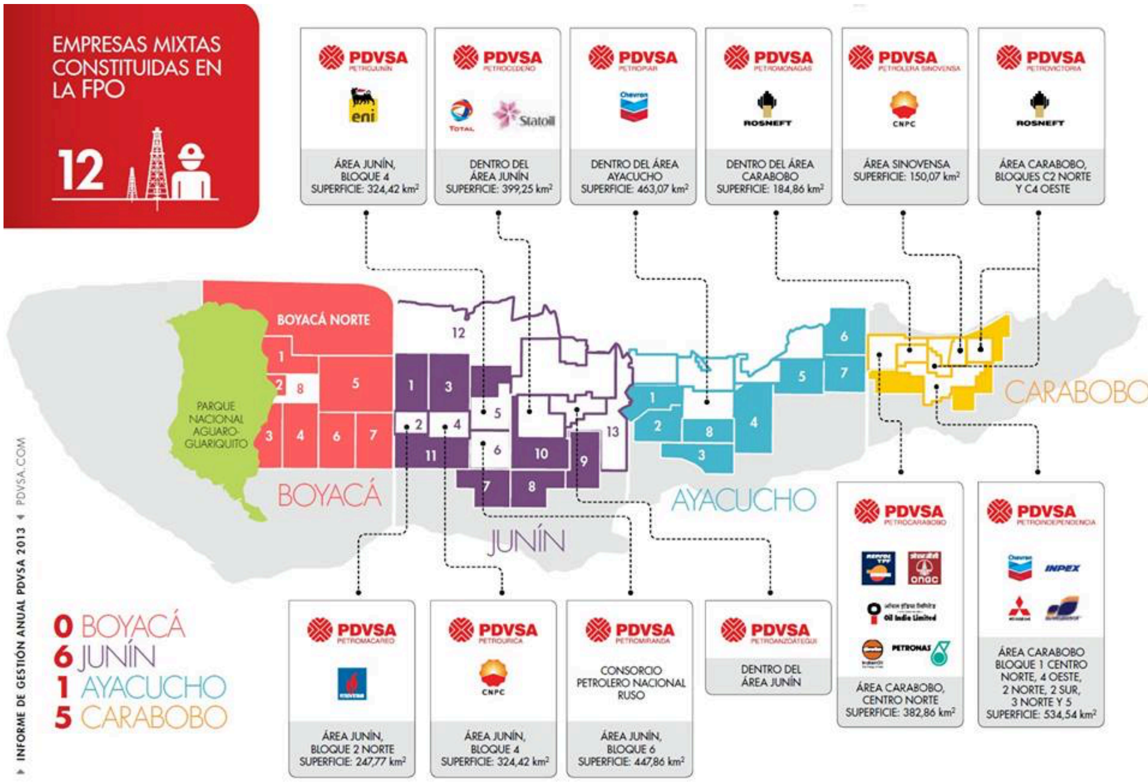
399 Telephone interview with author, 2015.
400 Telephone Interview with author, 2016.
401 Informant A, Caracas June 2014.
402 Manzano and Monaldi, "12 The Political Economy of Oil Contract Renegotiation in Venezuela," 450.
403 Riitta-Ilona Koivumaeki, "Institutional Constraints on Economic Nationalism in Latin America" (Doctor of Philosophy, The University of Texas, 2015).
404 Telephone interview with author, 2016.

foreign actors in its oil industry. In terms of its business strategy, the government wanted to diversify its investment portfolio, while at the same time develop new markets abroad. In a similar logic to the 1990s when PDVSA sought to diversify its investments by accessing consumers in the US and Europe, now the government sought to welcome investors from new political and economic partners that have an increasing weight in the world economy. For a PDVSA manager, 'opening investments to new markets was a crucial step, as the oil industry is characterized as being a global industry'.[405]

The desire to diversify markets and investments also had political underpinnings as it corresponded well with Chávez's overarching push for 'multipolarity' in his foreign policy. For Radamés Gómez, director of international cooperation at the ministry of oil, 'diversifying markets has been a central strategic objective of the government as a way to support a multipolar world'. Gómez argues that 'oil has become a weapon to promote Latin America's integration' but also, diversified investments have allowed Venezuela to 'safeguard its position in the world'.[406] An idealistic view emerges in this context, as the government encouraged the creation of joint-ventures with allied countries from Latin America and the Caribbean, Eastern Europe and Asia, including many that had little capacity to actually extract oil in the Orinoco belt (see Figure 5.1 below). Hults argues that 'despite the grandiosity of the initial announcements, several of these assignations are largely superficial'.[407] In fact, many argue that alliances with Latin American countries and other minor players in the industry have not advanced a great deal. As Gómez recognizes, 'Chinese investments in the Orinoco basin are by far the most advanced in comparison with other alliances'.[408]

[405] Interview with Alfredo Carqués, PDVSA's Public Relations Manager, Caracas July 2014.
[406] Interview with author, June Caracas 2014.
[407] Hults, "Petróleos de Venezuela, SA (PDVSA)," 454.
[408] Interview with author, June Caracas 2014.

Figure 5.1 Map of operational joint-ventures in the Orinoco river belt



Source: PDVSA's business report 2013.

The diversification of the investment portfolio was aimed at a wide range of companies, western and non-western alike to help protect the country from potential threats. Various informants backed this view, as the government's motivation focused on its desire to use the geopolitical importance of its oil to protect the country's sovereignty and its political regime. A former advisor to the ministry of oil and the National Assembly stated that 'the Iraq invasion demonstrated that policies of isolation or autarky were plausible only in the time of the cold war'. By associating with foreign companies, 'Venezuela assures supply to different countries and regions, playing an interesting geopolitical game that benefits us [referring to the country]'.[409] An engineer in the ministry of oil who regulates operations in the Orinoco belt said 'we have to admit that we have enemies abroad and they want our resources, they are hungry for

[409] Interview with Fernando Travieso, director of the Oil Observatory, Caracas July 2014.

energy'. In his view, 'by negotiating with them we are preventing conflicts'.[410] Venezuela's government assumed that by bringing a diverse set of interests from abroad it could prevent direct military intervention as the country assured supplies to different partners around the world, despite its proclamation of fierce revolutionary rhetoric and policies. While the validity of these assertions is hard to assess, the abovementioned perspective serves as one of the various discursive justifications for associating with foreign companies. Most importantly, they also suggest that the goal of enhancing a less concentrated oil industry was an objective that increased the state's bargaining capacity and room for maneuver.

5.3.2. Red, very red: putting PDVSA under control

> 'I want our comrade managers to help erase from any corporate guideline, from our internal emails, from any component that leads the company, anything that could cast any doubt as to our support for president Chávez.
> We have to say clearly, as you have been hearing me say in the areas I have mentioned […] and that I even said in the press:
> that the new PDVSA is red, very red, from top to bottom'.
>
> Rafael Ramírez, PDVSA CEO and Minister of Oil, November 2006

In charge of the oil company and the ministry in 2006, Rafael Ramírez gave a speech to PDVSA high managers and other workers that was leaked to the public, serving twin roles as an important announcement and a threat. It stated unambiguously that PDVSA's political partiality should not be disguised and that the company ought to be, in his own words, 'red, very red'. It was clear that the government's control over PDVSA and its use as a political tool was a state policy. It was also a threat to potential dissenting forces within the company that may have attempted to reinstall autonomy from within. With Rafael Ramírez, the duality of shareholder and agent blurred further as he remained in both posts for a decade. Traditional checks and balances between state and company that should have been enforced and that nationalist actors advocated for in previous decades were undermined or eliminated entirely.[411] The President

[410] Informant A, Caracas June 2014.
[411] Corrales and Penfold, *Dragon in the Tropics*; Espinasa, "Commentary."

relied personally on Ramírez's leadership over the company and the company tried to accommodate itself to government demands, mostly as a bankroll agency.

Ultimately though, the creation of joint-ventures also supported the goal of control over the industry, via controlling PDVSA and allowing the government to pursue its own socialist model. For Mommer, who was then deputy minister of oil and according to many observers architect of the new oil policy, '100% state ownership does not secure control; PDVSA belongs to the state but if something is true, we were not able to control PDVSA'. Thus, partial nationalization included bringing in foreign companies as associates that actually owned assets as minority partners in joint-ventures. Mommer stated that 'a partner can help the state control its national company and make sure PDVSA is focused doing what it is supposed to do'.[412] For the Venezuelan government, keeping PDVSA focused on 'what it is supposed to do' means centering its resources in what it has conceived as development in the current era: efforts to alleviate poverty and the advancement of a model of socialist redistribution. Moreover, alliances with foreign companies allowed the government to keep PDVSA under control, something that would be near impossible to achieve if it monopolized the industry entirely. When asked what re-nationalization meant for the Venezuelan government, Mommer said 'in politics there is usually an inflation of words. For Chávez re-nationalization really meant having majority partnership in investments'. In fact, for Mommer 'nationalization does not have to mean anything else'.[413] PDVSA's head of public relations also supported this notion: 'when there is no foreign counterpart, the state lets its guard down as the NOC supposedly represents the interests of the state, but it does not have to be the case'.[414] The government conceived foreign partnerships as one mechanism to ensure its control over PDVSA. As I will show in more detail below, the government used PDVSA noticeably as a bankroll agency, requiring foreign investment to keep capital flows into the industry to maintain production.

This view of nationalization differs greatly from the ideas left-wing nationalists held in the 1970s. At the time, the actors who opposed article 5 of the nationalization law —those on the left of the political spectrum—made sure joint-ventures would not be considered as a policy option.

412 Interview with author, Caracas July 2014.
413 Interview with author, Caracas July 2014.
414 Interview with Alfredo Carqués, PDVSA's Public Relations Manager, Caracas July 2014.

Yet somewhat surprisingly, in the current moment joint-ventures represent the preferred policy option by these very same actors. This is due to the fact that the 2002 coup and oil strike fueled suspicion over opponents, and control over PDVSA became such a primordial objective that these leftist nationalist sectors now preferred to ally with foreign investors in extractive activities. These alliances meant a way to balance the loss of profitability that political control over PDVSA produced. As a legal advisor to the government stressed, 'joint-ventures with managerial control for the government assures efficiency in the oil activity'.[415] Francisco Monaldi asserted in an interview that 'while the government wanted to exercise clear operational control, it also sought the technical know-how and the potential expansion of business with foreign investors'.[416] Ironically, nationalization in the era of the Bolivarian revolution has been more pragmatic and open to foreign investment than what AD nationalists were willing or allowed to advocate in the 1970s due to domestic pressures from different groups that demanded tough stances on foreign corporations. The current version of nationalism focuses on controlling the resource, maximizing rents and protecting the crude via larger producer-based agreements in OPEC. But most importantly, it centers on exercising direct control over PDVSA, even at the expense of the monopoly over the upstream level of the industry. The result of this course of action is a government that seeks to centralize decision-making and enhance statist action in the economy but not in complete contradiction with foreign investment. In other words, the pursuit of global actors in the oil industry is an inherit part of resource nationalist policies and ideals in today's Venezuela.

The reasons for this changed perspective are based on both conjunctural and structural features. In terms of the historical juncture when these changes occurred, the oil strike headed by former PDVSA managers cannot be underestimated. Several informants agreed that the strike changed the perspective of the government on its treatment of PDVSA. Margarita López Maya, for instance, argues that 'Chávez did not trust the middle class, university professionals and business sectors of the country after 2002, so he relied on foreign investors and imports' to advance his project.[417] The desire to control PDVSA responded in a broad sense to the long-lasting subjective disputes between the state and the company. Others also pointed to the changed conditions of the

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[415] Hildegard Rondón de Sansó, Interview with author 2016
[416] Telephone interview with author, July 2015.
[417] Interview with author, Caracas July 2014.

oil business in general since the 1970s. Because conventional sources of oil are currently scant, the extraction of unconventional oil such as that of the Orinoco belt required more investment. In this way, states share potential risks and seek capital from foreign lenders and investors. This is something of which Venezuelan nationalists were well aware of at the time of Chávez's rise. As Luis Lander points out, 'the new industry does not allow for completely integrated firms and the flexibility of new business models requires different levels of association'.[418] Emerging corporate relations in the current context of the energy market therefore also influence the kind of relations the state develops in nexus with global capital.[419]

On the one hand, there were clear material motivations to pursue partial nationalization around 2006 and 2007, such as the maturity of investments and increase in oil prices. At the time, the lax fiscal arrangements of *apertura* had been considered illegitimate by the government, which controlled all other public powers. On the other hand, there was a clear desire to control PDVSA and a general mistrust of local autonomous actors due to the recent past of political confrontation. Various scholars have argued that in fact ideology—nationalism or socialism—has played only a minor role in the nationalizing attitude of the government.[420] These studies stress the obsolescence arguments and the regressive fiscal arrangements that were set up in the times of neoliberal reforms as incentives for nationalization. While my findings back these explanations in terms of when and how the changes took place, they are only part of the story.

Ideational considerations played an important role in this nationalist process as the government sought to eliminate political opponents from PDVSA who have been seen as a threat to the interest of the nation. But more profoundly, ideology has played a role in so far as the Venezuelan government has engaged in a model of redistributive or redemptory development. This model, touted as Bolivarian socialism, requires constant and ever growing rent

[418] Interview with author, Caracas July 2014.
[419] Nana De Graaff, "The Hybridization of the State-Capital Nexus in the Global Energy Order," *Globalizations* 9, no. 4 (2012): 531–45, doi:10.1080/14747731.2012.699926.
[420] Alba Ciudad, "Intervenciones Del Diálogo de Paz Entre El Gobierno Del Presidente Nicolás Maduro Y La MUD" (Caracas: Alba Cuidad, April 11, 2014), http://albaciudad.org/wp/index.php/2014/04/videos-completos-el-dialogo-de-paz-entre-el-gobierno-del-presidente-nicolas-maduro-y-las-mud/.

appropriation for redistributive purposes.[421] In this case, the capacity for Venezuela to continue extracting and exporting oil becomes paramount for the model, which some have identified as the emergence of a renewed form of extractivism.[422] Nevertheless, the Venezuelan oil company has compromised part of its productive capacity due to the loss of important skilled labor as result of the early company-government confrontations and to the ever increasing commitments it has acquired as a source of government discretionary income. Association with foreign capital is crucial for the advancement of this model as it satisfies the much needed oil extraction and ground rents that provides legitimacy and stability to the government.

5.4. Bolivarian socialism: the model

Government officials have stressed the centrality of rent appropriation and distribution as the main pillar of the current Bolivarian development model. Rafael Ramírez in April 2014 explained that Venezuela had been struggling for fifteen years to build a 'profoundly sovereign economic model'. This model consists of 'recuperating the control over our natural resources' and the 'distribution of oil rents to the poorest sectors of our country'.[423] In this regard, Margarita López Maya states that the government 'settled with the fact that Venezuela is a petro-state, and following the line of Chávez, decided to mainly engage in a process of rent distribution, especially to the poorest sectors of society'.[424] The meaning of development had been replaced from the notion of 'sowing the oil' to a model reliant on oil revenues for distribution to the general population via social policies and various forms of cash transfers. The Venezuelan government has also established subsidies and a strict regulatory framework that limits increases in profits of most productive chains and maintains retail price controls.

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[421] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*; Kurt Weyland, "The Rise of Latin America's Two Lefts: Insights from Rentier State Theory," *Comparative Politics* 41, no. 2 (2009): 145–64.

[422] Hans-Jürgen Burchardt and Kristina Dietz, "(Neo-) Extractivism–a New Challenge for Development Theory from Latin America," *Third World Quarterly* 35, no. 3 (2014): 468–86; Antulio Rosales, "Going Underground: The Political Economy of the 'left Turn' in South America," *Third World Quarterly* 34, no. 8 (September 1, 2013): 1443–57, doi:10.1080/01436597.2013.831538.

[423] Alba Ciudad, "Intervenciones Del Diálogo de Paz Entre El Gobierno Del Presidente Nicolás Maduro Y La MUD" (Caracas: Alba Cuidad, April 11, 2014), http://albaciudad.org/wp/index.php/2014/04/videos-completos-el-dialogo-de-paz-entre-el-gobierno-del-presidente-nicolas-maduro-y-las-mud/.

[424] Interview with author, Caracas July 2014.

This model has been carried out mainly through two fundamental mechanisms: 1) an exchange control policy that pegs Venezuela's bolivar to the US dollar; and, 2) the creation of special government-controlled funds denominated in US dollars parallel to the national budget at the discretion of the President. The first mechanism emerged initially in 2003 when the government established currency controls in the midst of increasing political tension and under the pressure of massive capital flight.[425] While at first it helped stop the depletion of reserves, this currency policy stimulated increasing imports especially of finished manufactured products due to the tacit appreciation of the currency. During the 13 years of exchange controls, the government has been forced to devalue the currency several times and an illegal foreign currency market has emerged and flourished, especially in the past four years.

The Bolivarian model has also been sustained through the underestimation of oil prices in the regular budget and creation of parallel sovereign funds that do not have formal institutional oversight.[426] The Venezuelan government established legal mechanisms to feed these funds from oil rents. This was achieved first, through 'exceeding' reserves resulting from higher oil prices than the official annual budget calculations. The government has constantly calculated the price of oil much below its actual level, apparently to be 'prepared' for price distresses. In effect, however, this strategy has been used to channel surplus earnings through unchecked spending funds.[427] Second, the parliament modified the central bank law in order to allow the government to use 'surplus' foreign reserves that exceed the 'necessary' levels. Necessary and surplus reserves are determined by the central bank through an ad hoc determination made 'according to parameters based on the structural characteristics of the Venezuelan economy'.[428] These reserves would be transferred to a fund created by the government with the purpose of 'financing

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[425] Juan Jose Perez S., "El modelo de reparto ejecutivo de la renta en Venezuela (2003-2009).(Report)," *Revista Geografica Venezolana* 52, no. 1 (2011): 125; Pedro A. Palma, "Riesgos Y Consecuencias de Las Economías Rentistas El Caso de Venezuela," *Problemas Del Desarrollo* 42, no. 165 (2011): 35–59.
[426] Perez S., "El modelo de reparto ejecutivo de la renta en Venezuela (2003-2009).(Report)"; Corrales and Penfold, *Dragon in the Tropics*.
[427] Javier Corrales, "The Repeating Revolution," ed. Kurt Weyland, Raúl L. Madrid, and Wendy Hunter, *Leftist Governments in Latin America: Successes and Shortcomings*, 2010, 28.
[428] República Bolivariana de Venezuela, "Reforma Parcial de La Ley Del Banco Central de Venezuela (LRPBCV)," Law (Caracas, 2005).

investment projects in the real economy, as well as in health and education; the improvement of the public debt; and in attention of special and strategic issues'.[429]

The most important one of these funds is the National Development Fund (FONDEN). In 2005, FONDEN was created with an initial endowment of US$6 billion. Although it was originally established as a one-time endowment, the law was modified later to allow more transfers to the fund.[430] With the reform to the central bank law, PDVSA was no longer obliged to exchange all its foreign currency through the monetary entity but it could directly send exceeding resources to funds like FONDEN. For instance, in 2008 alone, PDVSA transferred over US$12 billion to this fund. Official estimates show that the Venezuelan government has invested over US$ 115 billion through FONDEN in various infrastructure, productive and social projects. A total of US$ 600 billion has been invested in social spending between 2000 and 2014.[431] Nevertheless, as oversight is negligible in the current make up of Venezuela's parallel spending, independent analysts and critics have pointed out that FONDEN has been a major source of embezzlement and other irregular financing in Venezuela and abroad.[432]

The government did not consider other ways to manage the windfall of oil rents via sovereign wealth funds or by activating the already existent Macroeconomic Stability Fund (FEM) that established an institutional and transparent framework for saving and investing oil rents.[433] Instead, it chose to magnify the type of discretionary spending that Carlos Andrés Pérez initiated in the 1970s, when the previous windfall of rent money entered public coffers. The rationale behind taking this course of action was that the government had constantly been under attack by domestic and foreign actors and thus, it required using the state's wealth to improve the conditions of its people. Palma explains that the US$120 billion that have been channeled to

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[429] República Bolivariana de Venezuela, "Acta Constitutiva Y Estatutaria Del Fondo de Desarrollo Nacional FONDEN," Law (Caracas, 2005).
[430] Ibid.; Perez S., "El modelo de reparto ejecutivo de la renta en Venezuela (2003-2009).(Report)."
[431] El Universal, "Arreaza: Inversión Social Desde 1999 Es de 623.058 Millones de Dólares - Nacional Y Política," February 25, 2014, http://www.eluniversal.com/nacional-y-politica/140225/arreaza-inversion-social-desde-1999-es-de-623058-millones-de-dolares; Corrales and Penfold, *Dragon in the Tropics*; Pedro A. Palma, "Tsunamis Cambiarios," in *Las Circunstancias Mundiales Y Venezuela: Cambios Imaginarios Y Reales*, ed. Luis Mata Mollejas (Caracas: Academia Nacional de Ciencias Económicas Coloquio "Alberto Adriani," 2013).
[432] Pedro Luis Rodríguez Sosa and Luis R. Rodríguez Pardo, *El Petróleo Como Instrumento de Progreso. Una Nueva Relación Ciudadano-Estado-Petróleo* (Ediciones IESA, 2012).
[433] Ibid.

FONDEN 'are resources for which the Central Bank and PDVSA receive no compensation at all and end up spent discretionally by the President'.[434]

PDVSA has contributed several billion dollars to social spending and it has continued to subsidize petrol for domestic consumption, which stimulates overconsumption and creates incentives to smuggle fuel to neighboring countries, where market prices are exponentially higher.[435] Between 2004 and 2008, PDVSA's contribution to government revenues was as high as US$ 175 billion, but the result of this was an apparent decay in its cost structure: 'investment projects were delayed, and maintenance spending declined'.[436] From 2010 to 2012 alone, PDVSA transferred US$ 24,5 billion to FONDEN and invested some US$79 billion in social programs, and in 2013, contributions to social development rose as high as US$33 billion.[437] In its most recent and consolidated account, PDVSA reported having paid over US$223 billion compounded towards social contributions and FONDEN between 2001 and 2014.[438] Over US$ 84 billion were disbursed to discretionary funds and over US$130 billion were disbursed through social missions and other ad hoc government policies. This counts only as PDVSA's corporate contributions because royalties, income tax and other traditional income appropriated by the state count as part of the national budget.

The use of oil rents has been crucial to the meaning associated to development in the Bolivarian government, which is otherwise subject to intense confrontation.[439] The policies of command and control, from land and productive enterprise expropriation to price and exchange controls, could only be possible within a rentier state in the context of increasing oil revenues. From the year 2004 onward, when the Venezuelan government explicitly declared the socialist nature of the revolution and domestic struggles seemed to become partially solved in favor of *chavismo*, nationalizations (beyond the oil sector) became more common. The government effectively took on all public utilities that had been privatized in the 1990s, expropriated all cement plants, nationalized several retail food stores, the main agricultural supplies company, food distribution

[434] Telephone interview with author, March 2014.
[435] Palma, "Tsunamis Cambiarios."
[436] Corrales and Penfold, *Dragon in the Tropics*, 87.
[437] Petróleos de Venezuela, "Informe Anual de Gestión 2013," Business report (Caracas: PDVSA, 2014); Petróleos de Venezuela, "Informe Anual de Gestión 2012," Business report (Caracas: PDVSA, 2013).
[438] Petróleos de Venezuela, "Informe Anual de Gestión 2014," Business report (Caracas: PDVSA, 2015).
[439] Bautista Urbaneja, *La Renta Y El Reclamo: Ensayo Sobre Petróleo Y Economía Política En Venezuela*.

enterprises, and set up a wide chain of local food stores (in this case directly managed by PDVSA).[440] The government supplied food and other finished products mostly through imports, subsidized by an overvalued currency. In fact, an important feature that differentiates the Bolivarian model from traditional Import Substitution Industrialization (ISI) policies is that rather than discouraging imports of finished manufactured goods, this model heavily relies on them.[441] This, in turn, was made possible not only by increasing oil prices but also through sustained investments and loans that kept the oil industry going. Such investments were especially crucial because government control over PDVSA has meant its channeling of funds to social spending, being less focused on productive investments, for which foreign investors have become necessary.

5.4.1. China: a necessary partner to sustain the model

After reversing the liberal oil policies of *apertura*, China Petroleum and Chemical Corporation (Sinopec) took over some of the fields left by ExxonMobil and ConocoPhillips.[442] This move added to the already deepening relationship between Venezuela and China, which reached the level of 'strategic partnership' in 2001. As the Venezuelan government created various mechanisms to redirect oil rents from its traditional channels to discretionary spending, it also pursued China as a partner for development assistance. Both governments set up an on-going funding mechanism for short term spending in various productive and social matters. The first one is the China-Venezuela development fund, which was originally set up by a 60% contribution from China's Development Bank (CDB) and 40% by Venezuela's Economic and Social Development Bank (BANDES). This fund, also known as *Fondo Pesado* (Heavy Fund) was established as a lending mechanism in three tracks that started in 2007 with a contribution from CDB of US$4 billion and US$2 billion from Fonden, expired in 2010.[443] Track B was agreed upon in 2009 for US$4 billion from CDB and, finally, in 2013 'track C' was signed for

[440] Víctor Salmerón, *Petróleo Y Desmadre: De La Gran Venezuela a La Revolución Bolivariana* (Caracas: Editorial Alfa, 2013); Corrales and Penfold, *Dragon in the Tropics*; Corrales, "The Repeating Revolution."
[441] Corrales, "The Repeating Revolution."
[442] Robert Evan Ellis, *China in Latin America: The Whats and Wherefores*, vol. 46 (Lynne Rienner Publishers Boulder, Colo, 2009), http://www.eurospanbookstore.com/media/pdf/extracts/9781588266750.pdf.
[443] República Bolivariana de Venezuela, "Ley Aprobatoria Del Segundo Protocolo de Enmienda Al Acuerdo Entre El Gobierno de La República Bolivariana de Venezuela Y El Gobierno de La República Popular China Sobre El Fondo de Financiamiento Conjunto Chino-Venezolano," Law (Caracas, 2012).

US$5 billion. All tracks have been renewed several times, adding to over US$30 billion in debts, some of which has already been paid. These loans are commodity-backed. They are repaid through oil exports that are estimated to be around 330,000 b/d.

A different funding mechanism called *Gran Volumen* (Grand Volume) was agreed in 2010 for US$20 billion destined for infrastructure and housing. In contrast to the Heavy Fund, the Grand Volume is a longer-term development fund. It is a ten-year loan that is denominated half in US dollars and half in RMB.[444] With *Gran Volumen*, Venezuela holds the largest RMB-denominated loan outside Asia and it is also a commodity-backed mechanism that is repaid with oil exports. The Venezuelan government has used it to import large amounts of Chinese manufactured products. Among other programs, Grand Volume allowed the Venezuelan government to set up a policy of affordable electric devices, from laundry sets to TV and DVDs.[445]

The diversification of the investments portfolio has been considered as an important feature of the Venezuelan state's advantageous position in the renegotiation of arrangements with IOCs. In that line of thought too, it is important to consider that the Chinese involvement in Venezuela's oil industry shows divergence within foreign companies' behavior. In this case, Chinese investments replaced important ventures that major IOCs left behind after the migration to the new framework. Furthermore, the Chinese involvement also provided other benefits for the Venezuelan government such as considerable lending which other market and multilateral agents were unwilling to provide. As a risky destination for capital markets, Venezuela has become more reliant on China's loans and they are paid through oil shipments calculated at market prices.

China and Venezuela have signed various commitments to develop the Junín-4 block at the Orinoco river basin. This includes lending to PDVSA to pay for its required contributions in joint-venture investments. As oil stocks in the Orinoco basin are extra heavy, they are difficult to access, and their exploitation is costly. One of the central ventures between China and Venezuela

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[444] República Bolivariana de Venezuela, "Ley Aprobatoria Del Acuerdo Entre El Gobierno de Venezuela Y de China Sobre Cooperación Para Financiamiento a Largo Plazo," Law (Caracas, 2010).
[445] Mantovani Terán, *El Fantasma de La Gran Venezuela: Un Estudio Del Mito Del Desarrollo Y Los Dilemas Del Petro-Estado En La Revolución Bolivariana* (Caracas: Centro de Estudios Latinoamericanos CELARG, 2014).

involves the construction of refineries in both countries with the capacity to refine Orinoco basin's crude oil.[446] The first of these projects, which began to be built in 2012, is a mega refinery in China's Guangdong province with capacity to refine 400,000 barrels of extra-heavy crude oil per day.

In September 2013, president Maduro signed a new deal to further develop the Junín block for US$14 billion, together with a renewal of the Heavy Fund. This investment will require the creation of a new joint-venture and it is expected to produce 200,000 barrels more per day.[447] Later, in May 2014, PDVSA reached agreements with Schumberger, Halliburton and Weatherford for new investments that amount US$2 billion.[448] Although small in comparison with the on-going sums of Chinese commitments, these agreements are testament of Venezuela's willingness to continue pursuing foreign investment as long as they allow keeping the industry alive and state control is not compromised.

In July 2014, the Venezuelan government renewed agreements with China that allowed it to delay some seemingly pressing adjustments in its own economic policy due to increasing inflation and scarcity. This set of agreements, signed in the midst of the Chinese Premier's visit to Caracas, included a second extension of Track A in the China-Venezuelan Development Fund for US$ 4 billion. China Export and Credit Insurance Corporation (SINOSURE) and PDVSA agreed to US$ 1 billion more to supply Venezuela's NOC with needed cash to pay commitments with contractors and engage on new oil projects. Around US$700 million were agreed directly with the Bank of China to embark in projects of gold extraction. Several other minor accords were signed to increase Chinese imports and investments, from the purchase of vehicles to more construction projects, training, and the setting up of cement and petrochemical firms in

[446] Gonzalo Sebastián Paz, "China and Venezuela: Oil, Technology, and Socialism," *IN: China Engages Latin America. Tracing the Trajectory. Adrian H. Hearn E José Luis León-Marnríquez: Ed. Lynne Rienner Publishers*, 2011, 221–34.

[447] El Universal, "Sinopec and Pdvsa to Invest USD 14 Billion in the Junín 1 Oilfield - Daily News," September 17, 2013, http://www.eluniversal.com/economia/130917/sinopec-and-pdvsa-to-invest-usd-14-billion-in-the-junin-1-oilfield.

[448] El Universal, "Pdvsa Signs Agreements with Halliburton, Schlumberger and Weatherford," May 21, 2014, http://www.eluniversal.com/economia/140521/pdvsa-signs-agreements-with-halliburton-schlumberger-and-weatherford.

Venezuela.[449] These agreements account for some US$14 billion, which adds to the deal that president Maduro had secured in September 2013. Other significant deals with international oil companies remain modest in contrast to contracts with the Chinese. In 2010, PDVSA signed an accord with the Italian ENI to develop block 5 of Junín for US$ 7 billion for a period of 7 years. However, ENI agreed to lend PDVSA its part as majority partner for the necessary joint investment for up to US$ 1.7 billion.[450] Smaller amounts have been agreed with Repsol and Gazprom to develop natural gas projects.

The government has denied that China imposes harsh conditions associated with its loans and investments. Its arguments in favor of cooperation with China focus mostly on the fact that China does not impose larger economic restructuring on partner states. Maduro has said 'the funding China provides is not conditioned to economic adjustments, to social subjugation or the denial of our people's fundamental rights'.[451] Mendoza Potellá actually stresses that the alliance with China helps 'leverage a development project through the transfer of technology and provision of loans'.[452] The Chinese partners may not have a special interest in imposing IMF-type conditionality, but instead sectoral bilateral agreements that benefit Chinese companies and general business strategies as well as China's energy security have been signed in the evolution of the relationship. As Gonzalez-Vicente argues: 'it is a form of intervention that channels economic activity through the nation state, which becomes a facilitator of a business-centric logic of development'.[453] This form of intervention shows an emerging pattern of a globalizing Chinese state. In its dealings with a peripheral state, China has turned into a lender of last resort and a fundamental source of investment in exchange for natural resources. With Venezuela, the

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[449] El Mundo, "China Otorga Otros $5.691 Millones En Créditos Para Venezuela," *El Mundo Economía Y Negocios*, July 21, 2014, http://www.elmundo.com.ve/noticias/economia/politicas-publicas/china-otorga-otros--5-691-millones-en-creditos-par.aspx; Telesur, "Propuesta de Acuerdos a Ser Suscritos Durante La XIII Comisión Mixta de Alto Nivel (CMAN) Entre La República Bolivariana de Venezuela Y La República Popular China" (Caracas, n.d.), http://exwebserv.telesurtv.net/secciones/archivos/ARCH515_799.pdf.

[450] El Mundo, "Pdvsa Acuerda Crédito de $1.760 Millones Con Italiana ENI," *El Mundo Economía Y Negocios*, May 5, 2009, http://www.elmundo.com.ve/noticias/petroleo/pdvsa/pdvsa-acuerda-credito-de-$1-760-millones-con-itali.aspx#ixzz3xnYqUEbF.

[451] Editorial Notitarde C.A, "Maduro Dice Que Financiamiento de China Es Sin Condiciones," *Notitarde.com*, July 23, 2014, http://www.notitarde.com/Economia/Maduro-dice-que-financiamiento-de-China-es-sin-condiciones--/2014/07/23/340966/.

[452] Interview with author, Caracas July 2014.

[453] Ruben Gonzalez-Vicente, "The Limits to China's Non-Interference Foreign Policy: Pro-State Interventionism and the Rescaling of Economic Governance," *Australian Journal of International Affairs* 69, no. 2 (2015): 214.

state-capital nexus becomes clear in the chain of business where the Chinese intervene,[454] frequently backed by state action.

Even though the terms of the loans China provides Venezuela are not fully transparent, there are clear policy decisions that have benefited China since its increased role in Venezuela's public finance. China has benefited from Venezuela's statist model that has granted ample access to Chinese firms in various sectors. Both oil nationalizations and massive housing policies under the Chávez and Maduro governments have meant open doors to Chinese investments and imports. Sanderson and Forsyte stress that contrary to other investing institutions, the CDB openly applauded Venezuela's nationalizations and other policies. In an interview, Liu Kegu, CDB's vice-governor 'praised Chávez's nationalization of the oil industry as a move to bring more of the country's oil riches to the Venezuelan people'.[455] As Venezuela's economy has entered into a more critical situation after the last quarter of 2014, China has been less generous toward the Venezuelan government, alleging there has been irresponsible spending and worrying about the likelihood of default.[456] Already in the last renewals of the active lines of credit, China has offered the funding granted that certain conditions are met, including their approval of how the spending is done (RBV 2010b). Hogenboom highlights that the CBD has given Venezuela recommendations 'regarding macroeconomic policy, long-term strategic planning and infrastructure investment'.[457]

More importantly, in September 2014—simultaneous with a renegotiation of the terms for re-payment of the loans—the Venezuelan government approved by executive decree a law to facilitate the creation of Special Economic Zones in Venezuelan territory, wherein only Chinese investors have been given preferential treatment.[458] The law stipulates that Chinese investors were exempt from tax burdens and that tariff would be eliminated for primary product imports of

[454] van Apeldoorn, de Graaff, and Overbeek, "The Reconfiguration of the Global State–Capital Nexus."
[455] Henry Sanderson and Michael Forsythe, *China's Superbank: Debt, Oil and Influence-How China Development Bank Is Rewriting the Rules of Finance* (John Wiley & Sons, 2012), 129,.
[456] Ahiana Figueroa, "China Ahora Exige Proyectos Y Es Más Cautelosa Con Venezuela," *El Mundo Economía Y Negocios*, July 23, 2014, http://www.elmundo.com.ve/noticias/economia/mercados/china-ahora-exige-proyectos-y-es-mas-cautelosa-con.aspx.
[457] Barbara Hogenboom, "Latin America and China's Transnationalizing Oil Industry: A Political Economy Assessment of New Relations," *Perspectives on Global Development and Technology* 13, no. 5–6 (2014): 636.
[458] República Bolivariana de Venezuela, "Ley de Regionalización Integral Para El Desarrollo de La Patria," Law (Caracas, 2014).

Chinese firms, among other benefits. During 2015, China has refused to offer more loans to Venezuela and has instead granted more investment funds tied to its own oil companies, for expanded production in the Orinoco river basin, clearly geared toward securing repayment.

Just as the Venezuelan government's nationalist behavior became more assertive with increasing oil prices, its attitude has been more conciliatory when prices have decreased. Since 2014, the government has taken a clearly more pragmatic attitude toward investment, not only seeking loans and new agreements but also changing the terms of operational control. An indication of Venezuela's willingness to give up operational control over the industry in order to secure financing is evident in latest changes to its joint-venture arrangements. These were first geared to provide more 'autonomy' to joint-ventures and later to allow operational control to the foreign concessionary.[459] Indeed, Monaldi asserts that PDVSA has given important concessions to foreign investors, allowing for example Chinese operators 'to appoint the chief operating officers in their mixed ventures at the Orinoco Basin, giving significant operational control over the construction and operation of the projects'.[460] Moreover, the Venezuelan government has offered foreign companies operating in the Orinoco belt the option of using the more flexible exchange rate in order to make their operations in the country viable in the midst of low prices.

5.5. Conclusions

In this chapter, I have analyzed the changes that the Bolivarian revolution has undertaken in its relationship with foreign investors in the oil sector. I contended that in order to enable such changes to take place, the government first waged a direct political struggle with its own NOC, PDVSA, to assert its control. These contestations, however, were not entirely new; they were rather latent since the 1980s and responded to a subjective divergence between the state's role as a landlord state and PDVSA's managerial elite's self-identity as a global oil producer. With the rise of Chávez, political confrontation became more endemic and, at least in the years 2002-2003, the struggle between the government and PDVSA exemplified the broader confrontations

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459 Figueroa, "China Ahora Exige Proyectos Y Es Más Cautelosa Con Venezuela"; Érika Hidalgo López, "Plan Petrolero Local Exige Flexibilizar Acuerdos Y Ajustar Meta de Inversiones," *El Mundo Economía Y Negocios*, June 1, 2015, http://www.elmundo.com.ve/noticias/petroleo/pdvsa/plan-petrolero-local-exige-flexibilizar-acuerdos-y.aspx.

460 Francisco Monaldi, interview with author, 2015.

taking place between a rising social force and the previous establishment. Once this struggle was settled in favor of the government, after considerable economic and human capital loses, a new oil policy could be put forward. This confrontation, however, had an enduring legacy of distrust that encouraged the government to keep foreign investors in the industry as a way to secure control over the company.

The 2001 hydrocarbons law regulated oil policy but only in 2006 did it begin to change the relations with foreign companies. The reasons for this timing were based on the fact that only then did the state have enough confidence and material incentives to move on and transform the contractual arrangements that had been agreed upon during the 1990s with foreign oil companies. The facts that companies had already committed resources to investments that were in motion and the international price of oil was rising far above the parameters originally established in the contracts were important motivations for the nationalizing move that took place in 2006-2007. Appropriating windfall rents then became a crucial factor for the government to take on what some considered a retroactive application of a new legal framework. The government risked costly arbitration processes but negotiated strategically and aggressively with companies' possible access to the world's largest oil reservoir. Furthermore, the privileged position of China as investor and financier of the Venezuelan government shows that the changing conditions of the global energy market impact the forms of association that peripheral states have configured with foreign capital, allowing for hybrid relations with strong state presence and continued involvement of foreign investors. It further demonstrates that foreign capital takes different forms. After the reforms approved by *chavismo*, Chinese SOEs seemed more willing to take on potentially risky investments possibly due to the backing of their home state, something that differs greatly from other IOCs.

The guiding ideas of sovereignty and control were also part of the state's desires to eliminate the arrangements created under the oil opening. Yet, in stark contrast with nationalists in the 1970s, these ideas included associating with foreign investors, and with a wide range of them, for various purposes. Rhetorically, these purposes respond to a strategic maneuver of Venezuela's foreign policy to enhance a multipolar world and to defend the interests of the state through crafting a diverse set of alliances with different actors from abroad. In practice, it corresponds to the needs of the Bolivarian regime to control PDVSA and, more broadly, to put forward a new model of rentierism centralized in the Presidency. This socialist rentier state promotes rent distribution, command and control policies in various areas of the economy and assures political control, for which increasing oil revenues is a requirement. Socialist rentierism has replaced in the current Bolivarian era the notion of 'sowing the oil' that had historically dominated Venezuela's developmental narratives.

Chapter 6
Contentious nationalization and the embrace of third-worldism: resource nationalism in the 1970s in Ecuador

6.1. Introduction

In the history of Ecuador's linkage with foreign investment, the 1970s emerge as a period of nationalist discourse and policies. This period was dominated by military regimes, led first by Guillermo Rodríguez Lara, and later by a triumvirate of army Generals. The dictatorships of the 1970s have been regarded as nationalist and progressive. Some have argued that the military nationalized oil. In the words of Gabriela Valdivia: 'in 1971, a military coup nationalized all subsurface elements as patrimony of the state, in order to better control rents drawn from foreign investors'.[461] In a similar fashion, it is understood that the purpose of such nationalization was 'to define a consciousness of national sovereignty based on the governance of petroleum'.[462]

In this chapter, I trace the evolution of Ecuador's oil industry paying attention to the general changes in the relationship between the state and foreign companies during the military regimes of the 1970s, when Ecuador became an oil exporter. The aim of the chapter is to historicize oil nationalism in Ecuador and its relationship to IOCs, showcasing how internal ideational contestations and intra-firm maneuvers led to stringent treatment of foreign investors by the Ecuadorian government. It considers the influence of nationalist and developmentalist ideas in the military as important drivers for these nationalist tendencies. At the same time that the chapter demystifies the widely disseminated notion that during the dictatorship there was 'true nationalization', it also explains the conditions upon which the shifts in control occurred.

In the 1970s, Ecuador's relations with IOCs were contentious and, indeed, the state pursued greater control over their activities. I argue that the changes in the state's treatment of foreign investment were largely influenced by broader changes in the oil price but also were a response to the Gulf Corporation's maneuvers. Obsolescing bargain insights shed light on these shifts in

[461] Valdivia, "Governing Relations between People and Things." Pp. 162. Such statements are pervasive in the political ecology and geography literatures. For example, see also: Billo, "Sovereignty and Subterranean Resources.", and Perreault and Valdivia, "Hydrocarbons, Popular Protest and National Imaginaries."
[462] Perreault and Valdivia, "Hydrocarbons, Popular Protest and National Imaginaries." Pp. 692.

policy in the 1970s, as the previous decades of a concessionary system allowed the initial setting of exploratory and exploitation investments. The various legal reforms that increased state control over oil in the 1970, however, were partial and provoked disputes even within the military. Legal battles with the main oil companies, mostly Texaco-Gulf, often incited reactions from political elites and tended to divide the military. This partial nationalization was also a consequence of a strategic maneuver from Gulf Corporation, which wished to stop doing business in the country. Building on previous political science works on Ecuador's oil industry history,[463] I bring to light these internal ideational contestations that tend to be ignored in more recent scholarship. While the military government managed to increase state control over the oil industry and appropriate around 80% of companies' profits, it only nationalized assets of the main exploiting consortium in the country rather than the entire industry. In terms of the ideational components of the 1970s resource nationalism, oil policy was understood in Ecuador in the context of dependent development of a small primary commodity exporting state. The military regime encouraged initiatives to link Ecuador to a larger group of peripheral countries that could stand together against the interests of consumer powers, where most foreign oil concessionaires came from. In this context, nationalist policies were articulated and espoused under the wider emerging views of the New International Economic Order (NIEO) and the third-worldist movement.

The chapter is structured in the following way. Firstly, it briefly overviews the state's treatment of foreign investment before the 1970s, emphasizing the process through which a liberal regulatory regime began to be challenged mostly by the military. And secondly, it explains the main shifts in the state treatment of foreign investment during the 1970s. It focuses on four main policies and state ideas that advanced greater regulation, increased state appropriation of rents and endorsed multilateral efforts led by oil producing countries.

6.2. From myth to reality: the preamble of managing oil in *Oriente*

Since colonial times, Ecuador has been dependent on a series of single commodity exports. It has also been plagued with political instability that mirrored the ups and downs of the economy. The

[463] Martz, *Politics and Petroleum in Ecuador*; Philip, *Oil and Politics in Latin America*.

country has faced military interventions, popular and populist revolts as well as nationalist sentiments that coincided with development aspirations and grassroots alternatives. As Rochlin notes: 'the nation's historically entrenched staple economy, combined with its lack of economic diversification, created an economic rollercoaster that has underpinned the state's notorious record of weakness and the country's penchant for political instability'.[464] For centuries, Ecuador was connected to the world economy through its export of coffee, cacao and banana.[465] For Ecuador, oil is indeed a relatively recent phenomenon. In its roughly forty-five years as an oil exporter, Ecuador has gone through tremendous change. During this time, the country's dependence on oil extraction has rendered a closely linked relationship with foreign companies, usually marked by tensions at the grassroots level and suspicion—or cooperation—at the state level.

Oil erupted in Ecuador's history somewhat surprisingly. Minor participation from the Anglo Ecuadorian Oilfields and other companies occurred since the 1920s in the Peninsula de Santa Elena on the country's coast. This remained a site of modest production throughout much of the century. The 1929 Constitution explicitly granted 'inalienable and imprescriptible' state ownership over mines and mineral wealth.[466] With respect to ownership, Ecuador had explicitly claimed its subsoil resources as a national patrimony since 1929. However, since the inception of the republic, the 'fruits' of the earth had been considered property of the sovereign as keeping with Hispanic jurisprudence.[467]

A concessionary system was set in place during the early 20th century for mines but also for oil exploration. The first concession for oil exploration was given in 1921 to the Leonard Exploration Company, a subsidiary of Standard Oil.[468] This concession was later revoked for its

[464] James Rochlin, "Development, the Environment and Ecuador's Oil Patch: The Context and Nuances of the Case against Texaco," *Journal of Third World Studies* 28, no. 2 (Fall 2011): 11–39. Pp. 12
[465] For more on the historical evolution of Ecuador's export sector see: Alberto Acosta, *Breve Historia Económica Del Ecuador*, 3rd. Edition (Quito: Corporación Editora Nacional, 2012); Carlos Larrea and Liisa L. North, "Ecuador: Adjustment Policy Impacts on Truncated Development and Democratisation," *Third World Quarterly*, 1997, 913–34.
[466] Andrea Carrión, "Economic Nationalism and the Public Dominion of Mineral Resources in Ecuador, 1929–1941," *The Extractive Industries and Society* 2, no. 1 (2015): 104–11. Pp. 105.
[467] John D. Martz, *Politics and Petroleum in Ecuador* (New Brunswick, New Jersey: Transaction, Inc., 1987).
[468] Allen Gerlach, *Indians, Oil, and Politics: A Recent History of Ecuador* (Rowman & Littlefield, 2003); Rochlin, "Development, the Environment and Ecuador's Oil Patch: The Context and Nuances of the Case against Texaco."

failure to pay its debts to the state and because no significant deposits had been found. In 1937, president Federico Páez sanctioned a Law of Mines in order to regulate the concessionary regime, protect investment and welcome companies from the north. After years of attempts, president Galo Plaza Lasso stated in 1949 that 'the *Oriente* is a myth' (*el Oriente es un mito*), referring to the prospects of finding oil in the region.[469]

In 1963, oil discoveries were made in the neighboring region of Putumayo in Colombia. Texas Petroleum and Gulf Corporation then attempted to sign a deal with the Ecuadorian government, which finally favored a consortium as Texaco-Gulf.[470] In 1965, Texaco received over 1.6 million hectares more land from other companies that had received concessions in previous agreements, all of which was done without knowledge of the state. Lago Agrio, one of Ecuador's currently mature yields in the Amazon, started producing over 2,640 barrels per day in 1967 at a well controlled by Texaco-Gulf. That same year, the consortium found a sizable amount of oil reserves that were commercially viable in other areas. Texaco-Gulf henceforth negotiated a contract with the state for 40 years to exploit over 1.4 million hectares more.[471]

In 1960, José María Velasco Ibarra, a popular civilian caudillo was elected for a fourth term to the presidency. A year later, a military junta interrupted Velasco Ibarra's constitutional government. The junta attempted an industrialization project, still relying on agricultural exports, while giving massive concessions to foreign oil companies in the Amazon region. Upon the return to democracy in 1966, a Constituent Assembly chose Otto Arosemena as President for a brief term that would end in 1968. Arosemena continued the trend of concessions and rapprochement to the United States.[472] By 1968, soon after the important findings of Lago Agrio and others by Texaco-Gulf, there were over 6 million hectares conceded to foreign companies, which amounted to a fifth of Ecuador's territory. Conditions were extraordinarily favorable to the companies: contracts were signed for around 57 years, the state reclaimed between 5 to 11%

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[469] Gerlach, *Indians, Oil, and Politics*.
[470] Valdivia, "Governing Relations between People and Things."
[471] Rochlin, "Development, the Environment and Ecuador's Oil Patch: The Context and Nuances of the Case against Texaco."
[472] Ramiro Gordillo, *¿El Oro Del Diablo? Ecuador: Historia Del Petróleo* (Quito: Corporación Editora Nacional, 2005).

of royalties[473] and a payment of 5 sucres per year per hectare, while the state would provide up to 200,000 sucres in compensation for investments (see table 6.1 below).[474]

Common to the trajectory of capital-intensive industries that require large investments initially, the oil industry in Ecuador was largely controlled by foreign investors. Likewise, as the obsolescing bargaining literature argues, the Ecuadorian state set up a liberal framework that exercised little control over the oil business as the latter began to produce commercially viable outputs. The state granted rights to foreign companies that provided significant control over land in the Amazon region. For the first time in Ecuador's history, the locus of economic power moved from the pacific coast to the *oriente*, from traditional landowning elites to foreign companies and a rather inexperienced state bureaucracy based in Quito. John Martz went as far as to argue that Texaco-Gulf actually exercised effective control over the *oriente*.[475] This was a largely underdeveloped region with scant population, most of which was composed of Indigenous populations. In 1968, Arosemena called for elections. Velasco Ibarra won a fifth constitutional term that year facing the challenge of a transforming political economy. Velasco Ibarra represented a heterogeneous alliance that included liberals, a progressive strand of the military, a multi-class populist 'velasquista' base and some elements of the oligarchy.[476] With such a complex domestic base of support, Velasco Ibarra sought to regulate contracts and make foreign companies subject to the rule of law.

Velasco Ibarra, who was confronted with pressures from contradictory constituencies, declared himself dictator in June 1970 and dissolved the Parliament. In order to advance his attempt to regulate oil extraction and benefit from further rents, the government pushed for Texaco-Gulf to return all lands that exceeded the 400,000 hectares cap stipulated by Executive Decree 1464 signed in 1965.[477] The state received almost a million hectares from Texaco-Gulf. After intense negotiations, and despite pressure from the military to be more audacious, the government

[473] Victor Hugo Arias Chaves, "Lineamientos Económicos Para La Optimización de La Particpación Del Estado En Contratos de Explotación Petrolera" (Maestría en Economía y Gestión Empresarial, Facultad Latinoaericana de Ciencias Sociales, Ecuador, 2011).
[474] Gordillo, *¿El Oro Del Diablo? Ecuador: Historia Del Petróleo*.
[475] Martz, *Politics and Petroleum in Ecuador*.
[476] Gordillo, *¿El Oro Del Diablo? Ecuador: Historia Del Petróleo*.
[477] Ibid., 102.

accepted that Texaco-Gulf retained 500,000 hectares because it was a consortium.[478] In these lands, Texaco-Gulf explored and started exploitation of the four main blocs of yields of the Amazon: Lago Agrio, Shushifindi, Sacha and Auca, among others. These four have been coined as the 'jewels of the crown' by the Ecuadorian state due to the large amount of reserves and decent quality of oil they possess. Moreover, new concessions were granted and by 1971 there were up to 9 million hectares conceded to foreign companies. This amounted to almost half of Ecuador's territory.[479]

Influenced by the emergence of other nationalist movements in the region, including in neighboring Peru and in Venezuela, the government decreed the creation of a NOC, the Corporación Estatal Petrolera Ecuatoriana (CEPE). A new Law of Hydrocarbons was sanctioned in 1971, overruling that of 1937, also signed under dictatorship. This law, on the one hand, maintained the principle of state ownership over oil and it would enable increased state participation in the industry over time. On the other hand, it ratified all concessions agreed upon until 1971[480], meaning that for the next forty years, the concessions remained legal. In the words of Jarrín Ampudia the Law 'was born dead' because the state had to wait until 2010 (when concessions expired) to apply any of its regulations to foreign companies.[481] According to the Law, the concessionary system was no longer allowed and three new types of contracts were introduced: production sharing contracts, service contracts and joint-ventures.[482] Since the Law stipulated that all concessionary contracts had to come to an end before they migrated to the new legal framework, they were valid for the next 40 to 58 years limiting any possibility for more radical transformations of hydrocarbon governance in the country. Despite his attempts to improve state regulation over the oil industry, Velasco Ibarra's law demonstrated his flexibility toward investors.

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[478] Gordillo, *¿El Oro Del Diablo? Ecuador: Historia Del Petróleo*; Rochlin, "Development, the Environment and Ecuador's Oil Patch: The Context and Nuances of the Case against Texaco."

[479] Gordillo, *¿El Oro Del Diablo? Ecuador: Historia Del Petróleo*.

[480] Rodrigo Cabezas, "Política Petrolera Ecuatoriana," *Revista Nueva Sociedad Nº14*, 1974, http://www.nuso.org/upload/articulos/127_1.pdf.

[481] Gustavo Jarrín Ampudia, "La Posición Del Ecuador En Materia de Política Energética (1974)," in *Política Petrolera Ecuatoriana, 1972-1976* (Quito-Ecuador: Instituto de Investigaciones Económicas, Universidad Central del Ecuador, 1976), 11–60.

[482] Gordillo, *¿El Oro Del Diablo? Ecuador: Historia Del Petróleo*, 111.

In practice, the reforms were negligible and hence encountered resistance from the nationalist factions of the military and civil society. Although Ecuador only produced 4,100 barrels per day in 1971,[483] there were growing expectations about the country's entrance onto the stage as an exporter. These expectations increased hostility from both the military and civil society toward the regime and its inability to put foreign corporations under further state control. Even the creation of CEPE was largely symbolic, as it did not have any capacity to bring to fruition the mandate of exploring, exploiting, industrializing and commercializing Ecuador's oil.[484]

In February 1972, the armed forces sent Velasco Ibarra into exile in Panama and assumed control in a bloodless coup under the leadership of General Guillermo Rodríguez Lara. With a 'clear plan of action', the military made the oil question front and center of their program. This was focused on retaining sovereign control of subsoil resources and the rents derived from them. Despite some divisions within the military between reformist-nationalists and traditional-oligarchs,[485] the idea of nation building was seen as central and the reformist-nationalist camp headed the natural resources area for much of the dictatorship.

Table 6.1 Evolution of the contractual relationship between state and extractive companies in Ecuador (1970s)

Period	Most prevalent type of contract	Regulatory features	Financial features
Pre-1972	Concessionary period	o Large land extensions. o 40-57 year concessions. o Lack of state regulatory capacity.	o Royalties varied from 5% to 11% o Investment compensation to companies. o Land right payments up to 200 sucres.
1972-1982	Association contracts	o Contracts were restricted to 20 years. o The state determined areas for exploration and exploitation and recuperated land from previous concessions.	o 16% royalties. o 44% income tax. o 15% export tax.

483 Rochlin, "Development, the Environment and Ecuador's Oil Patch: The Context and Nuances of the Case against Texaco."
484 Gordillo, *¿El Oro Del Diablo? Ecuador: Historia Del Petróleo*.
485 Martz, *Politics and Petroleum in Ecuador*.

6.3. The military and oil nationalism in Ecuador: the story of control and the 80-20

As the Nationalist Revolutionary Government of the Armed Forces took power in 1972 and developed its 'plan of action and philosophy', it considered energy resources a fundamental source of national sovereignty.[486] The notion of natural resource ownership as a source of sovereignty was clearly articulated during the period of the military regime of Rodríguez Lara and the triumvirate. In that period, the idea of development began to be enunciated in relation to oil as Ecuador began to export oil and transit from an agricultural-based economy to an oil-dependent one. Governing oil became crucial for the military to exert actual power and constitute a national project. The idea of modernization via industrialization was a central desire that, thanks to oil revenues, finally seemed possible.[487] This was not an easy task, however, and it entailed executing bold measures, increasing knowledge and technical know-how as well as an international strategy that would link Ecuador with other similar primary producing states.

The military elite that took power in 1972 under the leadership of Rodríguez Lara was divided between a reformist and a traditionalist stream. In contrast with other armed forces in South America, the military in Ecuador had a heterogeneous composition in terms of class and place of origin and many officers followed liberal-progressive ideas in the tradition of Eloy Alfaro. Despite the split in the military currents that came to power in 1972, there was a basic consensus translated into a five-year plan of development that spelled out three important objectives: 'the achievement of national integration, an improvement in living conditions, and a strengthening of economic output through greater rationality in the use of natural resources'.[488] The military government assumed that state intervention was inevitable to achieve these goals and control over oil resources seemed particularly important. Hence, the reformist and nationalist wing of the regime headed the natural resource sector since the beginning.

Jarrín Ampudia, then Minister of Energy and Natural Resources, pointed out in 1974 that 'natural resources constitute elements upon which the state ought to exercise national sovereignty'. Although the law had granted state ownership over oil since colonial times, control

[486] Jarrín Ampudia, "La Posición Del Ecuador En Materia de Política Energética (1974)."
[487] Dávalos, *Alianza PAIS O La Reinvención Del Poder: Siete Ensayos Sobre El Posneoliberalismo En El Ecuador*.
[488] Martz, *Politics and Petroleum in Ecuador*, 98.

over the oil industry had only been loosely exercised during the initial process of hydrocarbon extraction. For military ideologues, many of whom were cabinet members and others were nationalist civilians from the Universidad Central del Ecuador, the basic statement of state ownership over oil 'was not enough' and now it was time to make of its 'extraction, transformation and output part of the social and economic development of the country'. It was clear from the military standpoint that 'national interest' was not equivalent to the interests of the 'privileged economic sectors' alone and that a process of societal inclusion into a 'dignified principle of human existence' had to follow for the majority of the population as well.[489] Jarrín Ampudia was a nationalist who had been largely influenced by the creation of Petrobras in Brazil and had been watching other resource nationalist movements in the region.[490] He was considered an early 'conservationist', as he was an advocate of rationalizing the exploitation of oil, considering its non-renewable character, and the possibility that oil would increase its value over time.

The military regime's goal of gaining control over the oil industry meant increasing the state's knowledge of the sector. In a process that was advanced decades before in the Venezuelan case (see Chapter 3), the Ecuadorian regime sought to simultaneously learn about and effectively regulate and govern the resource, and with it, the companies that extracted it. It is expected in theory that through these means the state would gain confidence over time and the initial advantage of the foreign corporation would shift to the host state. For a country with weak institutions and little knowledge of the oil industry, a fundamental step was to create a technical team that could actually gather information and advise policy directions. Jarrín Ampudia was successful at building this team under his leadership and most of its members went on to perform significant roles in Ecuador's oil policy in the future. This group of political advisers 'was the only source of independent knowledge about the domestic oil industry; the only alternative was the Texas-Gulf consortium'.[491] Coincidentally, in a complex balance between the desire for control and the need for foreign capital and technology, the 1970s proved to be a formidable time for rising nationalist policies. As Philip notes, following insights from the obsolescing bargain

489 All quotes from: Jarrín Ampudia, "La Posición Del Ecuador En Materia de Política Energética (1974)," 11.
490 Philip, *Oil and Politics in Latin America*.
491 Ibid., 278.

model, this decade was a good time for oil nationalism to emerge, as 'foreign investment had already been committed so […] the bargaining power lay with the host government'.[492]

Further, the wave of nationalist movements was on the rise world-wide, and as we have seen with the case of Venezuela, a coordinated multilateral move from third world countries reclaimed national ownership over natural resources. The nationalist ideals of the military have been shown in Jarrín Ampudia's discourse, and those ideals were also accompanied by a sense of opportunity from international trends. The case of Jarrín Ampudia, similar to that of Pérez Alfonzo in Venezuela, shows the confluence of both strong ideational motivations to pursue nationalist policies and also to improve the capacity of the state to increase its bargaining power. The unprecedented and unexpected increase in Ecuador's national income stemming from oil was a positive surprise not only for the country at large but also for a military regime that was able to perform ambitious national projects, use inclusive rhetoric and allow relative openness in a context of dictatorship.[493] The nationalist position of the military was also reflected in a wider environment of public debate around the issue of oil. Petroleum policy became part of public opinion through the dissemination of specialized publications but also significant media attention on the topic.[494]

The military regime increased control over the industry and developed mechanisms to better appropriate rents via four main policy actions. The main one was the Decree 430, which made Velasco Ibarra's Hydrocarbons Law applicable immediately, and redefined the association of the state with foreign companies through new contracts with a more stringent regulatory framework. After signing Decree 430, the government advanced both regulatory legal mechanisms aiming at increasing control and increasing rent appropriation. These shifts were framed as part of a larger international appeal to third-worldism as a fundamental ideational component of Ecuador's nationalism of the 1970s. Lastly, the state's acquisition of Gulf's assets was in fact an uncomfortable turn of events that reflected the strength of the company rather than a unified nationalist position from the military regime.

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492 Philip 1982, 277
493 Acosta, *Breve Historia Económica Del Ecuador*.
494 Martz, *Politics and Petroleum in Ecuador*.

6.3.1. Decree 430: regulating foreign companies and oil extraction

On June 6, 1972 the regime ruled Decree Nº 430, which addressed the main concerns of the military upon arriving to power, and sought to remedy the legal inconsistencies that reigned until then between the state and foreign companies. This executive decree simply enforced Velasco's Law of Hydrocarbons approved in 1971 (instead of waiting for concessions to expire). Colonel René Vargas Pazzos, long time manager of CEPE during Rodríguez Lara's regime, remembers the application of the law as a central objective of the nationalist government. Vargas Pazzos represented the nationalist strand of the military and thought that the state had to control the oil business through its national oil company. He reckons: 'oil is a *national* resource that belongs to the people and has to be managed by the people's company'.[495]

The dispositions of the decree were clearly geared toward enhancing the state's regulatory capacity over the industry and, simultaneously, increasing its participation in the business and appropriation of rents. With regards to control, the Decree Nº 430 forced all concessionaires to negotiate new contracts with the state under the 1971 legal framework. Furthermore, it delineated surface and subsoil areas for extracting wells, in which concessionaires were 'required to drill one or more wells of at least 3,500 meters in depth for each 100,000 hectares or fraction over 50,000'[496] (at least 3,500 meters per well per 100,000 hectares). Exploitation areas deemed of 'excessive quantity' according to the law had to revert to the state before December 1972. The Decree established 200,000 hectares as the maximum area for exploration and 80,000 hectares for exploitation, while it set up a maximum of 160,000 hectares for concessions, including for consortiums. The Decree also stipulated a period of 2 years for companies to choose the areas they wished to retain.[497]

This Decree not only delineated some basic mechanisms for oil extraction governance but also strengthened the regulatory role of the state. It granted state authority to renegotiate the contracts and gave CEPE a legitimate legal basis (together with Decree Nº 522), which was lacking under

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495 Interview with author, Quito May 2015.
496 Martz, *Politics and Petroleum in Ecuador*, 193.
497 Martz, *Politics and Petroleum in Ecuador*.

Velasco Ibarra's legal framework. Also, CEPE gained the reverted areas from concessionaires, acquiring the capacity to effectively become a national oil company with extractive power.[498]

Most importantly, Decree 430 was also instrumental in increasing state participation in rents appropriation. It established a 15% tax on exports (the first tax on exports ever in the country's history) and royalties increased from 11.5% to 16%. On top of this, a 44% corporate tax was introduced as well as a levy for social programs (see table 6.1 above).[499] Minister Jarrín Ampudia stated proudly, 'in sum, the country receives near 80% of companies' profits'.[500] In retrospect, Carlos Larrea, a development expert in Ecuador, characterizes this period as one marked by two intertwined processes 'first, high prices, because after the war of Yom Kippur in 1973, prices skyrocketed […] and, secondly, a very strong participation of the state in the oil business'. Larrea agrees that in this particular period 'a key figure is Jarrín Ampudia', it is this minister who was in charge of 'negotiating contracts and increasing state participation to up to 80 percent of the rent' acquired from oil exploitation.[501]

The state also ensured that Ecuador's central bank would receive all foreign exchange earnings from oil exports. This was a fundamental decision in the interest of both controlling the activities and revenues of foreign companies and, consequently, managing rents. The central bank would retain royalties, the export tax and even the income tax directly as foreign currency coming from export revenues and it reimbursed the remainder to the companies.[502] The central bank's appropriation of foreign earnings was seen as threatening by the companies and it generated controversy in the oil business internationally. Domestically, however, this measure gave Ecuador's central bank the ability to centralize the country's foreign earnings.

The notion of the 80-20 split in revenues remains in Ecuador's historical memory as a central piece of the 1970s dictatorship. But this was only possible after new contracts were negotiated and signed with foreign companies. Once Decree 430 was in place, subsequent Decrees were declared to adjust the contracts to the new legal framework and also to regulate the use of the

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[498] Gordillo, *¿El Oro Del Diablo? Ecuador: Historia Del Petróleo*.
[499] Jarrín Ampudia, "La Posición Del Ecuador En Materia de Política Energética (1974)."
[500] Ibid.
[501] Interview with author, Quito May 2015.
[502] Martz, *Politics and Petroleum in Ecuador*; Gordillo, *¿El Oro Del Diablo? Ecuador: Historia Del Petróleo*.

pipeline that transported Ecuador's oil from the Amazon to the Pacific ports. Relatively quickly, new contracts were signed in 1973 in a process led by Jarrín Ampudia and Vargas Pazzos.

6.3.2. New contracts: assuring control through association

Despite resistance from companies and even within the government, Jarrín Ampudia led a successful negotiation of new contracts beginning in January 1973 and lasting much of that year. Association contracts were the preferred mode that the new law stipulated. According to these contracts, the state gave the right to explore and exploit the yields it owned to a private contractor, whose contribution was a set capital investment. The private firm was to pay all taxes, royalties, wages, superficial land rights and any other payment stipulated by law.[503] In total, there were seven large contracts signed and several other minor ones, all of which had a lifespan of 20 years. Regulation over the area coverage of contracts was fundamental from the Ministry's point of view, as irregularities had been so glaring with the massive concessions given in the past.

The negotiation with Texaco-Gulf was by far the most significant one of all. The consortium was keen on expanding production in Ecuador but this offer met with no enthusiasm from the Ministry. Jarrín Ampudia's conservationist views influenced his negotiation strategy, which was geared toward ensuring as much control as possible, even at risk of decreasing production. The new contract left the option for CEPE to purchase 25% of the consortium no later than June 1977. Jarrín Ampudia continued his strategy of denying Texaco-Gulf permission to increase production, eventually even forcing it to reduce output from 250,000 bpd to 210,000 bpd in May 1974.[504] This was seen as a damaging move to the relationship and it garnered the company's hostility toward the minister, who as a result was forced to leave his post before the end of the year. Nevertheless, he secured the purchase of the 25% assets of the consortium already by June

[503] Teodoro Bustamante and Oscar Zapata, "Características de Los Contratos Petroleros," in *Detrás de La Cortina de Humo: Dinámicas Sociales Y Petróleo En El Ecuador*, by Teodoro Bustamante (Quito-Ecuador: FLACSO, 2007); Arias Chaves, "Lineamientos Económicos Para La Optimización de La Particpación Del Estado En Contratos de Explotación Petrolera."
[504] Philip, *Oil and Politics in Latin America*.

1974.[505] It is estimated that the state paid slightly over US$42 million for the transaction and the other two companies kept equal asset shares for 37.5%.[506]

As has been discussed, the Ecuadorian regime was not isolated in its attempts at progressively nationalizing its oil industry. In fact, far more radical steps had been taken in Mexico, as well as other countries in the Middle East, while a full nationalization was on its way in Venezuela as the reversion law had been approved a year before (see chapter 3). Jarrín Ampudia's eyes were placed on the wider nationalist phenomenon and his rush to purchase Texaco-Gulf's 25% was geared toward obtaining his other policy goal: Ecuador's membership in OPEC. Right before his dismissal, Jarrín Ampudia drafted a bill to the presidency for the purchase of 51% of the consortium's assets, as it had been the objective of the nationalist strand in the military from the outset of the regime.[507] The proposal was quickly dropped. Tensions within the military stopped this possibility, on the belief that Ecuador could not risk Texaco-Gulf's complete withdrawal from the country due to the country's continued need for technical expertise and capital.[508]

Apart from the new Texaco-Gulf contract and subsequent establishment of a CEPE-Texaco-Gulf consortium, other major contracts were signed with Anglo Oriente, Sun Oil, Anglo Península, Cautivo, Cayman and OKC under the association regime. With the negotiation of these contracts, major land reversals to the state took place, and a 16% royalty was imposed, exploration rights were awarded at a rate of 100 sucres per hectare and a 44.4% corporate tax was put in place.[509]

6.3.3. A small country in a hostile world: Ecuador's nationalism and multilateralism

Until now, it has been noted that the military regime built upon an increasing nationalist sentiment that had materialized in a law approved by Velasco Ibarra. The Rodríguez Lara regime accelerated the timeline for enforcement of the law, taking advantage of foreign companies' sunk costs. These policies also responded to important ideational drivers. The idea of Ecuador being a

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[505] Gerlach, *Indians, Oil, and Politics*.
[506] Gordillo, *¿El Oro Del Diablo? Ecuador: Historia Del Petróleo*, 161.
[507] Philip, *Oil and Politics in Latin America*.
[508] Arias Chaves, "Lineamientos Económicos Para La Optimización de La Particpación Del Estado En Contratos de Explotación Petrolera."
[509] Ibid.

‘small country’ permeates its identity. This notion was present in the 1970s and it encouraged policymakers to welcome multilateralism as a good way to seek wider support for the country’s own nationalist policies. Membership in OPEC was identified as a central goal early on during Jarrín Ampudia’s tenure in the ministry. Phillip noted that ‘membership in OPEC would help Ecuadorean nationalists ideologically and would therefore provide the backing to permit the gradual takeover of the consortium [referring to Texaco-Gulf] by CEPE’.[510] By being more ‘closely linked to the world’s petroleum-producing nations’, the military sought international support in its dealings with multinational corporations.[511]

Despite setbacks during this time in the ministry, Jarrín Ampudia, was able to satisfy his objective to acquire OPEC membership. Jarrín Ampudia managed to receive an invitation for Ecuador to be an observer state at the annual OPEC meeting in Lagos at the end of 1972. Later, Ecuador would become an associate member in 1973 during a meeting in Vienna, where Jarrín Ampudia stated the goals of the nationalist government as well as his third-worldist views. In this case, the military shared the widely accepted view at the time that ‘underdevelopment’ was a result of long-lasting colonial and post-colonial relations then illustrated in unequal terms of trade. Thus, ‘the struggle for oil is but one episode of the battle waged by the underdeveloped peoples to establish the control and sovereignty that is vested upon them toward the exploitation of natural resources’, so that such exploitation is ‘turned into an effective instrument of transformation and development that generates better life conditions for its peoples’.[512] The military government’s claims show how the dominant meaning of development at the time influenced their motivations for national control over oil but also to join multilateral efforts with other landlord states. Jarrín Ampudia hoped to receive support from his OPEC partners in what would become a more decisive plan to nationalize oil in subsequent years.

The nationalist strand of the Armed Forces set a plan to ‘partially and gradually’ nationalize the oil industry in Ecuador. The intention was to reach at least 51% control over exploitation and

[510] Philip, *Oil and Politics in Latin America*.
[511] Martz, *Politics and Petroleum in Ecuador*, 111.
[512] Jarrín Ampudia, “La Posición Del Ecuador En Materia de Política Energética (1974),” 54.

exploration activities.[513] Such goals were legitimized not only under the banner of national sovereignty but also in a larger process of international awakening of oil producers and the recognition of United Nations bodies of their right to exert control over their natural resources. Jarrín Ampudia gathered enough support to bring the annual OPEC meeting to Quito in 1974 as it joined the organization with full membership that year, becoming its President for a year. This was a significant source of pride for the military, including for Rodríguez Lara, who gave an exciting welcoming speech to OPEC member representatives. René Ortíz, then a young Ecuadorian technocrat who would later become an ambassador to OPEC and eventually Secretary General (the only Ecuadorian to ever hold this post), explained the importance of OPEC for his country. The significance of OPEC was focused on its ability to raise the problem of unequal terms of trade in a multilateral forum and thus engage in a north-south dialogue, and 'OPEC was an inherent part of the south because it was its only organization that actually had *teeth*'.[514] As discussed, the diffusion of development ideas and the multilateral action of organizations such as OPEC served as inspiration to countries such as Ecuador.

Ecuador's nationalization ambitions were carefully played out by both Jarrín Ampudia and Colonel René Vargas Pazzos (head of CEPE since 1972) and, in the case of the former, were accompanied by a pervasive sense of resource conservationism. Similar to Pérez Alfonzo in Venezuela, Jarrín Ampudia believed that oil prices were going to increase continuously and that by leaving untapped oil reserves, the country was actually appreciating its resources for future development plans.[515] Furthermore, as Philip noted, Jarrín Ampudia's conservationism also stemmed out of his concern over potential dramatic consequences a windfall of rents would have on the national economy. These views were clearly parallel to Pérez Alfonso's ideas developed in the Venezuelan context and most certainly were the result of his influence.[516] But it also had an important international dimension that turned Ecuador's presence in multilateral forums a priority. While Venezuela was prominent in the creation of OPEC as a major exporter at the

[513] Sergio Vásquez Pacheco, "Lo Lógico Y Digno Es Adquirir Por Lo Menos El 51% de Las Acciones Del Consorcio," in *Política Petrolera Ecuatoriana, 1972-1976* (Quito-Ecuador: Instituto de Investigaciones Económicas, Universidad Central del Ecuador, 1976), 99–132.
[514] Interview with author, Quito May 2015.
[515] Jarrín Ampudia, "La Posición Del Ecuador En Materia de Política Energética (1974)"; Martz, *Politics and Petroleum in Ecuador*; Philip, *Oil and Politics in Latin America*.
[516] Philip, *Oil and Politics in Latin America*, 279. Conservationist notions will come back in Ecuador's political debate forcefully in the government of Rafael Correa as a push back to foreign companies but, most importantly, as an attempt to transform Ecuador's oil dependence and reduce environmental damage in the Amazon and the world.

time, Ecuador played a key role in the creation of regional associations that sought similar unity among producers. That was the case of the Latin American Organization of Energy (OLADE, for its acronym in Spanish) based in Quito, and the ARPEL, the Organization for Latin American Petroleum Mutual Assistance centered on national oil companies.

6.3.4. A nationalization forced upon us: Ecuador's purchase of Gulf

The fast advance of nationalist policies from the outset of Ecuador's export activities quickly came to a halt when oil prices began a downward turn in 1974 and 1975 and investments started dwindling. The bargaining dynamics quickly impacted the state's position. Foreign companies, particularly the largest ones, exerted various forms of political pressure to ease the financial burdens placed on them under Rodríguez Lara's tenure. One main point of contention was the fixed tax levels per barrel automatically collected by the central bank. Companies fiercely pressured the regime to lower the price of the barrel for export and the subsequent tax level. Although the regime lowered the tax reference by US$0.43 per barrel, the companies kept pressuring for a further price change.[517] This became a serious contention once OPEC decided on a 10% increase in the price of the Arabian peninsula light crude in September 1975 as a response to an increasing overflow of crude into the market.[518]

At the end of 1975, the regime was increasingly weak, as conservative civilian opposition found an echo within sectors of the military. An expected coup d'état took place in January 1976 that replaced Rodríguez Lara with a triumvirate, which was seen as a move giving more influence to the more conservative strand of the military. Yet, Jarrín Ampudia's nationalist group that had been in charge of natural resources remained influential and the *triunviros* promoted Vargas Pazzos as minister after he had served at CEPE for several years.[519]

In 1976, Gulf Corporation was determined to force its own nationalization, seeking financial compensation. This desire was based on its disagreements with the government's policies aimed at capturing greater profits. The company had been operating with low profits for some time in several countries and the situation in Ecuador worsened during the military regime. The

[517] Philip, *Oil and Politics in Latin America*.
[518] Martz, *Politics and Petroleum in Ecuador*.
[519] Philip, *Oil and Politics in Latin America*.

company was generally seeking a restructuring of its international operations and the Ecuadorian market was of little interest.[520] According to Martz:

> The multinational felt that the quantity of Ecuadorian output, the aggravations of endless negotiations, and the broader need to streamline its international operations required an unyielding position. When this was unproductive, officials determined to force nationalization. From the government perspective, nationalists were predictably pleased, while conservatives were left with little choice.[521]

Meanwhile, Texaco preferred to remain in the country. Texaco was able to export to its own subsidiaries abroad so it could cushion export costs more easily, but Gulf was selling directly to the international market and was less interested in continuing business in Ecuador. Furthermore, Texaco had friendlier relations with government officials. On top of this, it is important to highlight that the government remained largely dependent on company knowledge of oil reserves and other considerations key to the economic health of the industry. Some officials 'seemed to derive their full knowledge of the industry from what they were told by the companies'.[522] Gulf's position reveals that when the conditions of the bargain shift in favor of host states, sometimes nationalization with state compensation may in fact be in the interest of foreign companies. Similarly, in the case of Venezuela, when foreign companies anticipated confiscation as per the 1971 reversion law, they were no longer opposed to a faster nationalization process that included compensation (see chapter 3).

René Vargas Pazzos presented a document to the cabinet early in 1976 entitled *Petróleo: desarrollo y seguridad* (Petroleum: development and security), rejecting Gulf's request for a 1.05 US dollar discount in prices. It assured that such discounts would simply increase the company's profits with the excuse of requiring funds for further investments. Vargas argued that the previous year's discount should have been geared toward investments to keep exports at the 200,000 bpd levels, a figure that was already beginning to drop substantially. In this document Vargas concluded the need to assure 'absolute state control over the industry' not only in the production sector but also in 'transport, commercialization and industrialization of

520 Martz, *Politics and Petroleum in Ecuador*.
521 Ibid., 164.
522 Philip, *Oil and Politics in Latin America*, 287.

hydrocarbons'.[523] While the cabinet had moved toward a more traditional current, the Ministry of Natural Resources remained in control of the nationalist strand. For this reason, Vargas Pazzos' proposal was not received with enthusiasm by the rest of the cabinet.

In 1976, the final dispute between Gulf and the government came about. Gulf sued Atlantic Richfield for receiving oil that apparently belonged to the CEPE-Texaco-Gulf consortium. CEPE was enforcing a decree that gave the national corporation rights over 25% of the exports. The 25% was calculated under the 210,000 bpd assigned production instead of the actual production.[524] Gulf insisted the oil belonged to the corporation because it had produced it. Meanwhile, CEPE demanded payment to the central bank of Gulf's deposits for its exports, which had been lagging. The corporation, determined to force its nationalization, refused to deposit the funds. Gulf's refusal led Vargas Pazzos to threaten confiscation if the debt was not paid. In September 1976, Vargas Pazzos announced the Ministry's decision to move forward with the purchase of the Gulf's 37.5% of the consortium once the payment had been received.

It is unsurprising that Vargas Pazzos, who remains a nationalist advocate to this day, remembers this episode as an 'expulsion' of Gulf Corporation. For him: 'Gulf did not abide by the law', by refusing to deposit the value of its exports in the central bank according to OPEC prices. Thus—he insists—'I had to expel them'. And he continues: 'I had frictions with the President, under the *triunviros*, and I eventually had to leave the ministry; they wanted me to back down on my decision but as a judge I did not backtrack and I expelled Gulf'.[525] This provoked diplomatic reactions and the military itself was uncomfortable with the position into which it had been forced. The military leadership decided to go down a path of discreet negotiations with Gulf, something that César Robalino—then Minister of Finance and only civilian in the cabinet—remembers clearly: 'there were colonels [clear reference to Vargas] who wanted to be dictators themselves, they assumed that the three generals were not smart enough… at that point, the military put me in charge of the negotiations, and Vargas was left behind'.[526]

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523 René Vargas, "Petróleo: Desarrollo Y Seguridad," in *Política Petrolera Ecuatoriana, 1972-1976* (Quito: Instituto de Investigaciones Económicas, Universidad Central del Ecuador, 1976), 141.
524 Martz, *Politics and Petroleum in Ecuador*; Philip, *Oil and Politics in Latin America*.
525 Interview with author, Quito May 2015.
526 Interview with author, Quito May 2015.

According to José Luis Fuentes, oil expert and university professor, ‘the state had to buy the corporation’; that is, it was forced into nationalization as Gulf was uninterested in continuing business in Ecuador. For Fuentes, ‘the state absorbed Gulf, but despite having majority shares, it was Texaco who really managed the consortium’.[527] Rochlin agrees with this view and argues that this was largely due to Texaco’s ‘knowledge, technical capacity and capital’.[528] This has led some to suggest that Texaco’s apparently neutral position vis-á-vis the dispute between Gulf and the state was intentional in order to end up controlling the most important wells of the Ecuadorian Amazon with a counterpart, CEPE, which was weak and largely dependent on Texaco’s own knowledge and capital. In the case of Gulf’s nationalization, the context in which it took places showed increasing state confidence and a general shift in the bargain that benefitted the host state. Nevertheless, foreign companies maintained considerable power and gained some benefits from the new arrangement as well. Gulf Corporation was uninterested in continuing business in the country, and its daring behaviour led the military to takeover its assets. Nationalization in this case was beneficial for both actors (the company and the nationalist strand of the military). The more moderate strand of the military, however, did not agree with nationalization. Meanwhile, Texaco remained in control of the industry as the most powerful stakeholder vis-á-vis the state. Being an effective duopoly, the Ecuadorian industry was highly concentrated, giving significant strength to Texaco and relative weakness to a nascent CEPE.

In much of 1970s, the state treatment of foreign investment became considerably stringent. Toward the end the decade, the military took a more pragmatic stance with regards to foreign companies. Concessions were made in terms of the basket reference price and tax levels, while the regime favored an environment that promoted private investments. This accompanied a process of gradual normalization of political life that would end with elections in 1979, putting an end to nine years of dictatorship and the first decade of significant oil production and oil exports. Even at the peak of its nationalism, Ecuador was never able to nationalize the upstream of its oil industry like Mexico or Venezuela did, and its capacity to control the largest operating consortium was questionable. This limitation was due mainly to conflicting ideological positions

[527] Interview with author, Quito May 2015.
[528] Rochlin, “Development, the Environment and Ecuador’s Oil Patch: The Context and Nuances of the Case against Texaco,” 18.

within the military regimes, as part of the armed forces opposed full-fledged nationalization. This opposition was partly a result of fears that the state and CEPE lacked the knowledge and technical capacity to carry out extraction on their own. Nationalist ideals and notions of development influenced state behavior during this period, but the dynamics of the oil price allowed carrying out some of these policies, especially between 1972 and 1974. At this point, the state reached a remarkable 80% appropriation of profits. However, due to the dynamics of state-foreign company bargaining, the decline in oil prices meant that these nationalist tendencies became less salient toward the end of the decade and the government was increasingly lenient toward companies.

6.4. Conclusions

The *oriente* seemed to be a myth for much of Ecuador's history. Once oil was found in the Amazon, however, more than the resource itself, *control* of the industry was really the elusive goal of the Ecuadorian state. In this chapter, I analyzed the relationship of the state and foreign companies, especially in the 1970s. The state's treatment of foreign investment changed considerably with the rise of a nationalist military regime. The military was able to change the conditions of the industry, taking advantage of high prices to seize a larger proportion of the rent price, which eventually rose to 80%.

In the 1970s, pressures stemming from nationalist sectors of the military pushed a nationalist agenda. This agenda was characterized by a desire to obtain at least 51% of assets from the main oil extractive consortium in the country. It was also infused with notions of development strongly associated with the sovereign use of natural resources. Ecuador embraced an identity of small primary producer and, as such, acted decisively to join other exporter nations in various multilateral initiatives, mainly OPEC, in order to give strength to its claims and voice internationally. Ecuador's integration to the world economy was central to its own oil nationalism, joining to and forging multilateral organizations that advanced primary exporters' interests. Subjectively, the military elite was identified with broader nationalist processes in the region and saw itself as part of the larger third-worldist movement. The military therefore instrumentalized its own nationalist policies with a broader desire to join multilateral efforts around the use of natural resources for development purposes.

The military did not fully nationalize Texaco-Gulf, but it took over the Gulf Corporation assets, reaching majority shares in a consortium with Texaco. The actual appropriation of Gulf assets by the triumvirate was the result of long standing disputes with the company, and the expropriation was partly prompted by Gulf itself as a result of intra-firm maneuvers. Consistent with obsolescing bargain insights, the position of the Ecuadorian state improved as the price of oil increased.[529]The Ecuadorian state's increased confidence and attitude toward foreign companies led Gulf Corporation to re-consider its presence in the country, demonstrating the shift in the bargaining power that gradually benefited the state. As I have mentioned, however, state-foreign companies' relations are also significantly affected by internal ideational contestations. Even in the context of a military dictatorship, the state did not operate as a unitary actor. In fact, for the entire decade there were different factions within the military government that disagreed on the extent of the nationalist reach the state should take over the oil industry. During times of strong nationalist attitudes, the state was still unable to build a NOC that was strong enough to exercise the control it was normatively entitled to, maintaining dependence on Texaco. In this case, the highly concentrated nature of the industry affected the bargaining position of the host state.

[529] Vivoda, "Resource Nationalism, Bargaining and International Oil Companies"; Wilson, "Understanding Resource Nationalism."

Chapter 7
The politics of give away: opening and debt in neoliberal Ecuador

7.1. Introduction

With the end of the military government in Ecuador, a system of party democracy was established in the early 1980s. Democratic governance came in tandem with a deep economic crisis and the collapse of state-led development. In the context of a highly indebted economy, the multi-party liberal democracy established in Ecuador was associated with neoliberal reforms. These reforms followed a decade of relative prosperity and even social inclusion, despite the authoritarian nature of the military regimes. A dual process of formal democratization with economic liberalization took place during more than two decades. This dual process provoked a drastic opening to foreign investment, especially in the oil sector. This opening was intended for the purpose of expanding exploration and extraction in new areas of the Amazon, as a way to boost production. One of the fundamental aims of the government in this period was to fulfill its debt obligations.

In the Ecuadorian case, I argue, the political elite embraced neoliberalism, mostly as a result of the country's economic situation but also due to an ideological commitment to liberal ideas and a tacit alliance with foreign capital interests. Opening the oil industry to foreign investment became a fundamental tool to attract foreign currency, and increase oil output. The conditions of the bargain were clearly beneficial for investors. While Ecuador's position in the global energy market is marginal and the low levels of oil prices also weakened its position, state officials willingly offered better conditions to companies, even at times when such conditions were not granted by the preconceived arrangements.[530] The consensus around neoliberal reforms was therefore a prime motivation for changes in the oil policy, as state officials often made bolder moves to the benefit of IOCs than the material conditions of the bargain would have favored. In the 1990s, for example, the government changed contracts on sunk assets to improve the conditions for IOCs even further than what the already welcoming framework offered.

[530] For example, see the discussion later in this Chapter about the state's re-imbursement of IOCs' investments in commercially non-viable camps.

For these reasons, the 1990s is cast in the literature as an era of *entreguismo* or 'give away' of the nation's resources to foreign capital.[531] The government implemented policy mechanisms and pursued infrastructure projects precisely designed to channel the proceeds from oil extraction to service foreign debt. New areas of the country became targets for investment and extraction, including the exploration and exploitation of marginal fields and unconventional crudes. At this time, popular resistance to neoliberal reforms and to resource extraction began to articulate an alternative social alliance that would later rise to power in the mid-2000s. This type of resistance was found outside of the state, although oil workers from the country's NOC were important allies in the struggles against neoliberalism.

The chapter is structured as follows. First, it discusses the service contracts signed in the 1980s as the initial attempts to welcome foreign investments. Second, it analyzes the era of more radical neoliberal embrace by conservative governments and the start of social unrest and protest against these policies. Third, it explores the more advanced policies that at the beginning of the 2000s were implemented to lock in neoliberal reforms. Infrastructure projects and financial instruments such as funds from oil revenues were designed expressly to fund foreign debt and, together with dollarization, limited state action in the economy.

7.2. Adjustment after an oil feast: trading oil control for stability

The expansive policy of the military during the 1970s was characterized by its attempt to advance a state-led development project based on oil revenues. In short, 'the military government[s] used oil revenues to finance tax breaks, offer credit, subsidize energy and food, and embark on an ambitious project to build Ecuador's infrastructure and social services'.[532] This included the oil sector itself as massive investments were made to develop the Esmeraldas refinery and to build the Trans-Ecuadorian pipeline (SOTE) as well as other important energy infrastructure. Yet an important caveat is that 'when oil did not cover the costs, the military used

[531] Alberto Acosta, *Breve Historia Económica Del Ecuador*, 3rd. Edition (Quito: Corporación Editora Nacional, 2012); Billo, "Sovereignty and Subterranean Resources"; Perreault and Valdivia, "Hydrocarbons, Popular Protest and National Imaginaries."
[532] Suzana Sawyer, *Crude Chronicles: Indigenous Politics, Multinational Oil, and Neoliberalism in Ecuador* (Duke University Press, 2004), 11.

future oil production as leverage for obtaining international credit'.[533] This is the sometimes-ignored reality that went hand in hand with nationalist policies of the 1970s; debt represented the remedy for capital shortages in a context of large investments and increasing inflow of petrodollars.[534] Foreign debt had risen from US$260.8 million in 1971 to over US$5.8 billion in 1981.[535]

The plans for industrialization and increased diversification of the economy fell short of the original aspirations of the military, as they did for much of the developing world at the time. Larrea and North's findings on this issue are worth noting in detail:

> Manufacturing industry was highly dependent on imported inputs and capital goods (especially so among the largest enterprises), thus contributing to the indebtedness of the country; lacked vertical integration; focused on the production of non-essential goods for high income urban groups; displayed a high degree of inter-sectoral and regional concentration; and was capital intensive, generating little direct or indirect employment.[536]

The system of protection to the industrial sector was largely inefficient, as most enterprises never managed to become internationally competitive. Meanwhile, a significant portion of the indebtedness in the previous decade had been acquired by private enterprises once the more conservative wing of the military had assumed power in 1976.[537]

After 1980, it was clear to democratically elected governments, generally infused with the growing ideas of neoliberalism, that the state had to commit to broad reforms geared toward increasing oil production. This was not possible without opening up to more foreign investments under a more friendly framework because CEPE, and the state in general, lacked the capacity to

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533 Ibid.

534 It has been extensively researched and well-noted that the dynamic of foreign indebtedness in the Third World during the 1970s was a broad phenomenon that not only responded to each individual nation-state's context, it was also the result of a global process of capital flowing south from excess petrodollars in the North's financial system. In order to keep focus on this topic, I will not dwell on these more comprehensive explanations here. More on the history of debt in Ecuador see: Mauricio Pozo Crespo, "Reflexiones Sobre La Deuda Pública En El Ecuador," in *Deuda Externa Y Economía Ecológica: Dos Visiones Críticas*, 1ª Edición (Quito-Ecuador: FLACSO, 2009).

535 Alberto Acosta, "Preparémonos Para Lo Que Se Avecina," in *El Oriente Es Un Mito*, 1a. Edición (Quito-Ecuador: Ediciones Abya-Yala, 2003), 22.

536 Larrea and North, "Ecuador," 919.

537 Larrea and North, "Ecuador."

do so on its own. Virtually all administrations from 1980 onward signed agreements with the IMF and other multilateral agencies to adjust Ecuador's economy and attempt to make it competitive according to international standards. In the remainder of this chapter, I will detail the different transformations of the regulatory framework of the oil industry in relation to foreign investment and will highlight the importance of wider neoliberal reforms in as much as they relate directly to the oil industry.[538]

The first democratically elected President, Jaime Roldós (1979-1981) from the Concentración de Fuerzas Populares (Concentration of Popular Forces, CFP), a left-leaning reformist promised to bring about social justice with respect for property rights. The Roldós administration published its twenty-one programmatic points, having oil policy at the center. One major concern was the need for investment for exploration in order to increase reserves. The increased rates of domestic energy consumption threatened the expansion of oil revenues to the state as exploration and development had drastically stagnated since the late 1970s. Roldós died in a plane crash in 1981, which forced his Vice-President, Osvaldo Hurtado, to become President for the remainder of the tenure and to implement the first round of reforms after the dictatorship.

7.2.1. Service contracts: seeking investments while trying not to lose control

In 1982, president Hurtado introduced the first major reform to the Law of Hydrocarbons by allowing service contracts to be enacted.[539] These service contracts were designed for exploration and exploitation in 'risk areas' or places where there may be finds that are not commercially viable.[540] Under this arrangement, the state preserved strict ownership over the resource and foreign companies were 'hired to offer technical, administrative or financial services'.[541] If they found oil 'the Ecuadorian state reimbursed all exploration costs and paid multinationals for their services rendered'.[542] This model was known also as 'risk-service contracts'. The state reserved

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[538] For more details on these reforms see: Dávalos, *Alianza PAIS O La Reinvención Del Poder: Siete Ensayos Sobre El Posneoliberalismo En El Ecuador*; Gerlach, *Indians, Oil, and Politics*; Sawyer, *Crude Chronicles*.
[539] Henry Llanes, *Contratos Petroleros: Inequidad En El Reparto de La Producción*, 2a. Edición (Quito-Ecuador: El Manantial, 2008).
[540] Victor Hugo Jijón, "Hacia Una Política Petrolera Ecuatoriana," in *Hacia Un Modelo Alternativo de Desarrollo Histórico*, by Rafael Quintero López and Erika Silva Charvet (Quito: Ediciones La Tierra, 2005).
[541] Ibid., 258.
[542] Sawyer, *Crude Chronicles*, 96.

for itself a margin of 15% profits regardless of the production, transport and administrative costs foreign companies incurred. Technical calculations determined that the companies had to find at least 60 million barrels of crude in order for a well to be considered commercially viable (see Table 7.1 below).[543] Ideally, CEPE—later Petroecuador—would monitor companies' expenditures in order to fairly assess reimbursements. In this way, the new democratic government attempted to open the country for the much-needed investment without—at least in theory—losing state control over the industry.

Under this contractual mechanism, the government opened up six rounds of negotiations and from 1985 onward signed 13 contracts with foreign companies that started exploration in the Ecuadorian Amazon. All of these contracts were signed under the presidency of León Febres Cordero (1984-1988), from the Partido Social Cristiano (Christian Democratic Party, PSC), which involved over 3 million hectares, 46 exploratory wells and around US$380 million in projected investments.[544] While six exploratory wells were deemed not commercially viable, six companies were allowed to start extraction later on. Among those service contracts was that of Occidental in block 15 and AGIP in block 10.[545]

After the liberal administration of Febres Cordero, a center left government was elected under the leadership of Rodrigo Borja (1988-1992), from Izquierda Democrática (Democratic Left, ID). Borja found it difficult to resist the influence of the IMF, and he negotiated a basic IMF-backed loan but refused to further liberalize the oil sector by not opening new rounds of negotiations for service contracts.[546] During his tenure, Texaco's concession expired and was not renewed. At the end of the 1980s, Ecuador's foreign debt, which consistently reached over 100% debt to GDP ratio from 1986 until 1992, had become increasingly unmanageable.[547] Still, Borja resisted attempts at privatizing CEPE and turned it into Petroecuador—a modern NOC ideally intended to increase state investments in the sector. At that point, it possessed all the yields

[543] Gordillo, *¿El Oro Del Diablo? Ecuador: Historia Del Petróleo*.
[544] Ibid.
[545] Bustamante and Zapata, "Características de Los Contratos Petroleros."
[546] Jijón, "Hacia Una Política Petrolera Ecuatoriana."
[547] Rochlin, "Development, the Environment and Ecuador's Oil Patch: The Context and Nuances of the Case against Texaco." In fact, in 1986, most of foreign capital generated by oil extraction was destined to pay the debt. In 1987, the country was forced to declare a debt moratorium due to the destruction of the SOTE pipeline cased by an earthquake. The consequence of this natural disaster caused oil production and export to be suspended for several months.

formerly owned by Texaco-Gulf and CEPE-Texaco, 'the jewels of the crown', having the capacity to extract and export the lightest crude of the Amazon. Acquiring possession of the jewels of the crown was an important cleavage point for Ecuador's politics of resources.

Yet, as debt became an asphyxiating reality, neoliberal policies of adjustment emerged as the alternative for the government. These same policies reinforced certain structural conditions such as soaring inequality, giving the possibility for the rise of an unexpected political force through indigenous peoples. For Sawyer, 'economic reforms undermined the very conditions that lent legitimacy and authority to the state's political system—its purported concern for its national subjects—and gave rise to new political subjects who disrupted the confines and exposed the hypocrisy of the neoliberal dream'.[548] Oil was precisely at the center both of rising opposition movements and of the hegemonic political system that sought to stabilize the economy and repay foreign creditors.

Table 7.1 Evolution of the contractual relationship between state and extractive companies in Ecuador (1980s-1990s)

Period	Most prevalent type of contract	Regulatory features	Financial features
1982-1993	Service contracts	o Risk-service contracts geared toward receiving fresh investments for new exploration and exploitation. o The state ought to oversee companies' costs and reimburse them granted that commercial viable yields were found.	o The state reserved for itself 15% of revenues for exploitation, regardless of transport and commercialization costs.
1993-2007	Production sharing agreements	o All service contracts were transferred to production sharing. o State and companies divided the output on pre-arranged terms block by block.	o Roughly 80% of production went to foreign companies and 20% went to the state. o Income tax was reduced and no royalties or primes were charged.

[548] Sawyer, *Crude Chronicles*, 15.

7.3 Embracing liberalism: production-sharing contracts and oil policy U-turn

Under the government of conservative president Sixto Durán Ballén (1992-1996) from the PSC, the most dramatic transformations of oil policies began. First, an assessment committee was set up to evaluate the oil contracts giving commercial viability to wells that did not satisfy the basic requirements established by law. Because of this, companies were compensated even when they were not entitled to such reimbursement. Moreover, critical studies suggest that the intended oversight did not happen and companies were always reimbursed in full or even at inflated rates once they started exploitation.[549]

Second, Durán Ballén made Ecuador withdraw from OPEC as early as 1992 in order to allow companies to produce above the imposed quota of 275,000 bpd.[550] This decision meant a significant turn in Ecuador's long-lasting stance on articulating an international platform in defense of producers' interests. The government also abandoned its commitment to conservation as promoted by Jarrín Ampudia. Increased production could only be guaranteed under a more flexible environment and was geared toward paying off international debt. In contrast to Venezuela, where increasing production was the result of a strategic decision by PDVSA, in Ecuador, increasing output was inherent to the neoliberal paradigm that was implemented to service foreign debt.

Third, the government requested that Congress amend the Hydrocarbons Law in 1993 to include a new type of contract known as 'production sharing contracts' and contracts of 'marginal fields' under Law 44. With this new flexible policy and unrestricted by OPEC quotas, the state was determined to increase production. Increasing production made it necessary to build a new pipeline in addition to increasing SOTE's capacity to transport oil. Under production sharing contracts, corporate tax rates for foreign companies was lowered to 36.25%. Companies were exempt from paying royalties and surface taxes. Most importantly, the regulatory mechanism to adjudicate a contract was relaxed in order for the government to sign them without congressional

549 Gordillo, *¿El Oro Del Diablo? Ecuador: Historia Del Petróleo*; Jijón, "Hacia Una Política Petrolera Ecuatoriana"; Arias Chaves, "Lineamientos Económicos Para La Optimización de La Particpación Del Estado En Contratos de Explotación Petrolera."

550 Sawyer, *Crude Chronicles*.

approval.[551] These contracts consisted of foreign concessionaires' participation with the state in the production of crude oil. Based on a reference price and market price of the barrel, the contracts determined what portion of the extracted crude belonged to the state and what portion belonged to the company.[552]

As part of the adjustment plans pursued by the government in 1994, Durán Ballén's administration signed the 'most aggressive letter of intention with the IMF' that had been approved to date in the country.[553] This agreement pushed forward second-generation adjustment reforms that impacted several social and economic provisions. César Robalino, then Minister of Finance, argues that Ecuador had to offer a series of guarantees to the lenders because previous governments had eroded the country's credibility. In an interview he stated: 'we had to adjust the economy, so we first made a short-term program. First item on our list was freeing the gasoline prices'. Later, he said, the government had to face social resistance: 'we faced all sorts of street protests, the youth, university students, transport workers. But it went well. And thanks to those adjustments we were able to sign a deal with the IMF. From then on, Ecuador was more reliable, we started paying the debt'.[554]

The IMF-backed set of reforms was geared toward a comprehensive market-led change in the governance of the country. Accordingly, government approved a law of state modernization and privatization that included downstream resource activities such as commercialization, transport and storage. Public utilities such as electricity generation, telecommunications and water production and distribution were also privatized.[555] As Pablo Dávalos argues, these reforms included different forms of social intervention by multilateral agents, most notably the World Bank, IMF and the Inter-American Development Bank but also bilateral development agents from northern countries.[556] The comprehensive market reforms were geared toward servicing foreign debt, but were also in the interest of national elites and financial sectors, many of whom

[551] Jijón, "Hacia Una Política Petrolera Ecuatoriana."
[552] Bustamante and Zapata, "Características de Los Contratos Petroleros."
[553] Dávalos, *Alianza PAIS O La Reinvención Del Poder: Siete Ensayos Sobre El Posneoliberalismo En El Ecuador*, 85–87.
[554] All quotes from interview with author, Quito, May 2015.
[555] Llanes, *Contratos Petroleros: Inequidad En El Reparto de La Producción*.
[556] Dávalos, *Alianza PAIS O La Reinvención Del Poder: Siete Ensayos Sobre El Posneoliberalismo En El Ecuador*.

held Ecuador's foreign-denominated bonds. This kind of reform falls in line with what Hochstetler and Montero label as 'pro-business',[557] but unlike what happened in strong developmentalist states such as Brazil and other emerging powers, in the case of Ecuador, the reforms did not simultaneously strengthen state sectoral policies. Instead, these reforms favored market governance mechanisms that benefited foreign and local business *to the detriment* of state regulation.

In terms of the oil policy, the state's participation in production of crude would vary depending on the volumes extracted and the investments procured. The minimum state participation was set at 12.5%.[558] From 1995, the government signed consecutive contracts under the framework of production sharing. Tarapoa was the first one signed with City Investing, migrating three years before its expiry from an association contract agreed to in the 1970s under Rodríguez Lara. Negotiations on Blocks 21 and 27 reached agreements later on with Oryx and City Oriente and other minor investors. In 1996, the interim government of Abdalá Bucaram signed a production-sharing contract with Maxus for block 16.[559] This block had been under operation through a service contract signed by Hurtado's administration. After this point, the presidencies of Abdalá Bucaram and Jamil Mahuad would migrate all but one of the service contracts signed under Hurtado and Febres Cordero to production-sharing contracts.[560]

In general, the 'participation' of the state varied from just below 20% to around 40% in rare cases, but most production-sharing contracts ended up benefitting the operating private firm.[561] According to Esperanza Martínez, a leading activist from non-governmental organization *Acción Ecológica*, the era of *entreguismo* (give away) was characterized by the change of contracts expressly to benefit companies to the detriment of the state. She observes that 'there were service contracts while companies were making large investments and were being compensated entirely', yet as soon as extraction began 'they switched to production-sharing where the state

557 Kathryn Hochstetler and Alfred Montero, "The Renewed Developmental State: The National Development Bank and the Brazil Model," *The Journal of Development Studies* 49, no. 11 (2013): 1484.
558 Ibid.
559 Llanes, *Contratos Petroleros: Inequidad En El Reparto de La Producción*.
560 Bustamante and Zapata, "Características de Los Contratos Petroleros."
561 Llanes, *Contratos Petroleros: Inequidad En El Reparto de La Producción*; Carlos Larrea, "Petróleo Y Estrategias de Desarrollo En El Ecuador: 1972-2005," in *Petróleo Y Desarrollo Sostenible En Ecuador*, ed. Guillaume Fontaine, 3. Las Ganancias Y Pérdidas (Quito: FLACSO, ILDIS-FES, Petrobras, 2006).

kept only 20% of profits'. Clearly, this shift illustrated 'an inversed relationship from the times of the military regime'.[562] Although the proportions vary on a block-by-block case, on average the state retained less than 30% of profits from oil extraction under production-sharing contracts (see Table 7.1 above).[563]

In other words, the evolution of oil policy during the 1980s and 1990s showed a stark shift in the balance of bargaining power toward IOCs. In the early 1980s, as the Hurtado government sought new investments, service contracts were agreed upon, which assured reimbursements to investors once commercially viable deposits were found. Later, as it was found, all investors were reimbursed regardless of the viability of their discoveries, demonstrating the commitment of state officials to serve the interest of foreign capital. Once the investments were made and production began in the 1990s, contracts were changed again. Here, instead of taking advantage of sunk investments as the obsolescing bargaining insights would suggest, the state proceeded to sign production-sharing agreements, which improved the conditions for foreign companies even further. This was testament of the government's commitment to policies of liberalization. Oil policy was framed in a wider wave of comprehensive policies that tended to privatize public enterprises. Ecuador's political elite's commitment to neoliberal ideology went much deeper than it ever did within the Venezuelan political apparatus, which was still in the early 1990s strongly divided on this matter. Similarly, the forces of the left in Ecuador were found mostly in social movements and civil society organizations and were much less represented in political parties and Congress. At this point, alternative forces were weaker in Ecuador than in Venezuela, where the left remained represented in Congress throughout the 1990s.

Petroecuador and the office of the Comptroller General found major irregularities in the management, adjudication and assessment of both types of contracts.[564] For instance, in 1995, Texaco-Chevron was released from liability in important cases of oil spills documented by activists and local communities of the Amazon during its time in the region since the mid-

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562 Interview with author, Quito May 2015

563 Luis Alberto Aráuz, "Contratación Petrolera Ecuatoriana 1972-2003," in *Petróleo Y Desarrollo Sostenible En Ecuador*, ed. Guillaume Fontaine (Quito: FLACSO, 2004); Llanes, *Contratos Petroleros: Inequidad En El Reparto de La Producción*.

564 Llanes, *Contratos Petroleros: Inequidad En El Reparto de La Producción*; Jijón, "Hacia Una Política Petrolera Ecuatoriana."

twentieth century until the end of the 1980s. It was recorded that Chevron paid US$40 million for the purpose of 'cleaning up' its damage, and freeing itself from any liability.[565] Local communities and activists managed to bring forward a lawsuit against Texaco-Chevron, which meant an important mobilization that reached transnational levels and helped activate Indigenous organizations as political actors with significant influence in the country.[566]

Interestingly, during the neoliberal period—generally marked by liberal adjustments and openness—Petroecuador suffered from an important financial intervention by the state.[567] The most liberal period of Ecuador's oil policy decreased rather than augmented Petroecuador's autonomy. The company's profits were all captured by the central bank, including the 10% that was formerly destined to the Fund of Petroleum Investments. These funds were now channeled directly to honor foreign debt.[568] There was a progressive decline in the capacity of Petroecuador to execute extractive operations, which led to a slowdown in production in the fields of highest quality (those formerly owned by Texaco-Gulf).[569] The state seemed to deliberately undermine its own NOC's technical capacity. There was at this time a significant loss in output coming from the jewels of the crown, which coincidentally, were the camps with lighter and more profitable crude. Conservative governments such as those headed by Durán Ballén and Febres Cordero, preferred to leave the bulk of the oil business to foreign companies rather than also strengthening the state's capacity in that realm, even if it meant decreasing output. As explained in chapter 4, the Venezuelan case was precisely the opposite, because since the 1970s and especially during the 1990s, PDVSA managed to decrease the company's fiscal burden, augmenting its autonomy.[570]

Political instability and economic hardships marked the 1990s as Ecuador faced important belt-tightening policies and its political elite was stained with corruption scandals that led three consecutive elected presidents to cut short their term in office. By the end of the decade, new

[565] Rochlin, "Development, the Environment and Ecuador's Oil Patch: The Context and Nuances of the Case against Texaco."
[566] Orlando Pérez and Nelson Silva, *Caso Chevron: La Verdad No Contaminada* (Quito-Ecuador: El telégrafo, 2014).
[567] Larrea, "Petróleo Y Estrategias de Desarrollo En El Ecuador: 1972-2005."
[568] Guillaume Fontaine, "Sobre Bonanzas Y Dependencia: Petróleo Y Enfermedad Holandesa En El Ecuador," *Íconos, Revista de Ciencias Sociales* 13 (March 2002): 102–6.
[569] Larrea, "Petróleo Y Estrategias de Desarrollo En El Ecuador: 1972-2005."
[570] Dunning, "Endogenous Oil Rents."

contracts began to be negotiated as 'contracts of marginal fields'. These contracts were assigned for distant and difficult to extract areas, places where Petroecuador lacked infrastructure and projects that required costly investments. Beginning in the year 1999 under the government of Jamil Mahuad, marginal fields contracts were signed.[571] This decisively pushed the frontier of Ecuador's extraction to sensitive areas where environmental impact has been reported to be of great damage, affecting not only the Amazon's biodiversity but also the livelihood of Indigenous nations, including some in voluntary isolation.[572] Under these contracts, the state set a baseline of extraction, it reimbursed the production costs to the company and once production has exceeded the base goal, the rest of the oil is divided between state and company in pre-arranged terms.[573]

The Ecuadorian economy was struck by a deep economic recession at the end of the 1990s. In 1999 alone, the sucre was devalued by 216% and inflation rose to over 90%.[574] The price of Ecuadorian oil was as low as US$7, and the economy had the most dramatic contraction in its contemporary history. Per capital GDP shrunk around 32% with a consequent increase in poverty and inequality.[575] There were signs of critical conditions in the banking sector that provoked the bankruptcy of several banks and a process of onerous bail-outs from the state provoked indignation and opposition from civil society.[576] In a context of deep recession and high inflation (not yet hyperinflation), the government of Mahuad proceeded to implement a controversial and drastic measure of dollarization set to start in March of the year 2000 to impede further capital flight. The promise of dollarization was to bring inflation to international rates and increase Ecuador's competitiveness by providing stability to economic actors. Critical authors pointed out the inconvenience of this measure, labeling it a 'jump to the precipice' that was not sufficiently debated and apparently based on faulty assumptions about the state of the economy and the promise of stability.[577] Dollarization may have been a policy borne out of emergency, but it also served to lock in neoliberal reforms that had been underway. As it will become evident,

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571 Llanes, *Contratos Petroleros: Inequidad En El Reparto de La Producción*.
572 Larrea, "Petróleo Y Estrategias de Desarrollo En El Ecuador: 1972-2005."
573 Bustamante and Zapata, "Características de Los Contratos Petroleros."
574 Guillermo Arévalo Luna, "Ecuador: Economía Y Política de La Revolución Ciudadana, Evaluación Preliminar," *Apuntes Del CENES* 33, no. 58 (December 2014): 109–34.
575 Acosta, "Preparémonos Para Lo Que Se Avecina."
576 Acosta, *Breve Historia Económica Del Ecuador*.
577 Ibid.

dollarization has significantly hampered the Ecuadorian state's capacity to advance alternative policy routes in the midst of the post-neoliberal turn.

Social movements and Petroecuador workers—who feared its privatization—staunchly opposed the Mahuad government and its neoliberal policies. Petroecuador's trade union held an important strike against the government that affected oil production.[578] A popular rebellion led by the most important Indigenous organization, the CONAIE, and middle-to-low ranks of the military forced the ousting of Mahuad's government in the early weeks of the year 2000. The then Vice-President, Gustavo Noboa, assumed the presidency on January 22, after a short-lived military junta was dissolved.[579] This rebellion brought lieutenant Lucio Gutiérrez to the fore as a visible leader from the military to rise against the government.

7.4. Channeling heavy crude and heavy funds: from the subsoil to global markets

Nearing the turn of the century, Ecuador had managed to increase production, in part at the expense of Petroecuador's technical capacity and thanks to the increase in foreign investment. An initial implication of this increased production was the saturation of SOTE pipeline to near its full capacity. Moreover, the influx of crudes with varying quality into the SOTE system produced the *Oriente blend* that was 'penalized' in the international oil market for its heavier character.[580] The oil initially produced in the northern part of the Amazon has properties of around 29º API, making it a good quality, relatively *light* crude.[581] As Ecuadorian production rose with the reforms initiated in 1993, crude from other parts of the Amazon began to flow through the pipeline, turning it denser and less attractive. Most importantly, the lighter crude was being used to dilute the heavier oil produced by foreign companies.

In order to attract more investments and increase the value of the *Oriente blend*, the presidency of Gustavo Noboa approved the construction of the heavy crude pipeline (OCP, for its name in Spanish). The OCP was completely built and maintained by a foreign consortium to transport

578 Gerlach, *Indians, Oil, and Politics*.
579 Ibid.
580 Valdivia, "Governing Relations between People and Things."
581 Llanes, *Contratos Petroleros: Inequidad En El Reparto de La Producción*.

around 400,000 barrels per day. A consortium of AGIP Oil, EnCana, Occidental Petroleum, Perenco and Petrobras built this 500km long project, for US$ 1.1 billion in a period of two years, ending in 2003.[582] It was intended to transport crude produced in fields operated by foreign corporations, leaving SOTE for Petroecuador's fields exclusively. The construction of the OCP was highly criticized by different groups. Petroecuador workers argued against the construction of OCP because of the threat it posed to the localities it went through, but also due to the social and environmental implications it would have for depleting reserves.[583] Local communities joined their protest opposing it for its environmental consequences and the increasing power of foreign companies.[584]

Valdivia argues that OCP became a 'technology of rule and discipline through which state officials rationalized the participation of private companies in petroleum extraction as beneficial for the Ecuadorian people'.[585] Most importantly, the OCP was also part of a larger architecture for channeling oil rents to global (and domestic) markets through other, seemingly apolitical, tools of government. Both the construction of new infrastructure and oil funds were key in feeding rents to bond holders. These infrastructure and monetary policies were geared toward enhancing the state's ability to service foreign debt, illustrating the government's commitment to structural adjustment plans.

Despite being elected in 2003 on a populist platform labeled Sociedad Patriótica (Patriotic Society) with the support of Pachakutik after leading the rebellion against Mahuad, Lucio Gutiérrez quickly shifted his anti-establishment rhetoric to deepen market-driven reforms. Gutiérrez's government, expecting the initial operation of the OCP, decided to create a sovereign wealth fund named the Stabilization, Social and Productive Investment, and Reduction of Public Indebtedness Fund (FEIREP, for its name in Spanish). FEIREP integrated a previously created fund, the Fund of Petroleum Stabilization (FEP, for its name in Spanish) that was fed with rents that exceeded the budgeted oil basket. The FEP was created to finance a Trans Amazonian expressway, various development projects and police, but a significant portion (45%) would be

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[582] Guillaume Fontaine, *Petropolítica: Una Teoría de La Gobernanza Energética* (Quito-Ecuador: FLACSO, 2010).
[583] Valdivia, "Governing Relations between People and Things."
[584] Iván Narváez, *Petróleo Y Poder: El Colapso de Un Lugar Singular Yasuní*, 1ª Edición (Quito-Ecuador: FLACSO-GTZ, 2009).
[585] Valdivia, "Governing Relations between People and Things," 472.

used to finance the debt.[586] FEIREP, in turn, integrated the FEP's 45% geared to pay the debt, and the resources coming from the state use of OCP and heavy crude exports. This measure increased significantly the value of Ecuadorian sovereign bonds and meant an important transfer of funds to bondholders, many of whom were Ecuadorian nationals from elite sectors of society.

The Gutiérrez administration produced technical changes that would back the channeling of more funds to FEIREP. First, since oil produced by Petroecuador never exceeded SOTE's capacity and the company did not need to use OCP, the government changed the way 'heavy crude' was determined. By law, heavy crude was to be considered any crude of 23º API or less, as opposed to previous standard of 18º API.[587] This way, all proceeds coming from heavy crudes would be channeled to FEIREP regardless of the pipeline used. Second, the government consistently budgeted conservatively so that the FEP would always be funded. As an example, in 2005 the national budget calculated the oil basket at US$25, but the annual average was US$40.[588] In order to lock in neoliberal reforms, the government also promoted a law that put a cap on public spending at 3.5% of the GDP. Acosta argues that by limiting public spending, the government would incur deficits that would force its acquisition of more foreign financing.[589]

The use of techno-political artifices to cement structural adjustments was intrinsically linked with oil governance and the expansion of foreign investment and foreign companies' production. Interestingly, the Venezuelan government would later implement similar measures for completely opposite purposes. Instead of creating oil funds to pay off bondholders, it would conservatively budget its oil proceeds to feed funds for discretionary use and wealth redistribution (see chapter 5). In both cases—one in principle neoliberal and the other rentier socialist—oil funds were political in nature.

Gutiérrez's government was the last committed to the neoliberal model and open treatment of foreign investment. As Larrea succinctly puts it, this phase was characterized by 'low prices,

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586 Rafael Correa, "Otra Economía Es Posible," in *Asedios a Lo Imposible Propuestas Económicas En Construcción*, ed. Alberto Acosta and Falconí Fander (Ecuador: FLACSO, ILDIS-FES, 2005).
587 Acosta, *La Maldición de La Abundancia*.
588 Ibid.
589 Ibid.

neoliberal policies and opening to foreign investments'.[590] For Larrea, Ecuador's indebtedness became a 'chronic problem'; the country was so indebted that 'the capacity to productively reinvest oil rents was insignificant and all resources coming from oil income went to pay the debt, which kept on increasing'.[591] Even though Gutiérrez signed more marginal contracts and created new contractual agreements for specific projects and services, there was resistance from society that impeded further transformations. One major initiative in his administration was to open Petroecuador's mature yields for foreign investment under strategic associations or joint ventures. Giving up the crown jewels to foreign corporations was deemed high treason by various critical observers, including Rafael Correa, an economics professor at the time, who was outspoken about the government policies through the media.[592] Social movements strongly resisted Gutiérrez's neoliberal policies and allegedly corrupted government. For the third time in a row, a President was ousted due to popular pressure in 2005. Alfredo Palacio, then Vice-President, took on the reins of government with the intention to start a reformist agenda that included acquiescing to long-lasting social demands to better regulate the oil industry, especially in relation to its socio-environmental implications. The new cabinet included Rafael Correa, who would become the leading voice of an alternative popular movement galvanizing indigenous groups, urban working classes, critical intellectuals and environmental organizations.

By the mid-2000s, the matrix of oil extraction in Ecuador had been dramatically transformed from the years of the military regime. Foreign companies extracted more oil than Petroecuador (formerly CEPE) did and the state accrued around 20% of oil benefits. In contrast, during the 1970s, most of the oil extracted came from the wells of CEPE-Texaco, and before 1975, CEPE-Texaco-Gulf. As discussed, during that time, around 80% of profits went to state coffers. In the 22-year period between 1982 and 2004 the mechanisms of association between the state and foreign companies changed dramatically (see table 7.1 above). They went from association contracts (1970s), to service contracts (1980s), to production-sharing and marginal contracts (1990s). Association contracts included high levels of government intervention through tax and non-tax burdens. Service contracts were characterized by attracting new investments, with state

[590] Interview with author, Quto May 2015.
[591] Interview with author, Quito May 2015.
[592] Alberto Acosta, "La Reforma a La Ley de Hidrocarburos Y La Renegociación de Los Contratos Petroleros," *La Tendencia: Revista de Análisis Político* 11 (March 2011): 95–104.

commitments to reimburse exploration and extraction costs. These contracts signified the changing conditions of the bargain as the state needed to attract new investments for new exploratory projects. Finally, production-sharing and marginal contracts shifted the balance in favor of the foreign companies even further, once those explorations had been successful. Production-sharing agreements were contracts on which only minimal tax burdens were imposed. These contracts split production a priori, giving roughly 80% of volume to companies and 20% to the state.

In relation to the 1970s, the main shift in the 1990s in Ecuador occurred in the ideational realm. These production-sharing contracts were signed at times of low prices but, most importantly, a larger process of economic adjustment and neoliberal restructuring influenced them. This ideational shift was especially stark possibly due to the change of political regime, from a national-developmentalist military regime to a more traditional elite-led party democracy.

The geography of extraction was also transformed in this period as the extractive frontier moved south and east from the traditional north Amazon area where Texaco-Gulf originally discovered oil. Heavier and unconventional crude became the object of extraction. Further, this transformation meant increasing tensions with marginal populations of the Amazon and the gradual germination of new political actors. Indigenous peoples were politically active, resisting extractive activities that were considered harmful to their communities for much of the 1990s. This activism, in association with local NGOs, transcended national borders in the case against Texaco.[593] Moreover, indigenous activists as well as oil workers were pivotal in the political transformations that led to the ousting of several presidents from office. During this time, these social actors did not operate from within the state apparatus but consistently resisted state action from the outside. Notwithstanding, the neoliberal process empowered new actors that would also shift and coalesce around a new 'post-neoliberal' consensus between environmentalists, technic-political agents in NGOs and social movements.

[593] Rochlin, "Development, the Environment and Ecuador's Oil Patch: The Context and Nuances of the Case against Texaco."

7.5. Conclusions

The transition from military rule to party democracy in Ecuador took place in unison with the collapse of a state-led developmental model. Since the 1980s, the adjustment policies implemented in Ecuador were associated with the possibility of increasing oil output. A new model of state-IOC relations was enhanced, wherein the priority focused on welcoming investments to expand extractive activities. In fact, new oil contracts were signed to welcome investments in new areas of the Amazon, which had remained untapped. Government efforts went primarily to expand foreign companies' production. New contracts were signed in the 1990s and infrastructure projects were built in order to channel this increasing output. The legal and contractual framework that governed oil extraction was systematically modified to benefit foreign companies.

This chapter argued that the terms of the bargain systematically improved for foreign companies. I have further argued that this shift, beyond the objective conditions of the bargain, was the result of a wide ideational consensus around market-led governance mechanisms. Rather than merely an outcome of deteriorating bargaining conditions, demonstrated by a new investment cycle and a context of low oil price, the open period of the 1980s and 1990s in Ecuador responded primarily to the agreement of the governing elites with liberal policies. These governance mechanisms meant adopting IMF-imposed policies and gradually transforming state action to let economic and non-state agents operate more freely. The ultimate goal of oil-related reforms was to service foreign debt, benefitting national and international bondholders. During the more liberal phases of low oil prices and high debt service, Petroecuador was weakened and used as a tool for servicing foreign debt.[594] At the beginning of 2000, dollarization became another policy tool to entrench neoliberalism by constraining the state's monetary policy.

The changes in the legal and political arrangements of the country that configured these new associations provoked the expansion of extractive activities to new frontiers, with social and environmental consequences that would later activate new political actors. Two interlinked processes took place: on the one hand, new nationalist sentiments emerged due to what some

[594] Dávalos, *Alianza PAIS O La Reinvención Del Poder: Siete Ensayos Sobre El Posneoliberalismo En El Ecuador*; Gerlach, *Indians, Oil, and Politics*; Sawyer, *Crude Chronicles*.

considered the ‘give away’ of the nation’s wealth; and, on the other, environmentalist and Indigenous groups rose against the negative impacts of resource extraction. For a short period, an alliance between these sectors became crucial in the construction of a political alternative that has continued implications today. The evolution of that alliance in relation to foreign investment shall be the focus of the following chapter.

Chapter 8
'We can't be beggars sitting on a sack of gold':
foreign investment and the pursuit of development in Correa's Ecuador

8.1. Introduction

In the previous chapter, I analyzed the shift in the state treatment of foreign investment to an open regime that invited and benefited investors. I argued that despite the underlying material conditions, which strongly favored foreign companies, the ideational consensus around neoliberalism played a primary role in this shift. A testament of the influence neoliberalism had on the changes in government behavior was the fact that throughout the 1990s, the state chose to transform the legal arrangements of oil extraction to further benefit foreign corporations even after the initial investment cycle had been committed. Beyond the change in contractual arrangements with foreign companies, other structural transformations during this period significantly constrained the state's ability to engage in meaningful sovereign policy-making. Undoubtedly, the most important one of these was dollarization. Moreover, the expansion of the extractive frontier and the increase in oil exploitation provoked the eruption of political activism against extractivism, while also questioning the legality of foreign companies' investments.

Building upon this history, in this chapter I trace the reemergence of resource nationalism in Ecuador in the 2000s. The model that has prevailed from the mid-2000s is a hybrid one where the state pursued association with foreign companies while trying to obtain a greater portion of the industry's profit. In this model, the government was motivated by the fact that higher oil prices meant surrendering potential windfall rents, which under the production-sharing agreements went entirely to IOCs. In the context of a commodity price boom, the state was encouraged to change the terms of association to increase its share in the industry's profits. Investments from the 1990s had been largely sunk in the Amazon region at the time of Correa's arrival to power.

The ideas that shaped this shift centered on state officials' understanding of national sovereignty over natural resources, which conflicted with the terms of the existing contracts. Therefore, for the government, production-sharing agreements betrayed the national interest. Correa's government thus forced a complete contractual shift to service contracts, arguing that this shift best preserved national sovereignty. Nevertheless, due to Ecuador's continued inability to build a strong NOC and its relatively marginal role in the global oil market (with unattractive reserve levels), service contracts continue to benefit foreign corporations, despite the nationalist sentiments that provided their impetus. Finally, Ecuador's renewed developmentalism encouraged the expansion of its extractive frontier, relying on the support of foreign technology and capital to do so. In contrast with the 1970s, when the military regime aimed at taking over assets from IOCs, the government was mostly concerned in the 2000s with changing the conditions of extraction to appropriate more rents.

The direction of the government's developmental policy was for some time subject to intense disputes. First elected in 2006, Rafael Correa held together a heterogeneous alliance. Environmentalists, critical scholars, disenfranchised urban dwellers and Indigenous confederations supported both his election and the subsequent writing of a new constitution in 2007. With the new constitution, the state gained a more active role in regulating and executing resource extraction. Also, following intense social activism, new provisions granted rights to nature and brought Indigenous views of 'living well'—*sumak kawsay* or its Spanish translation, *buen vivir*—as guiding principles for state and society. Both principles illuminated tensions within the alliance, which eventually disintegrated with the imposition of a developmentalist agenda based on emerging industrial policies and technological innovation.

As part of my larger argument, I uncover the changing government treatment of foreign investment; in this chapter, I depict the confluence of ideational motivations and underlying bargaining conditions that contributed to the emergence of this hybrid model. I contend that the Ecuadorian state sought to take a protagonist role in extraction and lead an ambitious state-led developmental project labeled as transforming the country's 'productive matrix', rather than taking a mere subservient part in a wider capitalist restructuring as neo-extractivism critics point out. In this state-led developmental process, China and its SOEs became important allies for Ecuador's government.

This chapter unfolds as follows. I first analyze the Palacio administration's initial attempts to exercise more control over foreign companies' revenues. I then turn to the constitution of the heterogeneous alliance that Correa brought with him, focusing on how environmentalist actors temporarily affected energy policy. Thirdly, based on in-depth interviews with privileged state informants, I explain the transformation of the contractual arrangements under Correa. Lastly, the chapter explores the most important strategic alliances the state has crafted, especially with China, and its role in transforming Ecuador's energy and productive matrix.

8.2. Interlude between neoliberalism and revolution: Palacio's first nationalist attempts

Despite several revolts and popular uprisings during the late 1990s and the beginning of the 2000s, Ecuador did not manage to achieve political stability around an alternative project until 2005. Progressive voices commonly recall the previous decades as 'the long neoliberal night', which reportedly ended with the ousting of Lucio Gutiérrez. Alfredo Palacio's arrival to office prompted an initial wave of reforms, including ending Occidental Petroleum's contract on the grounds of its illegally handling of its production-sharing agreement.

National prosecutors first investigated the case in 2004 and found that in 2000 Occidental had sold around 40% of its assets to City Investing Company, later Encana, without Petroecuador's formal approval. According to the law and contract, the state, through its national company, should approve any such changes before they are executed. In 2005, Carlos Pareja Yannuzzelli, president of Petroecuador, ordered an internal commission composed of officials with 'the longest and most pristine trajectory in the company' to prepare a report that would recommend state action to address Occidental's violation of its contract.[595] This report suggested that a cancellation of the contract was the proper legal route to pursue. Pareja Yannuzzelli found support for the cancellation cause in the Minister of Finance, Rafael Correa. However, Palacio was initially reluctant to expel the company, fearing that this move would scare investments away and trigger a costly arbitration process.

[595] Carlos Pareja Yannuzzelli, *Caso Occidental: Soberanía O Sometimiento* (Quito: Ediciones Abya-Yala, 2006).

Correa was also strongly opposed to keeping FEIREP in place and supported an immediate rechanneling of those funds for social development projects.[596] Correa and Pareja Yannuzelli left their posts at the end of 2005, and, together with activists, developed a public campaign to pressure the government to expel Occidental Petroleum. According to Pareja Yannuzelli, the *fuera Oxy* (Out Oxy) campaign 'finally succeeded in making the President accept Petroecuador's decision'.[597] But it was also crucial in contributing to the electoral campaign that was unfolding and made Correa its frontrunner. The activism around Occidental's case was framed as a choice between 'sovereignty' versus 'submission' and the need for the state to prevail over foreign interests.[598] Nationalist intellectuals and grassroots activists framed this as a crusade of the nation against foreign powers. After cancelling the contract in May 2006, president Palacio decided to nationalize Block 15, the most productive block amongst the Amazon marginal yields. Instead of opening a new round of negotiations with foreign companies, the government decided to create an affiliate of Petroecuador, named Petroamazonas, to be in charge of extraction.[599] For Larrea, 'this was the first most radical change that occurred in the new phase of relationships between state and foreign companies'.[600] In terms of governing oil extraction, the Ecuadorian state for the first time controlled and directly exercised extractive activities in at least one marginal yield area since these yields were opened for exploration in 1993.

The international effects of this measure cannot be overstated. First, the United States unilaterally cancelled the Free Trade Agreement negotiations that had been going on with Ecuador at the time.[601] Such a cancellation was actually one of the goals of the Ecuadorean civil society campaigners as well. Secondly, Occidental Petroleum initiated an arbitration process for unjust confiscation before the World Bank's International Centre for Settlement of Investment

[596] Correa, "Otra Economía Es Posible."
[597] Interview with author, Quito May 2015
[598] Pareja Yannuzzelli, *Caso Occidental: Soberanía O Sometimiento*; Fernando Villavicencio, *Ecuador: Made in China* (Quito: Artes Gráficas SILVA, 2013); Alberto Acosta, "Efectos de La Maldición de La Abundancia de Recursos Naturales," in *Petróleo Y Desarrollo Sostenible En Ecuador*, ed. Guillaume Fontaine, 1[a] Edición, 3. Las Ganancias Y Pérdidas (Quito-Ecuador: FLACSO, ILDIS-FES, Petrobras, 2006).
[599] Ronny Parra Jácome, "Estado Actual de La Política Del Sector Petrolero Ecuatoriano: Basado En El Análisis de Cambio de Política En El Período 1992-2012" (Tesis para obtener el título de Maestría en Ciencias Sociales con mención en Gobernanza Energética, Facultad Latinoaericana de Ciencias Sociales, Ecuador, 2013).
[600] Interview with author, Quito May 2015
[601] Marc Le Calvez, "El Rediseño de Los Sistemas de Gobernanza Petrolera En El Ecuador Y Venezuela," in *La Guerra Del Fuego Políticas Petroleras Y Crisis Energética En América Latina*, ed. Guillaume Fontaine and Alicia Puyana (Quito: FLACSO, Ministerio de Cultura, 2008).

Disputes (ICSID).[602]These two results of Occidental's expulsions have fuelled strong nationalist rhetoric by president Correa to this day.

A point of contention during the Palacio administration was the extent of transformation of its energy policies in association with alternative powers. At the end of 2005, Correa and Pareja Yannuzelli began contacts with the Venezuelan government seeking to reach an agreement with PDVSA in order to refine Ecuadorian crude for domestic consumption in Venezuelan refineries. An emissary in these contacts was René Vargas Pazzos who managed to start conversations between the two sides.[603] Ecuador would save resources spent in intermediaries to import derivatives for domestic consumption.[604] The exchange of crude-for-derivatives deal failed in the midst of distrust from Palacio's inner team toward the Venezuelan government.[605]

The Palacio administration also faced pressure to change the terms of the contracts inherited from previous governments, which were deemed contrary to the interests of the nation. As most production-sharing contracts were signed in the 1990s, their reference price of oil was much lower than what the international price had reached between 2003 and 2006. As explained in chapter 6, the production-sharing conditions gave the state and concessionaires a split arrangement in terms of *volume of barrels* produced that generally favored companies in an 80-to-20 ratio. However, all rents exceeding the reference price agreed to in the production-sharing agreement were reserved for the company. Law 42-2006 approved in 2006, transformed this by forcing a 50% percent tax on the 'windfall profits' of foreign companies.[606]

8.3. The rise of Rafael Correa and the Citizen's Revolution: from conservationism to developmentalism and control

After the rise to power of other left leaning presidents in South America, such as in Venezuela, Bolivia and Brazil, Correa managed to bring together different social actors around an alternative

[602] Fontaine, *Petropolítica: Una Teoría de La Gobernanza Energética*.
[603] Interview with Gen. René Vargas Pazzos, Sangolquí May 2015.
[604] Galo Chiriboga Zambrano, *Al Toro Negro Por Los Cuernos* (Quito: Casa de la Cultura Ecuatoriana, 2014).
[605] Pareja Yannuzzelli, *Caso Occidental: Soberanía O Sometimiento*.
[606] Guillaume Fontaine, "The Effects of Governance Modes on the Energy Matrix of Andean Countries," *Energy Policy* 39 (2011): 2888–98.

political project. A previously strong Indigenous movement had been somewhat discredited and divided after some of its factions joined forces with the Gutiérrez administration.[607] Later, the most prominent members of the Indigenous leadership represented by its left-wing party *Pachakutik*, allied with urban intellectuals and environmentalist groups. According to Andrade and Zenteno Hopp, this gave the environmental urban leadership an upper hand in a leftist coalition that included Indigenous organizations. This alliance was fundamental in giving strength to the electoral movement that supported Correa's bid, *Patria Altiva I Soberana*, or Alianza PAIS.[608] The team that accompanied Correa was a mix between old-guard leftists, young technical educated professionals, and the urban intellectual greens.

At the time of the electoral campaign, the proposals put forward by Correa had three distinct elements: 1) the need to change the 'productive matrix' of the country from heavy commodity dependence to a more diversified economy; 2) protect the natural environment, particularly in the Amazon, and respect the diversity of nations and ethnicities that derive their livelihoods from it; and 3) reinforce state sovereignty in the economy by exercising its right to control its natural resources and by rejecting policy mechanisms geared toward exclusively servicing foreign debt.[609]

8.3.1. The last butterfly or the child in need: early dilemma of the conservationist agenda

The most prominent of Correa's political allies was, undoubtedly, Alberto Acosta, a well-known environmentalist. Upon his election, Correa appointed Acosta as Minister of Energy and Mines, giving a strong sign of his commitment to the environmental cause. Acosta was instrumental in building a team of experts both in energy and environmental policy that designed the *Agenda Energética 2007-2011* (Energy Agenda 2007-2011) and put forward initiatives to evaluate the

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[607] Lucio Gutiérrez had led a popular revolt as a young military officer against the government of Jamil Mahuad. He ran on a populist platform in 2003 and convinced some regional and Indigenous leaders to support his candidacy. He would later become a strong supporter of neoliberal reforms. For more on this see: Gerlach, *Indians, Oil, and Politics*.

[608] Pablo Andrade and Joaquín Zenteno Hopp, "Ecuador: Changing Biosafety Frames and New Political Forces in Correa's Government," in *Environmental Politics in Latin America: Elite Dynamics, the Left Tide and Sustainable Development*, ed. Benedicte Bull and Mariel Aguilar-Støen (New York: Routledge, 2015).

[609] Narváez, *Petróleo Y Poder: El Colapso de Un Lugar Singular Yasuní*; Correa, "Otra Economía Es Posible"; Pablo Andrade, "El Reinio (de Lo) Imaginario: Los Intelectuales Políticos Ecuatorianos En La Construcción de La Constitución de 2008," *Ecuador Debate* 85 (April 2012): 35–48.

activities and contracts of foreign companies operating in the country.[610] The idea of putting a moratorium on expanding oil extraction became a formal proposal during the first months of this government, even though it had been only roughly articulated during the campaign. The moratorium was initially considered for the Yasuní national park territories of Ishpingo-Tambococha-Tiputini, commonly known as ITT-Yasuní, but some advocates lobbied to also include the blocks already in operation in the park (such as block 15, already then in the hands of Petroamazonas).[611] Acosta promoted this proposal within the government and national allies but simultaneously brought international activists and intellectuals to help build transnational support around it.

For the first time since Jarrín Ampudia had been minister under Rodríguez Lara between 1972 and 1975, a conservationist agenda was enshrined at the highest level of the Ecuadorian government. This time, conservationism was associated directly with the social and environmental costs of extraction, mainly to the diversity of the Amazon and the livelihoods of Indigenous peoples in the area.

The conservationist agenda, however, was not fully supported by the governmental alliance. The President himself showed resistance and other members of government clearly opposed it[612]. Acosta remembers that he had to 'wage a battle with the president of Petroecuador who wanted to exploit the Amazon oil immediately'.[613] As minister, he headed the board of directors of Petroecuador and thus an internal conflict ensued. Correa had appointed Pareja Yannuzzelli head of the company when he became President. Pareja Yannuzzelli describes the extractive imperative in terms of the need for (social) development. He argued in an interview: 'I never understood Acosta's position', and went on: 'it is impossible that the last butterfly, the last turtle, the last species has heavier weight than human life, as long as there is a child in need, it is him

[610] Alberto Acosta and Arturo Villavicencio, "Agenda Energética 2007-2011: Hacia Un Sistema Energético Sustentable," Government report (Quito: Ministry of Energy and Mines, June 2007); Edgar Isch L., "El Extractivismo Como Negación de La Constitución de La República," in *El Correísmo Al Desnudo*, 2[a] Edición, Montecristi Vive (Arcoiris Producción, 2013).
[611] Narváez, *Petróleo Y Poder: El Colapso de Un Lugar Singular Yasuní*.
[612] Andrade and Zenteno Hopp, "Ecuador: Changing Biosafety Frames and New Political Forces in Correa's Government."
[613] Interview with author, Quito May 2015

who we have to work for, at all costs'.[614] Acosta confirms that it was a complicated context for the new government and Correa decided to opt for a 'Solomonic formula' of leaving open the two options: a) to declare a temporary moratorium on further extractive projects while a reasonable alternative is crafted; and, b) to keep exploiting current blocks and possibly expand the frontier in a few years. Keeping both options open was politically useful for the government to maintain relative unity within its coalition but this compromise exuded a sense of incoherence that permeated much of Correa's oil policy, with important consequences for foreign investment as well.

Beyond the issue of conservationism, the oil policy that the government advocated for in its early years pointed to a holistic renegotiation of contracts. In the Energy Agenda 2007-2011, it was clear that government officials sought a transparent negotiation environment with support both from activists and expert circles. As a major goal, the state ought to regain most of the benefits from rent appropriation and Petroecuador had to be strengthened both in its regulatory and operational capacities.[615] For Arturo Villavicencio (a member of Acosta's team who developed the Energy Agenda), the idea was to channel investments in mature fields and technological niches around exiting energy clusters *without* the need to expand the extractive frontier. Also, the use of oil funds—such as FEIREP—that were progressively transformed into investment and spending funds had to be invested in enhancing recovery of mature fields and in exploration at surrounding areas, leaving marginal and prospect camps untapped.[616] In international terms, in 2007 the government asked to rejoin OPEC, in an effort to link back to its tradition of multilateralism associated with Ecuador as an oil producer and defender of oil prices.[617]

At least in the first year of government, the Alianza PAIS project aimed at increasing state control over the oil industry at the upstream level but also at the downstream by enhancing various investment initiatives to diversify the energy matrix. Simultaneously, it aimed at decreasing the volume of extraction, thus reducing its dependence on foreign investment. This relative short moment is quite unique for the purpose of this research because state sovereignty

[614] Interview with author, Quito May 2015
[615] Acosta and Villavicencio, "Agenda Energética 2007-2011: Hacia Un Sistema Energético Sustentable."
[616] Villavicencio, "Un Cambio Neodesarrollista de La Matriz Energética. Lecturas Críticas."
[617] Escribano, "Ecuador's Energy Policy Mix: Development versus Conservation and Nationalism with Chinese Loans."

was articulated to a wider notion of environmental protection that actually discouraged extraction. In fact, the possibilities of radically altering the conditions of state policy toward foreign investment were considered seriously and they pointed at a drastic reduction in oil extraction.[618] The way resource nationalism would be articulated in 2007 is hence tied to environmentalism and anti-extractivism. These notions had a clear impact in the drafting of the new constitution.

8.3.2. Buen vivir: a constitutional principle relegated to the realm of wishful thinking

In February 2007, Correa called a national referendum to consult the population on whether to draft a new constitution. Infused with anti-party and anti-liberal democracy sentiments, Correa's movement was organized and unified around the proposal. Acosta decided to leave the Ministry at this point to run as head of the government-backed list for the Assembly. Over 80% of the elected Constituent Assembly deputies were part of the larger movement Alianza PAIS.[619]

There was considerable input coming from Indigenous associations and grassroots movements. Not exempt from controversy, this allowed an agreement on a pluri-national definition for the state, the recognition of Quechua and other Indigenous languages as official languages, and the self-determination of Indigenous nations. A 'third generation' type of fundamental rights was enshrined and the natural environment became a subject of rights.[620] The new constitution obliged the state to award reparation for environmental damage and to protect the rights of Indigenous peoples to determine the fate of their territories. The endorsement of *buen vivir* ended up crystalizing an aspiration to reach a complementary and respectful relationship between state, nature and society. This was to be achieved mostly through different democratic principles, grounded on participatory mechanisms and based on pluri-nationality.[621] According to Radcliffe,

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[618] Acosta and Villavicencio, "Agenda Energética 2007-2011: Hacia Un Sistema Energético Sustentable."
[619] Andrade, "El Reinio (de Lo) Imaginario: Los Intelectuales Políticos Ecuatorianos En La Construcción de La Constitución de 2008."
[620] Iván Narváez, "Yasuní Y Derechos Colectivos Indígenas En El Estado Constitutional de Derechos, Intercultural Y Plurinacional, Ecuatoriano," in *Retos Y Amenazas En Yasuní*, ed. Anita Krainer and María Fernanda Mora (FLACSO, WCS, 2011).
[621] Craig M. Kauffman and Pamela L. Martin, "Scaling up Buen Vivir: Globalizing Local Environmental Governance from Ecuador," *Global Environmental Politics* 14, no. 1 (2014): 40–58.

this project of *buen vivir* can be characterized as 'a form of development that re-founds development around rights and deeper and more politicized forms of participation'.[622]

The constitution also elevated the role of the President as well as the technical and specialized entities of the state in social life.[623] Already within the Constituent Assembly, the two leaders of the constituent process (Correa and Acosta) clashed. The President was focused on the end result sought a fast realization of the final product that ought to be ready within six months.[624] Acosta, in turn, hoped to extend negotiations and consultations as wide, thorough and exhaustive as possible in order to reach the highest levels of consensus. The conflict was not resolved and Acosta resigned as President of the Assembly before the constitutional draft was finished, although he remained deputy and rallied for its approval during the national referendum in September 2008.

The most important implication of the constitutional enshrinement of *buen vivir* principles was the ITT-Yasuní oil moratorium proposal. President Correa launched the formal proposal in June 2007 to leave around 920 million barrels of oil underground in the ITT block in exchange for international compensation for Ecuador's environmental services.[625] Yasuní National Park is one of the world's most bio diverse places. It was created in 1979 and it has been managed since then as a protected area, with substantive governance transformations. In the year 1989, it was declared a biosphere reserve and an 'Intangible Zone' was delineated in 1999. This zone is home to the Tagaeri-Taromenane people, who live in voluntary isolation. The Intangible Zone was delineated as a commitment by the state to not engage in any commercial or productive activity in the area, in respect for the Tagaeri-Taromenane (see map 8.1 below). Nonetheless, other areas of the park have been marked as oil camps. Since 1986, they have been explored and several

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622 Radcliffe, "Development for a Postneoliberal Era?," 241.

623 Andrade, "El Reinio (de Lo) Imaginario: Los Intelectuales Políticos Ecuatorianos En La Construcción de La Constitución de 2008."

624 Andrade and Zenteno Hopp, "Ecuador: Changing Biosafety Frames and New Political Forces in Correa's Government."

625 Laura Rival, "Ecuador's Yasuní-ITT Initiative: The Old and New Values of Petroleum," *Ecological Economics*, Special Section: Ecological Distribution Conflicts, 70, no. 2 (December 15, 2010): 358–65, doi:10.1016/j.ecolecon.2010.09.007; Karen Andrade Mendoza, "El Parque Nacional Yasuní Y La Iniciativa Yasuní-ITT Frente a La Explotación Petrolera. ¿Conservación O Explotación?," in *Retos Y Amenazas En Yasuní*, ed. Anita Krainer and María Fernanda Mora (Quito-Ecuador: FLACSO, WCS, 2011); Guillaume Fontaine, "ITT: Un Problema de Gobernanza Para El Ecuador," in *La Guerra Del Fuego Políticas Petroleras Y Crisis Energética En América Latina*, ed. Guillaume Fontaine and Alicia Puyana (FLACSO, Ministerio de Cultura, 2008).

blocks (14, 16, 17 and 31) entered in operation from the 1990s onward. The most affected group by these incursions has been the Waorani, who have been in recent contact with oil companies, the Ecuadorian state and missionaries.[626] The Waorani have been affected by oil expansion as subjects of modernization and civilization strategies from Christian missionaries usually allied with oil corporations. Also, they are in fact the linkage between those peoples in voluntary isolation and the mestizo state. Around 60% of the Yasuní park is in the confines of an oil camp.[627] The ITT block is the last untapped oil camp in the region, bordering north of the Intangible Zone.

The ITT-Yasuní proposal was a complex one. There were several problems with it that were technical in nature. The most important ones related to what was actually being calculated. Various arguments emerged from the advocates of the proposal, ranging from the revenue forgone by the state in terms of barrels of oil to the amount of carbon sequestered by not exploiting it.[628] There were, however, other important calculations around the investments required to actually process and export the oil that was especially heavy.

Moreover, the complexity of the proposal went further in its political implications. First, the Ecuadorian state's energy policy has historically driven its economic policy and changing course in this dynamic proved difficult at best. Second, the goal of transforming the country's productive matrix was likely to be dependent on its entire repertoire of oil reserves, despite attempts by the environmentalists to act as though ITT was untouchable. Third, this proposal put Ecuador in a position of negotiating its sovereignty with other powers and International Organizations (IOs). The management of the trust fund for its ecological services implied intense bargaining with United Nations agencies and foreign governments that sought to be certain of Ecuador's commitment to leave the oil underground.

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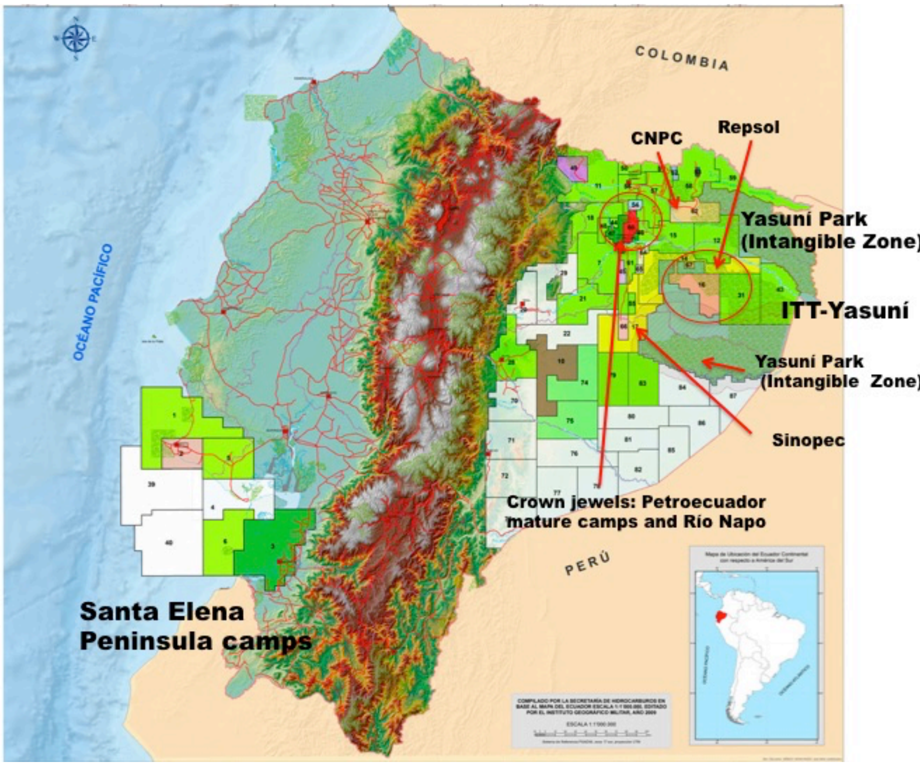
[626] Fontaine, "ITT: Un Problema de Gobernanza Para El Ecuador"; Narváez, *Petróleo Y Poder: El Colapso de Un Lugar Singular Yasuní*.
[627] Iván Narváez, "Huaorani: Mundos Paralelos, Mundos Superpuestos Y Submundos," in *La Guerra Del Fuego Políticas Petroleras Y Crisis Energética En América Latina*, ed. Guillaume Fontaine and Alicia Puyana (Quito: FLACSO, Ministerio de Cultura, 2008).
[628] Fontaine, "ITT: Un Problema de Gobernanza Para El Ecuador."

Figure 8.1. Oil map of Ecuador, ITT-Yasuní and other blocks



Source: Ministry of Hydrocarbons *Mapa petrolero del Ecuador*, modified by author

According to Fontaine, the ideological contradictions derived from and technical complexities inherent in the ITT-Yasuní proposal have accompanied the Ecuadorian state since it has expanded its extractive frontier to the Amazon.[629] The declaration of Yasuní as an ecological reserve has occurred alongside further expansions of oil exploration and extraction. Even the Intangible Zone has been violated.[630] Various alternative proposals, this time in favor of extraction, emerged simultaneously with the moratorium. For instance, one was the idea of bringing *off-shore* technology to the inland in Yasuní, a proposal that hoped to make oil extraction viable while aspiring to minimize environmental damages.[631]

[629] Ibid.
[630] Narváez, "Huaorani: Mundos Paralelos, Mundos Superpuestos Y Submundos."
[631] Fontaine, "ITT: Un Problema de Gobernanza Para El Ecuador."

The declaration of pluri-nationality added to the different legal instruments Ecuador has put in place to defend Indigenous peoples' right to self-determination.[632] Yet, none of these ideals were easy to materialize in a country largely defined by its ability to procure rents from oil extraction. The conservationist and pluri-democratic agenda reached important symbolic power at the outset of the Correa administration as long as it accompanied the Citizen's Revolution in its process to take hold of state power. This agenda certainly put a temporary hold on the advancement of the state's extractive drive and it impacted the way it related with foreign companies but it did not achieve its long term goals.

Ultimately, the achievements of the conservationist agenda and its constitutional provisions relied on the capacity for organized citizens to claim the exercise of rights. However, as Andrade explains, 'currently, the exercise of these rights is not viable'. In order for such claims to be viable 'they put the capture of more rents at risk' and the ITT-Yasuní did exactly that, 'it put the capture of more ground rents at risk, and thus it was destined to fail. Its success was only possible in an ideal scenario, only imaginable in a world relegated to the realm of *wishful thinking*'.[633] Unsurprisingly, Correa announced in August 2013 the end of the proposal due to failure to raise enough funds to compensate for Ecuador's ecological services.[634] Ecuador seemed unwilling to give up its right to control funds coming from the trust fund, thus complicating the prospects of donations. As a top official explains 'the state had to have autonomous control over this fund, no foreign government or international organization can condition the use of these resources'.[635] Assuring state sovereignty over the outcome of this proposal was of upmost centrality for the Ecuadorian government, which planned to execute broad industrial policies to diversify the economy. Thus, the national-developmentalist view that the government endorsed clearly contradicted the conservationist agenda it had supported originally. In a commonly anti-imperialist tone, Correa blamed international powers for this, stating 'the world has failed us'.[636]

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[632] Narváez, "Yasuní Y Derechos Colectivos Indígenas En El Estado Constitutional de Derechos, Intercultural Y Plurinacional, Ecuatoriano."
[633] Interview with Pablo Andrade, UASB professor, Quito May 2015. Emphasis made in 'wishful thinking' derived from the fact that such phrase was articulated in English while the rest of the conversation was in Spanish.
[634] Rosales, "Going Underground."
[635] Informant B, Quito April 2015.
[636] Associated Press, "Yasuni: Ecuador Abandons Plan to Stave off Amazon Drilling," *The Guardian*, August 16, 2013, sec. World news, http://www.theguardian.com/world/2013/aug/16/ecuador-abandons-yasuni-amazon-drilling.

During the first year of the Correa government, the main factor that dominated the direction of the government's treatment of foreign investment related to ideological disagreements. These internal contestations illustrated the plan A and plan B of extraction that momentarily paused the policies of expanding the extractive frontier and increasing investments. The government was committed, as had been the case under Palacio, to increase state revenues in the midst of the oil price boom.

8.4. Correa's new oil policy: new legislation for new contracts

In 2008, Correa launched a wide campaign to denounce the terms of Ecuador's foreign debt by setting up a special tribunal to deal with the issue. The tribunal agreed that the mechanisms through which previous officials had negotiated foreign bonds countered state interests.[637] This led to a partial default to bondholders, consisting on 35 cents per dollar. The partial default would later have consequences for Ecuador's finances that would, in turn, affect the way Ecuador related with foreign companies and especially with China. By the end of the year, Correa went on to pursue further transformations that would regain state control over the oil industry. He was eventually reelected in 2009 as new elections were called after the acceptance of the new constitution.

After the implementation of Law 42-2006, Correa decided to impose a more dramatic appropriation of windfall profits geared toward forcing foreign companies to renegotiate all contracts by imposing a 99% windfall tax in September of 2007. It had been justified as a fair decision since companies had been receiving rents in excess of the contractually stipulated reference prices for at least four years prior and because the government offered to lower the tax to 70% to those who agreed to enter into new contract negotiations.[638] Galo Chiriboga, Minister of Oil and Mines after Acosta, states 'with the sustained increase in oil prices from 2003, it was necessary to renegotiate petroleum contracts because the modality of production-sharing was

[637] Comisión para la Auditoría Integral del Crédito Público (CIACP), "Final Report of the Integral Auditing of the Ecuadorian Debt: Executive Summary," Public Audit (Quito, 2008).
[638] Chiriboga Zambrano, *Al Toro Negro Por Los Cuernos*; Fontaine, "The Effects of Governance Modes on the Energy Matrix of Andean Countries."

detrimental to the state'. The inability for the state to control windfall profits was seen as harmful to the owner of the resource, in his words, 'the Ecuadorian people'.[639]

Apart from the increase in oil prices as a motivating factor to pursue service contracts, the Ecuadorian government considered that this modality of association was the one that best preserved the interests of the nation. It argued that the state 'simply hired a company to render a service to the state who *still owns* the resource'.[640] Companies had no right over a specific volume of oil, which had been one major point of critique to the production sharing agreements by nationalists. In this case, the government maintained a specific understanding of ownership over hydrocarbons that assumed it was infringed upon by production sharing contracts. Thus, government officials now assert with confidence that 'the oil is 100% property of the state'.[641]

Correa was driven both by the desire to capture as much rent as possible—while keeping companies' investments—and also with promoting the idea that his government guaranteed and protected the rights of the nation as the owner of its oil like no other administration had done in the past. The idea of control over the oil industry was an important motivation for the change of contracts. According to a top ministerial official 'the idea was always to strengthen the role of the state in the management of its natural resources. That was the driving force of the new legal framework and change in contracts'.[642] It is important to highlight that the material motivations to enhance state control over the industry were clearly defined by a context of high oil prices similar to the 1970s, as traditional bargaining theories suggest. Yet, in a wider sense, the way this increased control was materialized had to do with ideational factors related to how policy makers interpreted state sovereignty over natural resources and to the historical relationships embodied in production sharing agreements that dated back to the period of 'give away' (discussed in chapter 7). In ideational terms, Correa's government's concerns resembled the ideas of national sovereignty that the military shared in the 1970s. Nevertheless, unlike the military's strand of resource nationalism, Correa's goals did not translate into a desire to acquire companies' assets, but rather to change the terms of the contracts that regulated them.

639 Chiriboga Zambrano, *Al Toro Negro Por Los Cuernos*, 61.
640 Interview with Carlos Pareja Yannuzzelli, Quito May 2015.
641 Interview with Carlos Pareja Yannuzzelli, Quito May 2015.
642 Informant B, Quito April 2015.

A reform to the law of hydrocarbons was pushed through the National Assembly in June 2010.[643] The government requested that the Parliament approve the law 30 days after it was drafted. Due to this urgency, the amendments received little debate.[644] The reform was finally approved on July 27 2010 and it stipulated a transitory period of 120 days to migrate all production-sharing agreements to service contracts.[645] The opportunity to produce deep reforms to the oil policy of the country was abandoned with the intention to speed up a contractual change. Hence many of the proposals that were drafted in the Energy Agenda 2007-2011, such as promoting enhancement technology in mature fields rather than expanding the oil frontier, were ignored. It was clear that 'the main goal was to improve state appropriation of oil rents'.[646]

A critical point of the early energy policy makers in Correa's administration was to pursue a deep legal and environmental assessment of the associations already in place. According to most observers, such assessments would have rendered similar results to the ones that prompted Occidental's expulsion.[647] Yet, no such assessments were carried out and the government privileged negotiating with the companies that were already operating in the country.

The changes in the law included the creation of the Hydrocarbon Secretariat (*Secretaría de Hidrocarburos*) as an administrative entity. This Secretariat has financial autonomy but is part of the Ministry of Non-renewable Resources and it takes from Petroecuador the responsibility of overseeing the execution of contracts with third parties. The oil industry was declared a sector of 'public interest' and thus subject to expropriation. The reform contemplated new terms for the existing figure of service contracts, but it also kept other contractual models available, such as production sharing and joint-ventures.[648] In this context, a mechanism of direct adjudication by the presidency without parliamentary approval of fields under joint-ventures was allowed in the

[643] Acosta, "La Reforma a La Ley de Hidrocarburos Y La Renegociación de Los Contratos Petroleros."
[644] Ibid.
[645] "Normativa Hidrocarburífera," Government report (Quito-Ecuador: Secretaría de Hidrocarburos, 2012); Parra Jácome, "Estado Actual de La Política Del Sector Petrolero Ecuatoriano: Basado En El Análisis de Cambio de Política En El Período 1992-2012."
[646] Villavicencio, "Un Cambio Neodesarrollista de La Matriz Energética. Lecturas Críticas," 271.
[647] Acosta, "La Reforma a La Ley de Hidrocarburos Y La Renegociación de Los Contratos Petroleros"; Henry Llanes, "La Reforma Petrolera Del Gobierno de Rafael Correa," *La Tendencia: Revista de Análisis Político* 11 (March 2011): 104–8; Villavicencio, "Un Cambio Neodesarrollista de La Matriz Energética. Lecturas Críticas."
[648] "Normativa Hidrocarburífera."

follow-up regulation to the reform, if they included SOEs. This move actually legalized what the Gutiérrez administration attempted a decade earlier and critics—including Rafael Correa—ferociously protested, arguing it meant selling out the national patrimony.

In fact, this reform came to legalize a mechanism that had already been used in 2008 when Correa 'gave away Sacha camp to the Venezuelan company PDVSA'.[649] Under the framework of a joint-venture with majority shares for Petroecuador, an association with PDVSA was created in this mature yield, considered one of the crown jewels. The model of association clearly reflected the framework used in Venezuela after the 2007 'full oil sovereignty campaign', signaling a potential export of the Venezuelan model to the Ecuadorian context. Nationalist critiques were voiced against this move, but the administration defended it in the name of regional integration and solidarity. The consortium, named Rio Napo, has had mixed results, with decreased production in its early years.[650] However, production spiked up subsequently, finally reaching 75,000 bpd at the end of 2014.[651] According to a senior manager of the company, Rio Napo does not depend on public funding and it has invested over US$500 million in enhanced recovery from its own utilities. Despite the left-leaning political rhetoric of counter-hegemony that surrounds the Ecuador-Venezuela partnership, for this manager Rio Napo's success has been due to the fact that 'it is driven by the logic of a private enterprise'.[652]

8.4.1 Service contracts: a policy designed in times of high prices, with high stakes

The new contracts were quickly negotiated soon after the reforms to the law were sanctioned. Concessions were negotiated individually with foreign companies under a flat service fee.[653] This meant that the state would pay the concessionary company a fixed rate per barrel extracted during the entire time of the contract, lasting 15 to 20 years.[654]

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[649] Acosta, "La Reforma a La Ley de Hidrocarburos Y La Renegociación de Los Contratos Petroleros," 98.
[650] Gabriela Valdivia, "Oil Frictions and the Subterranean Geopolitics of Energy Regionalisms," *Environment and Planning A* 47, no. 7 (2015): 1422–39.
[651] Banco Central del Ecuador, "Reporte Del Sector Petrolero: II Trimestre de 2015," Government report (Quito: BCE, 2015).
[652] Informant C, Quito May 2015.
[653] Escribano, "Ecuador's Energy Policy Mix: Development versus Conservation and Nationalism with Chinese Loans."
[654] Chiriboga Zambrano, *Al Toro Negro Por Los Cuernos*.

According to official informants, the Ecuadorian state and individual companies negotiated based on the consideration of how mature the yields were (amount of reserves left at the time of signing) and the prospects of investments needed to improve returns or minimize the decline in productivity of the yield. Extraction costs therefore varied greatly for each case; they oscillated between less than US$ 7 per barrel to over US$12. The prospects of future profits also played a role as most mature yields had been estimated to have a short life-span left, although they tended to be the ones where lighter crude is found, whereas 'marginal' yields have heavier oil. The lowest fees were US$16.72 per barrel while the most expensive one was as high as US$58 for a marginal field, although most were close to US$30 (see table 8.1 below).[655] Foreign companies were to subtract their operating costs per barrel extracted, and transportation and commercializing costs were to be paid by the state. The Ministry pays the flat service fee to the company and it is obliged by law to reserve for the state a 25% 'national sovereignty rate' on each barrel.[656] The *remainder* of the oil basket would also be patrimony of the nation.

As the amendments were approved, the government hoped to sign 33 contracts. Nonetheless, only 14 contracts were signed in total with 8 firms or consortiums. Seven of those were signed in November 2010, as the government expected. The rest were signed in early 2011.[657] The government negotiated first with the highest producing firm in the country at the time, the Spanish-Argentine Repsol-YPF and with the Chilean SOE Enap.[658] Andes Petroleum and Petroriental, operated by China National Petroleum Corporation (CNPC) and China

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[655] Secretaría de Hidrocarburos, "Prestación de Servicios Gustavo G," Service contract (Quito-Ecuador: Hydrocarbons Secretariat, February 2011), http://www.she.gob.ec/wp-content/uploads/downloads/2013/08/prestacion_de_servicios_gustavo_G_2011.pdf; Secretaría de Hidrocarburos, "Prestacion de Servicios M. D. C.," Service contract (Quito-Ecuador: Hydrocarbons Secretariat, November 2010), http://www.she.gob.ec/wp-content/uploads/downloads/2013/08/prestacion_de_servicios_mdc_2010.pdf.

[656] "Normativa Hidrocarburífera."

[657] Secretaría de Hidrocarburos, "Prestación de Servicios Gustavo G"; Secretaría de Hidrocarburos, "Prestación de Servicios Tecpecuador," Service contract (Quito-Ecuador, January 2011), http://www.she.gob.ec/wp-content/uploads/downloads/2013/08/prestacion_de_servicios_tecpecuador_2011.pdf; Secretaría de Hidrocarburos, "Prestación de Servicios Tiguino" (Quito-Ecuador: Hydrocarbons Secretariat, January 2011), http://www.she.gob.ec/wp-content/uploads/downloads/2013/08/prestacion_de_servicios_tiguino_2011.pdf.

[658] Secretaría de Hidrocarburos, "Prestación de Servicios Bloque 16," Service contract (Quito-Ecuador: Hydrocarbons Secretariat, November 2010), http://www.she.gob.ec/wp-content/uploads/downloads/2013/08/prestacion_de_servicios_mdc_2010.pdf; Secretaría de Hidrocarburos, "Prestación de Servicios Bloque 14," Service contract (Quito-Ecuador: Hydrocarbons Secretariat, November 2010), http://www.she.gob.ec/wp-content/uploads/downloads/2013/08/prestacion_de_servicios_bloque_14_2010.pdf.

Petrochemical Corporation (SINOPEC),[659] also signed new contracts in their blocks, although no agreement was reached in block 11 operated by CNPC, which some argue was never commercially viable.[660] All the existing modalities—production-sharing contracts, service contracts, operational alliances and contracts of marginal camps—migrated to the newly crafted service contract under a flat service fee.

Several companies, however, rejected the change. The most controversial of all was Petrobras, for legal and political reasons.[661] Petrobras had been operating in the Palo Azul unified camp (block 18, north of the Yasuní Park) after dubious transfers from other minor companies had taken place. Several reports from Petroecuador and its former trade union pointed to reasons for cancelling the contract, similar to those that were used against Occidental Petroleum. After initiating a case to declare the expiration of the contract at the prosecutor general's office, the company rejected the transfer to service contract and the government agreed to reimburse the company for its investments.[662] No further litigation was pursued, arguably due to political pressure from Brazil. Petroamazonas later took control of Palo Azul.

The government launched the 10th round of concessions for exploration and later exploitation in April 2012. Three new contracts were signed for exploration and extraction in the north-eastern area of the Amazon region. The service fees ranged from US$ 32.90 and US$ 36.60.[663] Later, the state has attempted to launch the 11th oil round to offer exploration and extraction contracts in the south Amazon, in blocks that are currently unexploited. Several attempts in 2013 and 2014 were made with no success, as foreign and private domestic companies were not interested and the decrease in the oil price halted the government's strategy.

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659 Secretaría de Hidrocarburos, "Contrato Prestación de Servicios Tarapoa - 2010," Service contract (Quito-Ecuador: Hydrocarbons Secretariat, November 2010), http://www.she.gob.ec/wp-content/uploads/downloads/2013/08/prestacion_de_servicios_tarapoa_2010.pdf.

660 Parra Jácome, "Estado Actual de La Política Del Sector Petrolero Ecuatoriano: Basado En El Análisis de Cambio de Política En El Período 1992-2012"; Acosta, "La Reforma a La Ley de Hidrocarburos Y La Renegociación de Los Contratos Petroleros"; Fernando Villavicencio, "El 'Milagro Ecuatoriano' En La Renegociación de Contratos Petroleros," *Plan V*, June 10, 2014, http://www.planv.com.ec/investigacion/investigacion/el-milagro-ecuatoriano-la-renegociacion-contratos-petroleros.

661 Valdivia, "Oil Frictions and the Subterranean Geopolitics of Energy Regionalisms"; Acosta, "La Reforma a La Ley de Hidrocarburos Y La Renegociación de Los Contratos Petroleros."

662 Villavicencio, "El 'Milagro Ecuatoriano' En La Renegociación de Contratos Petroleros."

663 Secretaría de Hidrocarburos, "Prestación de Servicios Bloque ENO - RON," Service contract (Quito-Ecuador: Hydrocarbons Secretariat, May 2012), http://www.she.gob.ec/wp-content/uploads/downloads/2013/08/prestacion_de_servicios_bloque_eno_ron_2012.pdf.

Table 8.1 New service contracts and service fees in Ecuador

Oil Firm	Block	Service fee (US$ p/b)
Andes Petroleum (CNPC, Sinopec)	Tarapoa	35.00
SIPETROL (Enap)	Mauro Dávalos Cordero	16.72
	Paraíso, Biguno, Huachito-PBH	20.77
Repsol-YPF and others	Block 16	35.95
	Tivacuno	27.25
Petrooriental (Sinopec) and Overseas Petroleum Investment Corporation	Block 17	41.00
Petrooriental (Sinopec)	Block 14	41.00
AGIP oil	Block 10	35.00
Petrobell	Tigüino	29.60
	Gustavo Galindo	58.00
Pegaso	PUMA	21.10
Tecpecuador	Bermejo	34.00
Petrosud	Palanda	31.90
	Pindo	28.50

Source: information from service contracts, Hydrocarbon Secretariat.

Most observers have noted that this negotiating scheme was clearly the product of a 'high price context' wherein the state considered that 'a remainder' of the basket would always be present.[664] Instead, the international price of oil has fluctuated, as it always does. International companies have secured for themselves a safe, fixed rate that comfortably exceeds their extraction costs even at times of low prices. With the radical change of contracts, foreign companies have secured a margin of utility that in the worst-case scenario means a similar profit to the situation *ex ante*.[665] The state, on the other hand, has secured 'control' over the business by changing contractual terms to its preferred option, but it did not protect itself from market fluctuations.

The terms of the contracts were less favorable to the state than it had hoped for. A member of the negotiating team explained in an interview that this was due to various constraining factors. The first was the fact that 'the legal framework and contracts were changing simultaneously' and 'very quickly', as the government forced them to do. There was insufficient time to develop in-depth studies around the conditions of the yields, and there was no willingness from the government to open a wide debate around the different modalities of association. Second, 'the

[664] Villavicencio, "Un Cambio Neodesarrollista de La Matriz Energética. Lecturas Críticas."
[665] Villavicencio, "El 'Milagro Ecuatoriano' En La Renegociación de Contratos Petroleros."

companies in fact set the terms of the negotiations' because they had 'the knowledge of the conditions in the different camps' and were able to negotiate based on levels of reserves and requirements for investments that 'only they knew about'.[666] This speaks to the continued fragility in the Ecuadorian state's institutional capacity to effectively acquire fundamental knowledge about the industry and regulate it *vis-á-vis* foreign companies. The state sought to secure risk investments coming from foreign companies while benefitting from high rents, but instead it gave a price safeguard for companies.

The contracts' conditions stipulate that in case the state is unable to pay the full rate of the service fee due to lower prices, it acquires a debt that accumulates in the form of a *carry-forward*, which is discounted as prices revamp. In the post October-2014 period, the Ecuadorian basket has reached record low depths levels for the last decade. This means that the state has only been able to secure a quarter of the basket under the 'national-interest rate' and is still forced to pay a fixed service fee that at times has been higher than the actual international price. Once more in Ecuador's history, debt has been mounting in direct relation to its capacity to extract oil. In fact, according to a top official in the Ministry of Finance, since December 2014, 'Ecuador's oil production has generated only losses'.[667] For him, the service contracts are no longer beneficial for the state, although 'they were good when prices remained high'.[668]

In fact, speaking with senior officials about the already counting *carry-forward* turned out to be challenging and uncomfortable.[669] One top official of the Ministry of Non-Renewable Resources said that this is still a beneficial arrangement because if, at the end of the contract, the state owes an outstanding amount to the concessionary, 'it has no obligation to pay'.[670] However, companies will discount the outstanding balance as the contract is in place and oil prices increase relative to the time prior. A former member of the team that renegotiated the contracts said that this was such an unexpected development that the 'regulating institutions are still trying to get their heads

[666] All quotes from Informant D, Quito May 2015.
[667] Informant E, Quito April 2015.
[668] Informant E, Quito April 2015.
[669] Several interviewees refused to speak about the carry forward, and when pressed to talk, they reinforced requests for confidentiality.
[670] Informant F, Quito May 2015.

around' the practicality of calculating repayment.[671] According to Cesar Robalino, twice Minister of Finance in previous governments and former President of CEPE, the government 'has not dared to reject the contracts' but it has simply said that 'it cannot pay'. The companies, on the other hand, see no incentive in investing or even 'pumping the state's oil' if they are not receiving their flat fee.[672] Robalino states that the debt already accounted for 600 million US dollars in spring of 2015—and it keeps going up.

Fernando Villavicencio, a former Petroecuador trade union leader and journalist, has shown that the difference in payments to the companies from the state under service contracts versus the production sharing arrangement was marginal. According to his calculations, in average, the state saved US$0.35 per barrel under the new contracts.[673] But this is ignoring fluctuations in the international price of oil. Under production sharing contracts, the companies sold their part of the oil at the international price, whereas with the flat fee, they receive a fixed compensation for their service regardless of the price of the Ecuadorian basket.

The international media originally pointed out that 'the substitution of service contracts follow[ed] a model pioneered in other parts of Latin America, notably Venezuela and Bolivia. These have been presented to local opinion as re-nationalizations of strategic assets and reaffirmation of state control'.[674] Indeed, while it has been quite an important rhetorical resource for Correa's administration, the alleged increased control may be an overstatement. In fact—as I have discussed—companies' actual control over operations on the ground has allowed them to secure beneficial terms even within the framework of new contracts.

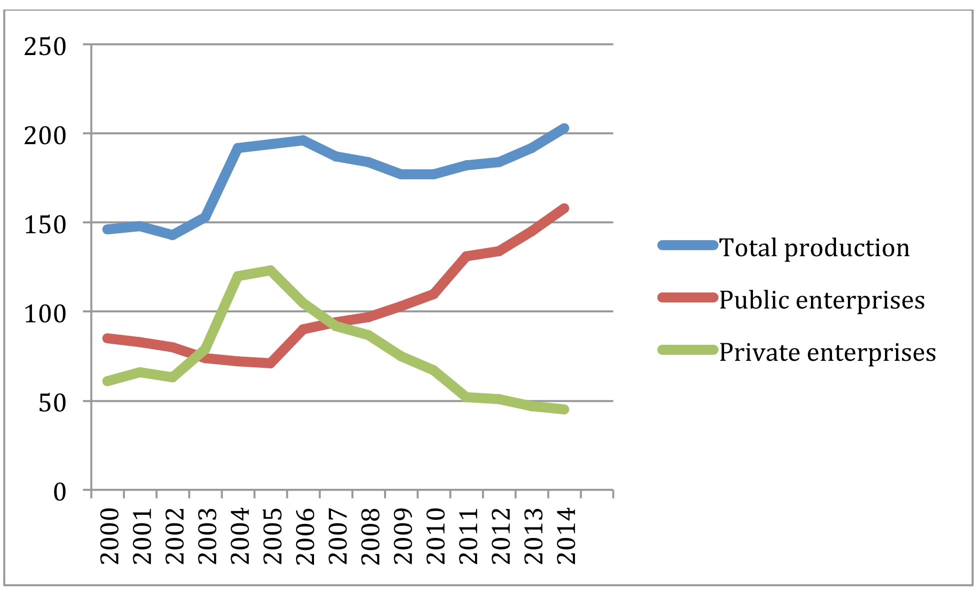
With respect to increasing investments, the change of contracts arguably brought about more investments in volume but not in the same way the government had anticipated. At the time of signing the contracts, the government expected to receive over US$1 billion in new

[671] Informant D, Quito May 2015.
[672] Interview with author, Quito May 2015.
[673] Villavicencio, "El 'Milagro Ecuatoriano' En La Renegociación de Contratos Petroleros."
[674] "ECUADOR: Government Re-Negotiates Oil Contracts" (Oxford, United Kingdom: Oxford Analytica Ltd, September 6, 2010), http://search.proquest.com.proxy.lib.uwaterloo.ca/docview/749610008/abstract.

investments.[675] It also expected to increase oil production substantially. According to former Petroecuador president and oil expert, Jorge Pareja Cucalón, 'much of those so-called investments were in fact maintenance costs'.[676] Despite dissenting voices, high oil prices during part of the service contract period allowed the Hydrocarbon Secretariat to pursue investments, again, through contractor firms such as Halliburton and Schlumberger, particularly in mature yields, which helped increase Petroecuador's production.

These investments, mostly in enhancement oil recovery, have allowed Ecuador to keep oil production over the 500,000 bpd margin. But there is little to no new investment in marginal camps.[677] In spite of the government's policies, the Ecuadorian production declined from 2008 until 2010, and even if it started to pick up in 2011, only in 2014 did it surpass pre-2007 levels. Also, in the year 2007, for the first time since the 1990s, Ecuador's NOCs produced more than private companies (see Figure 8.2 below).[678]

Figure 8.2 Total oil production, public and private firms (million of barrels)



Source: made by author with data from BCE, 2015.

[675] Parra Jácome, "Estado Actual de La Política Del Sector Petrolero Ecuatoriano: Basado En El Análisis de Cambio de Política En El Período 1992-2012."
[676] Interview with author, Quito May 2015.
[677] Escribano, "Ecuador's Energy Policy Mix: Development versus Conservation and Nationalism with Chinese Loans."
[678] Banco Central del Ecuador, "Reporte Del Sector Petrolero: IV Trimestre de 2014," Government report (Quito: BCE, 2015); Villavicencio, "Un Cambio Neodesarrollista de La Matriz Energética. Lecturas Críticas."

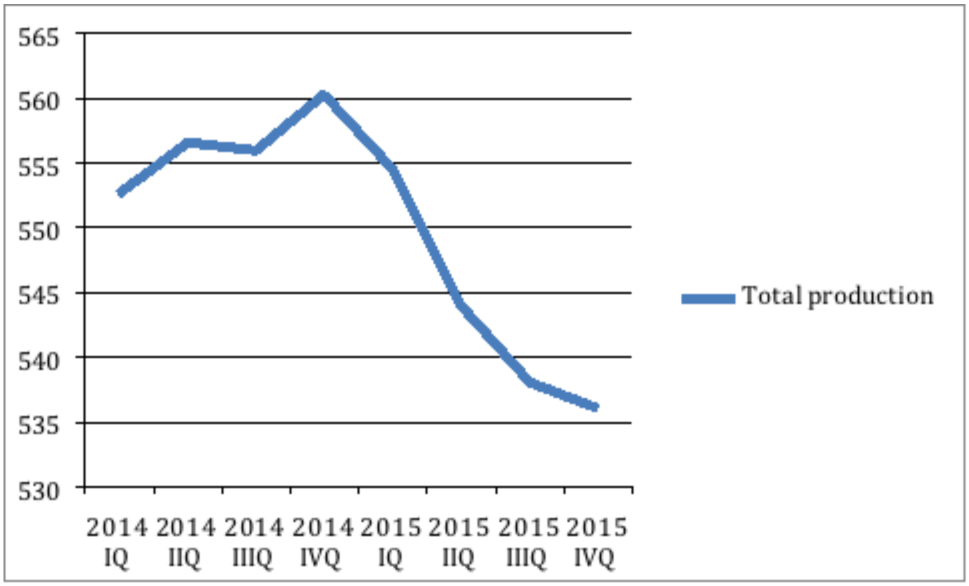
The change in the trends of production between public and private firms was mostly due to the expropriation of Occidental's assets, but also to the increased production of mature fields. Moreover, all the camps from companies that resisted a change to service contracts were transferred to Petroamazonas, which increased the production of the public sector significantly. As was expected, however, in 2015 the production started to decline sharply due to the drop in price. As Figure 8.3 below shows, once production peaked in 2014 above 560,000 bpd, it dropped throughout 2015, reaching 536,000 bpd at the end of that year.[679] Paulino Washima, executive member of strategic state enterprises from the National Secretariat of Planning and Development (SENPLADES), stated that once the price started to fall to the point where it became unprofitable to extract, 'the decision was to cut production'. He admitted that 'in the yields where the international price was lower than the service fee', the government was willing to 'stop operations' or 'not pay'.[680]

There are other reasons for the stagnation of investments in new oil fields. The rather erratic energy policy pursued by the Correa administration generated little incentive for international companies to come into the country. As I discussed earlier, this erratic attitude responded largely to internal disputes within the government alliance. The government did not fulfill its expectations in the 10th oil round and completely failed to achieve any meaningful result to open an 11th round. As Larrea points out 'middle-range companies are the only ones with potential interest' and only those 'like Repsol, which are already in the country, would see benefit in pursuing more business'.[681] The reason for this is the relatively marginal place Ecuador's reserves have in the global energy market. The potential social disputes around extraction together with the changing regulatory conditions made it less attractive than other liberal or even nationalist countries of the region. Guilleaume Fontaine, energy policy expert, explains that 'however large the investment levels are in Ecuador, due to the size of its reservoir, it would be less profitable than in Venezuela' even if it were comparatively 'less open for investments'.[682] In

[679] Banco Central del Ecuador, "Reporte Del Sector Petrolero: II Trimestre de 2015."
[680] Interview with author, Quito May 2015.
[681] Interview with author, Quito May 2015.
[682] Interview with author, Quito May 2015.

this context, Chinese companies appear as the ones with more interest in the country because of China's own 'strategic policy to secure energy provision'.[683]

Figure 8.3 Total production 2014-2015 (average barrels per day)



Source: made by author with data from BCE, 2015.

The administration of Rafael Correa managed to transform the legal arrangements that determine state-foreign company relations. It did so in the context of high oil prices, with a desire to increase state rent appropriation and control over the industry. Again, following the cycle of investments, these changes were made once investors had incurred significant sunk costs. In addition to the material incentives for the state, there was an important ideational component to the change in contracts: whereas before, part of the extracted crude was directly appropriated by companies, now the state pays a 'service fee' to extractive firms, which according to state officials, reaffirms the notion of ownership over the resource. In practice, however, the ultimate material benefit was not as significant as expected due to the country's position in the energy market (low reserves) and its continued institutional fragility in regulating the industry. The government still assured its position, even if through a narrow interpretation of ownership and management of natural resources. The goal of resource extraction for Ecuador is to advance in a

683 Interview with Carlos Larrea, Quito May 2015.

developmental program to modernize the country's economy. Thus, association with foreign investment is vital, as Ecuador's structural constraints impede it to advance such program on its own. As discussed in chapter 7, Ecuador's traditional NOC, Petroecuador remains weak. Further, as a dollarized economy, it is unable to pursue expansionary monetary policies and is thus more vulnerable to external shocks and dependent on foreign capital.

Even in the context of vulnerability that I have discussed, Ecuador used the changes in the global energy market to build an alliance with China that could earn the country the foreign capital that traditional investors are not willing to provide. As it was the case in Venezuela, this attitude is testament to important novel behaviors by foreign investors backed by large financial state institutions. In the next subsection, I explore the importance of Ecuador's alliance with China and, to a lesser degree, with Venezuela. I do so by putting these alliances in the broader context of Ecuador's political economy and understanding the structural constraints that affect its pursuit of sovereign policy-making.

8.5. Extractive imperatives and strategic alliances

> 'You'd have to be blind not to see the public works the government has done. There are roads, hydroelectric damns, fuel storage terminals, and of course social investment'.
>
> Paulino Washima, Director at SENPLADES and board member of SOEs

After discussing the new terms of association with foreign companies, and the ideas, material and institutional constraints that shaped this association, the wider purpose of association becomes the matter of attention. Rent appropriation has been a cornerstone of a new developmental paradigm in Ecuador. Since 2010, Correa has pushed his neo-developmentalist agenda, and it has served to overcome the apparent contradictions that emerged with the divergent signals from his own government. Rochlin described these contradictions in the following way: 'the era of the Correa presidency has featured an odd admixture of neoliberalism and leftist populism on the part of the government, as well as elements of post-development pursued by grass roots social movements that struggle to incorporate ecological concerns into national developmental schemes'.[684] With the contractual reforms the government's expectation was 'to give the state more capacity to implement a rent-driven policy and to finance the growing public spending'.[685] In this way, argues Escribano, 'Ecuador has found a solution that seems to overcome these contradictions by signaling a clear commitment to developmentalism'.[686] Once Correa had emerged as the single leader of his own coalition and his party had positioned itself strongly within the state apparatus, it was possible to marginalize or purge the environmentalist and other social movement elements of the coalition to pursue a more clearly productivist and developmentalist project.

The government made oil extraction the most direct mechanism to finance its income redistribution policies. Moreover, extraction was also made central to the larger project of technification and diversification of the economy, which has been labeled as the change in the 'productive matrix'. Two important axioms became pillars of the government discourse. Correa and his close officials repeatedly argue that Ecuadorians 'can't be beggars sitting on a sack of gold'—as way to justify further extraction in face of their environmentalist critics.[687] Furthermore, they stress that 'more extractivism' is the 'only way out of extractivism'.[688] Through increased oil revenues, the government seeks to invest in new technologies and expand the productive base of the economy. If increasing oil extraction became a prerequisite to service foreign debt during the neoliberal period, in the current period, it is a *sine qua non* of development.

8.5.1. China: a lifesaver

The transformation of Ecuador's 'productive matrix' to a diversified economy remains a central proposition of the Correa administration since the crafting of the original goals of the citizens' revolution between 2006 and 2007. This means nothing other than an industrial development

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[684] Rochlin, "Development, the Environment and Ecuador's Oil Patch: The Context and Nuances of the Case against Texaco," 11.
[685] Fontaine, "The Effects of Governance Modes on the Energy Matrix of Andean Countries," 2893.
[686] Escribano, "Ecuador's Energy Policy Mix: Development versus Conservation and Nationalism with Chinese Loans," 156.
[687] Dávalos, *Alianza PAIS O La Reinvención Del Poder: Siete Ensayos Sobre El Posneoliberalismo En El Ecuador*.
[688] Isch L., "El Extractivismo Como Negación de La Constitución de La República."

policy under a 'pompous name'.[689] Constrained by important structural factors, such as being a dollarized economy with no monetary independence, Ecuador faces important limitations on how to promote industrial diversification policy. In addition to this limitation, the partial default on its debt left Ecuador virtually closed from international financial markets for development lending.

In this context, China emerged as a pivotal ally to help Ecuador pursue its broader industrial policy. As Alberto Acosta states: 'Ecuador's turn to China is not necessarily a strategic political maneuver but decision for survival'.[690] As has been documented, China's motivations in its pursuit of south-south cooperation are driven by its quest for energy resources.[691] While Venezuela is South America's highest debtor to China, Ecuador ranks third in the region together with Argentina. Ecuador's debt to China, which totals approximately US$15.2, billion is a considerable portion of its total foreign debt (around one third). Debt to China has prompted a rapid change in the trends of Ecuador's exports to China, although the absolute numbers are still small. Much of Ecuador's oil exports have gone historically to the United States, Peru and Chile. In 2014, Ecuador exported only 1 million barrels to China in total. In 2015 that volume had more than tripled, reaching 3.6 million barrels.[692] Ecuador recently agreed with China to sell approximately 181 million barrels in the next 8 years until 2024 as part of their cooperation and development agreements.[693]

The details of the problems and goals of Ecuador's industrial policy are beyond the scope of this research but key relationships between oil extraction, foreign investment and industrial policies need to be highlighted. Ecuador is a prime example of a crude producer, which has been unable to develop significant downstream linkages in the oil industry. Acosta argues that Ecuador has been unable 'to overcome one of country's worst aberrations: it extracts oil, exports oil, and

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[689] Arturo Villavicencio, *Innovación, Matriz Productiva Y Universidad: Por Qué Yachay Es Una Estrategia Equivocada*, Debate Universitario 8 (Quito-Ecuador: Corporación Editora Nacional, 2014).
[690] Interview with author, Quito May 2015.
[691] Barbara Hogenboom, "Latin America and China's Transnationalizing Oil Industry: A Political Economy Assessment of New Relations," *Perspectives on Global Development and Technology* 13, no. 5–6 (2014): 626–47; Shaofeng, "Has China's Foreign Energy Quest Enhanced Its Energy Security?"; Burgos Cáceres and Ear, "The Geopolitics of China's Global Resources Quest."
[692] Banco Central del Ecuador, "Reporte Del Sector Petrolero: IV Trimestre de 2015," Government report (BCE, December 2015).
[693] Alberto Araujo, "Ecuador Comprometió Ventas de Crudo Con China Hasta El 2024," June 16, 2016, http://www.elcomercio.com/actualidad/ecuador-petroleo-china-exportaciones-venta.html.

imports oil derivatives'.[694] A senior official explains that this has to do with Ecuador's neoliberal restructuring which 'took away its capacity to control its oil industry and enhance its industrialization'.[695] A distorted internal market characterized by inefficient subsidies adds to the problem of refining.[696] Since his arrival into government, Correa has been concerned with this issue and has attempted to construct a meaningful alliance with Venezuela to overcome problems at the downstream level of the industry.

This is how the Pacific Refinery project was conceived. The *Refinería del Pacífico* Eloy Alfaro was a project constituted as a joint-venture between Petroecuador and PDVSA with majority shares for the former and a 49% for the latter. The project was geared to a refining capacity of around 300,000 bpd, which meant an ambitious plan to supply the entire domestic market for derivatives and export the surplus, thus increasing the value added of Ecuadorian exports. But this project implies complex financial and technical issues. First, its projected cost surpassed US$10 billion. It was soon clear that PDVSA could not offer the funding required. But Chinese enterprises, namely CNPC, showed its interest to partner with both NOCs and find fresh Chinese funding for the project.[697] Second, it required massive transport of heavy oil that was originally intended to come from Venezuela's Orinoco belt. The difficulties of transporting heavy and extra heavy crude from a far away oil field to that refinery meant it was an impossible task. According to Fontaine, this was proposed merely as a 'rhetorical recourse' because in 2008 the Yasuní-ITT proposal was still in place. Fontaine argues that 'in fact, this project is a petrochemical complex and it could not be de-linked from the exploitation prospects of ITT'.[698]

In this context, the lack of financing has left the project at a 12% completion and with few prospects of progress. Various commentators have pointed at possible corruption schemes stemming from the refinery since over US$1 billion have been committed from PDVSA and

[694] Acosta, "La Reforma a La Ley de Hidrocarburos Y La Renegociación de Los Contratos Petroleros," 97.
[695] Informant A, Quito April 2015.
[696] Escribano, "Ecuador's Energy Policy Mix: Development versus Conservation and Nationalism with Chinese Loans"; Villavicencio, "Un Cambio Neodesarrollista de La Matriz Energética. Lecturas Críticas."
[697] Paulina Garzón, "Una Cuestionable Alianza Sur-Sur: Las Inversiones Chinas En Ecuador Y La Región," in *La Restauración Conservadora Del Correísmo*, 1ª Edición, Montecristi Vive (Quito: Arcoiris Producción, 2014).
[698] Interview with Guillaume Fontaine, Quito May 2015.

Petroecuador to simply 'level the field' where the refinery will be constructed.[699] Adding to this, the decline in oil prices made expansion of block 31 and start of operations at the ITT block unprofitable due to the level of upfront investments required. Pareja Cucalón commented that, ironically, 'the market is so far saving the Yasuní from exploitation'.[700]

Beyond the Pacific Refinery, China has committed millions of dollars to other important infrastructure projects (adding a total of US$ 15.2 billion).[701] According to sources at the Ministry of Finance, some of those funds are project-specific, others are loans-for-oil, while there is a third type of lending that is generally offered for public investment to the government. Most loans were negotiated at a rate of 7.5% but some have come in at a somewhat lower range, with the lowest at 6%.[702] Although most informants from the government stated that Ecuador does not privilege one type of investment over others, they also agree that Chinese investments offer other benefits that make them attractive, such as macroeconomic independence and the explicit interest from Chinese lenders in infrastructure and industrial projects. According to many informants, the conditions agreed are also clear. First, Chinese lending is given when contracts can be assured to Chinese contractors. Second, contractors have the right to employ Chinese workers. Nevertheless, authors such as Bräutigam and Gallagher argue that, while the use of Chinese contractors is a common practice, there is no evidence of the imposition of conditions requiring the use of Chinese workers in Chinese commodity-backed loans.[703] And third, they will potentially receive the control of specific blocks in the Amazon once the 11th oil round is re-opened. In fact, Andes Petroleum and Petrooriental, subsidiaries of CNPC and SINOPEC have already made offers to explore two blocks south of the Intangible Zone. In this case, it is possible that the government may adjudicate these blocks separately and award contracts directly to Chinese companies, without going through a competitive bidding process sanctioned by the Parliament, because the hydrocarbon law contemplates such special treatment when dealing with SOEs.

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699 Interviews with Carlos Pareja Cucalón, Fernando Villavicencio and other informants that wished to remain anonymous.
700 Interview with author, Quito May 2015.
701 China-Latin America financial database, Inter-American Dialogue and Global Economic Governance Initiative.
702 Escribano, "Ecuador's Energy Policy Mix: Development versus Conservation and Nationalism with Chinese Loans."
703 Deborah Bräutigam and Kevin P. Gallagher, "Bartering Globalization: China's Commodity-backed Finance in Africa and Latin America," *Global Policy* 5, no. 3 (2014): 346–52, doi:10.1111/1758-5899.12138.

Perhaps the most important of all of the ongoing projects is the construction of the hydroelectric dam Coda Codo Sinclair by Chinese contractors with funding from China Exim for over US$1.68 billion.[704] With this hydroelectric mega project, Ecuador expects to generate 1,500 MW and together with other medium and small projects it hopes to satisfy local markets and also export electricity to neighboring Colombia and Peru. Moreover, the government hopes to carry out a massive transfer of gas stoves to induction stoves, also sold by Chinese firms, in 2016. Later on, these stoves and their parts are supposed to be produced in Ecuador after Chinese manufacturers have set up plants in the country.[705] The idea is to save around US$1 billion a year in imported and subsidized gas, which has been recognized as a major distortion in the local energy market, and simultaneously produce US$1.2 billion from new energy generation.[706]

This plan has so far been criticized for its authoritarian and ambitious nature: imposing a technological change in the entire consumer base of home stoves. Yet, government officials insist that such bold measures are required to save resources and advance the country's industrialization. Washima is adamant about this: 'we are in a dollarized economy, which should not be forgotten, so if there are new technologies, domestic industry will flourish and for that we can't use our limited funds, we need foreign development lending'. In a nutshell, government officials like Washima have crafted a policy apparatus committed to industrial policy from the top-down, but that is constrained by lack of monetary sovereignty. This, in turn, conditions industrial policies back to foreign financing.

In this context, officials restate that despite the fall in oil prices, the renegotiation of contracts brought about an initial inflow of capital that allowed the government to kick-start this ambitious plan. Therefore, there is a clear link between asserting control over oil rents through the new contracts and the increase in foreign lending to pursue industrial policy. Washima stresses that 'all the impressive infrastructure and energy investment we have achieved is thanks to the

[704] Henry Sanderson and Michael Forsythe, *China's Superbank: Debt, Oil and Influence-How China Development Bank Is Rewriting the Rules of Finance* (John Wiley & Sons, 2012).
[705] Thomas F. Purcell, Nora Fernandez, and Estefania Martinez, "Rents, Knowledge and Neo-Structuralism: Transforming the Productive Matrix in Ecuador," *Third World Quarterly*, April 26, 2016, 1–21, doi:10.1080/01436597.2016.1166942.
[706] Escribano, "Ecuador's Energy Policy Mix: Development versus Conservation and Nationalism with Chinese Loans"; Villavicencio, "Un Cambio Neodesarrollista de La Matriz Energética. Lecturas Críticas."

renegotiation of oil contracts and leveraging international financing'.[707] Meanwhile, China has stepped in as the single most important foreign ally in providing finance to Ecuador, revealing the centrality of this emerging power in the configuration of neo-developmentalist agendas in the global south.

8.5.2. New development: a tale of seduction or how further extraction was always plan A

In Ecuador, plans of achieving diversification and development have been tied to oil extraction since the country became an oil exporter in 1972. In its current form, Ecuadorian developmentalism has the state as the central actor that regulates market players, executes policy and engages in the actual carrying out of industrial and social projects. The *Oriente* is a fundamental part of this strategy. The government has therefore developed spectacular social programs that seek to bring communities in *Oriente* on board with this plan. This is what Esperanza Martínez, head of Oil Watch and *Acción Ecológica*, calls 'the strategy of seduction'.[708] Schools and entire villages have been built by the state with oil funds in consonance with a vision that de la Torre calls 'a hypermodern Ecuador'.[709] The *ciudades* and *escuelas del milenio* are showcase projects that seek to, in the words of Pablo Andrade, 'compensate for the social and environmental costs of extraction'; they are 'high-tech type projects that also serve as legitimizing vehicles for extraction'. But for Martínez, they also mask the more violent mechanisms of coercion that the state is also willing to carry out in case it faces resistance. As I have already mentioned, the expansion of the mestizo state and oil companies in the Amazon is a relatively recent phenomenon that has sparked contentions with recently contacted indigenous populations and threatens the livelihoods and habitat of others still in voluntary isolation.

In our conversation, Martínez explained in detail the repressive tactics of the government in places like the town of Dayuma where Indigenous peoples have been persecuted by military forces for protesting and stopping an oil platform in 2008.[710] This episode started a long process of criminalization of critics of extraction, which the government has called 'terrorists' and has

[707] Interview with author, Quito May 2015.
[708] Interview with author, Quito May 2015.
[709] De la Torre, "Technocratic Populism in Ecuador," 38.
[710] Interview with author, Quito May 2015.

persecuted consistently.[711] In a binary logic of 'us versus them', the Correa administration has called for unity against ecological terrorists who seek to halt the nation's development.[712] This attitude goes in line with various analyses that argue that there is more convergence than divergence in the extractive models that both left and right wing governments in South America advance.[713]

In line with the theses of neo-extractivism, radical scholar Pablo Dávalos argues that the Alianza PAIS project is in fact a tool for global capital to assert its hold on natural resources. Dávalos argues that this political project seeks to 'assure the "third generation" structural reforms that allow the privatization of territory in benefit of transnational capital'. The state does so through mechanisms of 'discipline and social criminalization that is legitimized in a discourse of struggle against poverty and justifies exploitation of natural resources'.[714] Indeed, as I highlighted earlier, social development and the fight against poverty represented the central legitimizing point for expanding extraction.

Notwithstanding the mix of coercive and redistributive mechanisms through which the state asserts its developmentalist project, the ultimate purpose rests on the long lasting goal of nation-building and state affirmation. This process requires an important ingredient of association with foreign capital, and it is to a large extent a result of changing international dynamics that include—not least—the emergence of China as a global power. But it is not carried out *exclusively for* the benefit of transnational capital, nor is it procuring *territorial privatization*, or land commodification alone. On the contrary, I contend that it seeks to, in a modern state-like manner, make the Amazon region a public and above all a 'national resource', even if at the expense of ancestral communities and the environment. The assertion of oil policy and expansion of the extractive frontier responds to the dominant meaning that the Ecuadorian government has attributed to development. This dominant view of development focuses on transforming the

[711] Isch L., "El Extractivismo Como Negación de La Constitución de La República."
[712] Fernando Villavicencio, *Sarayaku: La Derrota Del Jabalí* (Quito: Artes Gráficas SILVA, 2014).
[713] Bebbington and Bury, *Subterranean Struggles*.
[714] All quotes from Dávalos, *Alianza PAIS O La Reinvención Del Poder: Siete Ensayos Sobre El Posneoliberalismo En El Ecuador*, 138.

country's productive matrix through pursuing industrial policies and vanguard technological innovation.[715]

High-level officials from both planning, oil and energy institutions confirmed the state's aim to assert its authority and advance development in Ecuador, but particularly in areas such as *Oriente*, where it had been relatively absent before. Much like in the case of Rio Napo, which purportedly functions with the profit-seeking logic of a private enterprise, Petroamazonas 'inherited Oxy's logics [referring to Occidental Petroleum]'.[716] An executive from the NOC Petroamazonas argues that the company's community development arm has become the state's vehicle to bring social and economic projects to far away communities. He asserts: 'we have built the *ciudades del milenio*… We are trying to transform the logic that private enterprises left in the Amazon, which basically *spoiled* Indigenous communities'.[717] For decades, foreign companies negotiated handouts and different payments with communities in order to access their territories 'they would give some thousand dollars to communities while taking millions out'. The state was basically absent in this process, but now, 'Petroamazonas is trying to change this logic'.[718] And it has set productive and social projects that are decided from the central government and negotiated with local authorities and other stakeholders. As Pablo Andrade explains, 'this is a network that is highly centralized in the government, it is where a compensatory governance sphere operates, it includes local representatives of Alianza PAIS, decentralized authorities and communities themselves'.[719]

For the Petroamazonas executive, Indigenous demands for monetary compensation in areas of exploitation 'are absurd', as they fall outside the designated Amazon fund for social investment. The spectacular social projects Petroamazonas executes have been part of the so-called plan B that I recalled at the beginning of this chapter when Alberto Acosta became Minister of Energy and advocated for an extraction moratorium in the Amazon. The Petroamazonas executive explained in an interview: 'the *ciudades del milenio* are part of the plan B that president Correa offered in case the ITT-Yasuní failed'. Since 2011, the government started to work on building

[715] Purcell, Fernandez, and Martinez, "Rents, Knowledge and Neo-Structuralism."
[716] Informant G Quito May 2015.
[717] Interview with author, Quito May 2015.
[718] Informant G, Quito May 2015.
[719] Interview with author, Quito May 2015.

these communities and schools, and ‘then in 2013, the President inaugurated many of them as he announced the failure of the Yasuní proposal: it was a way to show the good things that can be done with oil money; plan B started with these projects and extraction will follow’.[720] Indeed, plan B had started even before plan A had been officially declared dead.

The policies of seduction not only mean mechanisms for legitimation and compensation. They are also part of a larger project of state affirmation that includes the Amazon region. In current times, state affirmation and nation building are embodied in modernization and development. Oil extraction is the backbone of this plan and it can only be carried out in association with foreign investment due to the lack of technical capacity in Ecuador’s NOCs as well as the policy limitations the country faces regarding foreign financing and lack of monetary sovereignty. While state affirmation and Correa’s developmentalism include important ingredients of coercion, they also require the inclusion of the masses, particularly Indigenous peoples, through extensive social policies. In this context, I caution skepticism toward the contentions of radical globalization scholars, who see forces of global capital mobilizing the coercive apparatus of the state to support the enclosure of territory through violence and dispossession.

As it has been noted in the Venezuelan case, the Bolivarian project was mostly geared toward a rentier form of socialism. In Ecuador, the model has been based on a state-led industrialism, which has been labeled as the transformation of the country’s productive matrix. The dominant idea of development today centers on using oil rents to protect niches of existing industry and invest in new technologies and innovative sectors.[721] The alliance with China has been important in this regard, as a provider of financing and investment. China’s behavior also demonstrates that foreign investors do not all display the same logics when dealing with home states. In Ecuador, the state is an active actor that carries out projects of control, territorialization, modernization and development. Far from being mere agents of global capital, the state in Ecuador and Venezuela is also an actor that, combined with foreign forces, seeks to claim and exercise control over its natural/national resources and territories.

[720] Informant G, Quito May 2015.
[721] Purcell, Fernandez, and Martinez, “Rents, Knowledge and Neo-Structuralism.”

8.6. Conclusions

At the outset of the Correa government, two broad ideals associated with resource nationalism emerged in Ecuador. One, characterized as nationalist-conservationist, largely reflected in the original Energy Agenda 2007-2011 and parts of the constitution, sought to radically transform the state-companies relationships by increasing state control and taking away concessions that were deemed illegal. This increased state control in extraction would be coupled with a strong commitment to conservationism and a moratorium on further extraction. The nationalist-conservationist agenda, similar to the nationalist views espoused in the 1970s by Jarín Ampudia, also encouraged a sense of multilateralism around issues of environmental protection and the fight against climate change. The second vision, labeled as nationalist-developmentalist, sought to strengthen the role of the state in the oil industry by increasing rent appropriation and control through changing the contractual arrangement with foreign companies. This vision was illustrated in the amendments to the hydrocarbons law made in 2010. It planned to use resource extraction to launch an ambitious developmentalist project as well as redistribute wealth geared toward reducing poverty. The coexistence of these conflicting visions was symbolized in the plan A and B of oil extraction. The coexistence of these agendas shows the importance of divergent ideological perspectives in the fate of oil policy in general and, the state treatment of foreign investment, in particular.

The tension between these two visions was resolved in favor of the nationalist-developmentalist view. The approach to natural resource management that was eventually taken up is one that associates industry control with the pursuit of a developmentalist agenda for the benefit of society as a whole. It rejected the multilateral ambitions of the nationalist-conservationist perspective and the pretensions of IOs to condition their support of Ecuador's oil moratorium, while it supported the type of multilateralism espoused in the 1970s by the military, which inspired Ecuador to join primary producers in multilateral efforts such as OPEC. The developmentalist approach views the state as the appropriate interlocutor of national interests and its legitimate authority to command the modernizing path of the nation. A fusion of technocratic knowledge and revolutionary discourse illustrate the type of societal transformations under

Correa that de la Torre describes as a 'modernizing revolution from above'.[722] The Ecuadorian government has been successful at conflating national sovereignty, rents appropriation and social development into one single discourse and project that has been labeled as transforming the country's 'productive matrix'.

As I have argued, Ecuador's current hybrid model consists in welcoming foreign investment as a component of this development agenda. Ecuador cannot increase oil extraction and pursue innovative industrial policies without external support, due to the lack of external funding and other constraints such as being a dollarized economy. As the conventional bargaining models would have predicted, increased oil prices meant an incentive to increase state control. But this chapter goes further to shed new light on how this process took place. The government chose to replace production-sharing agreements with service contracts, hoping to take advantage of high oil prices. Rather than returning to the kinds of arrangements established in the 1970—high rents appropriation through royalties and taxes—the government chose to sign service contracts, as was done by the Hurtado government in the early 1980s. The material motivation—increased price factor—was coupled with substantive ideational ones: this shift was also the result of a narrow interpretation of state sovereignty over natural resources. In this light, service contracts were interpreted as the best way to preserve *state ownership* of the resource and enhance *control* over the industry.

The impacts of these changes, nonetheless, have been limited by the contours of structural constraints Correa inherited from previous years of neoliberal governance, mainly its lack of access to foreign finance and its loss of monetary sovereignty (see chapter 7). Unlike Venezuela, Ecuador's unattractive reserves and the state's long-lasting incapacity to regulate the sector complicated the country's bargaining position with IOCs. While major private IOCs remain uninterested in pursuing more investments in the country, largely due to political risk but also as a result of the changes in the contractual framework, Ecuador has found important allies in China's SOEs and financial institutions. China's desire to increase its energy reserves and the state backing of its NOCs makes them better positioned to do business in a relatively risky and marginal producer such as Ecuador. China's entrance into both Ecuador and Venezuela

[722] De la Torre, "Technocratic Populism in Ecuador," 38.

contributes to understanding diversity in foreign investors' behavior, something that has not yet been analyzed in detail in the bargaining literature. It further reveals the rise of globalized forms of state action that, together with its associated capital, intervenes across borders.

Chapter 9
The evolution from stringent to hybrid treatment of foreign investment: consolidating arguments and contributions

9.1. Revisiting main arguments

Before proceeding to highlight the main arguments and contributions advanced throughout this work, let us first start with a reminder of the main research questions guiding the thesis: (1) "*How have the Venezuelan and Ecuadorean governments' treatment of foreign investment in their oil sectors changed since the 1970s?"* and (2) *"What explains the approaches they have taken?*" This research offers, in a distinct empirical contribution, an analysis of three eras in state treatment of foreign investment through careful case study analysis of both Venezuela and Ecuador's oil industries' historical trajectory in relation to foreign investors. In response to the first question, I have argued that state treatment of foreign investment has fluctuated since the 1970s from stringency to an open attitude in the 1980s-1990s, to a hybrid model in the 2000s. While separate analyses of these two countries' association with foreign capital in oil have been developed by other authors, most are dated and focus either on the 1970s and the previous era of concessions or on the 1990s opening. This is the first integrated analysis of both Venezuela and Ecuador's treatment of foreign investment in the oil sector, up until the recent collapse of oil prices. In empirical terms, this dissertation offers a novel study of the evolution of state treatment of foreign investment in countries associated today with revolutionary resource nationalism. It does so from an historical perspective, which sheds light on the main continuities and ruptures of these countries' approach to foreign investment in oil.

Put into a wider context, the contributions of this study help explain the apparently deviant behavior of revolutionary resource nationalists in Venezuela and Ecuador. Their desire for control over the oil industry has been coupled with the continued welcoming of foreign investors. In fact, contemporary governments remain associated with foreign investment in ways that promote their own political economic agendas. Moreover, they are more closely linked with foreign investment than their resource nationalist counterparts were in the 1970s. These governments have taken advantage of improved bargaining conditions vis-á-vis foreign companies, while at the same time promoting a hybrid model of association that enhances ideas of national sovereignty, national development and socialism.

As a response to my second question, I proposed to bridge different approaches in a framework that seeks to explain these overall changes. In this context, I highlight the usefulness of a longstanding literature on state-IOC relations, the OBM literature, while also showing some of its most important limitations. Various crucial material variables, both exogenous to the domestic industry and endogenous to it, have been shown to be relevant. Investment cycle/industry maturity, oil prices, concentration of the industry and quality/quantity of a country's crude endowments are variables that proved to be important throughout the history of state treatment of foreign investment. As this research illustrates, the rational actor model assumes two preconceived unitary actors, a host state and a foreign multinational that bargain based on material incentives. These assumptions, however, fail to recognize the internal heterogeneity of these actors. My analysis demonstrates the need to include how host state behavior can be influenced in new ways by distinct kinds of IOCs—state-owned IOCs, or SOEs—which have become prevalent in recent years due to the changes in the global economy and the global energy market. In my framework, I go further to suggest the need to examine how diverse social groups use ideas to impact state behavior and its treatment of foreign investment. State behavior can even be contradictory because of internal ideological contestations. Building on these ideological contestations, I argue that states do not always respond to exclusively material incentives but are also endowed with ideational motivations, which are subject to change and are often the result of domestic and transnational disputes. In the case of oil, the social purpose of natural resource wealth is an important component of national identities, having strong implications for state and societal attitudes toward capital and natural resource governance. Distinct ideas around socialism, development, and liberalism often work in favor of different forms of association with foreign capital.

In sum, the main arguments that this thesis makes are the following. In the 1970s, both Venezuela and Ecuador managed to significantly change the terms of rents appropriation. In the Venezuelan case, it was the result of a long process of learning. Since 1948, the Venezuelan state had appropriated at least 50% of the industry's profit through high royalties and corporate taxes.

Moreover, both countries aimed at taking over IOCs' assets. In Venezuela, this translated into full nationalization in 1976 and in Ecuador it meant acquiring at least 51% of the main producing consortium's assets. In this period, the variables stemming from OBM can largely explain the shift in Venezuela's bargaining power: large sunk costs, high oil prices, increased state technical capacity, and a concentrated industry. These variables were important in Ecuador, but the shift in the bargaining power, demonstrated in the state's increasing regulatory capacity, prompted Gulf Corporation to seek its own expropriation, aiming at state compensation. The shift toward the state's stringent treatment of foreign investment was also motivated in both cases by the consolidation of a set of ideas and norms that had international repercussions (the creation of OPEC, for example), and fed from transnational sources (ECLAC's structuralism and the NIEO movement). These ideas were an important source of inspiration for the Ecuadorian military in their dealing with Texaco-Gulf. Internal ideological contestations shaped arrangements in both countries and showed important cleavages that tend to be overlooked. In Ecuador, for example, the military was less unified around nationalization of the Gulf Corporation than existing scholarship has suggested. In Venezuela, a split among nationalist factions emerged in the 1940s and had crucial implications in the development of oil policy in the 1970s and thereafter.

During the 1980s and 1990s, both countries became increasingly open to foreign investment. In the Venezuelan case, oil opening was the result of a largely unrecognized agent in the OBM literature: NOCs. As analyzed in chapter 4, after nationalization, state-firm bargaining was basically internalized and a new bargaining dynamic emerged between the state and its NOC, PDVSA. The oil opening was largely a consequence of PDVSA's plans borne out of and aimed at expanding its own autonomy. The main ideational driver of the opening in Venezuela was not necessarily the pursuit of neoliberalism as a dominant ideology imposed by state institutions, but rather the subjective identity of PDVSA's managers who saw the company mainly as an oil producer, with a distinct set of interests, that differed from those of the state. In Ecuador, on the other hand, neoliberalism was endorsed by a political elite in strained economic circumstances. Opening to oil investment was considered an integral component of neoliberal restructuring, as it provided much-needed foreign exchange for debt repayment. Internal ideological contestations and resistance grew in Ecuador, but remained mostly outside the institutional realm, in the form of social activism. Meanwhile, in Venezuela, those tensions were present in state structures through different party interests. In both countries, the content of the new contracts of association was affected by the fact that they initiated a new investment cycle in the context of a low oil price, further benefitting investors. Similarly, the expansion of the resource frontier to marginal camps and unconventional crudes increased states' dependence on foreign companies' technology and capital.

In the 2000s, the governments of the new left in Venezuela and Ecuador tried to redress the opening of their oil sector. But their policies did not mirror those of the 1970s. Unlike the 1970s, when resource nationalism was equated with the nationalization or state takeover of the oil industry in many producing countries, resource nationalism was seen as still compatible with foreign investment in the 2000s. State agents changed the terms of the contracts with foreign companies, pursuing a hybrid model consisting of more control and continued reliance on investments. In this period, state officials had the incentive to shift the bargain as many investors' costs had been sunk from the 1990s openings and as oil prices skyrocketed. The terms of the shifts were largely determined by the contours of internal contestations, as in the case of Venezuela between the government and PDVSA, where contrasting ideas mobilized different factions of the state until the government assured control over the company. Bold political agendas of social transformation inspired these governments to seek these changes. In the case of Venezuela, a new form of socialism, based on oil rents distribution was upheld. In Ecuador, state-led developmentalism was advanced. In both cases, reliance on foreign investment was crucial for the procurement of these agendas. Yet, the continued exploitation of unconventional crudes and the rise of new market actors contributed to the hybrid nature of state treatment of investments. In this case, Chinese companies became important sources of investment for both countries. Moreover, Chinese financial institutions such as the CDB became major providers of development cooperation and lending, which other market and multilateral agencies were not similarly willing to offer. The decisions of Venezuela and Ecuador to pursue drastic changes in their form of association, when faced with resistance from traditional IOCs, found willing new investors from the Chinese SOEs.[723] Many of these SOEs increased their presence in Venezuela

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[723] Escribano, "Ecuador's Energy Policy Mix: Development versus Conservation and Nationalism with Chinese Loans"; Fontaine, "The Effects of Governance Modes on the Energy Matrix of Andean Countries"; Robert Evan Ellis, *China in Latin America: The Whats and Wherefores*, vol. 46 (Lynne Rienner Publishers Boulder, Colo, 2009).

and Ecuador, taking over assets from companies that rejected the new deals the governments imposed.

Taken together, the contributions of this dissertation demonstrate that even in the presence of similar material motivations and bargaining conditions, different ideological disputes can impact states differently in their treatment of foreign companies. The ideological contestations between the Venezuelan state and its NOC carry a much heavier weight in the government's considerations of its treatment of foreign investments. Meanwhile, for Correa's Ecuador, the history of 'give away' conditioned its crafting of new oil contracts. Moreover, important differences in the material variables affecting the bargaining conditions of each country produce varied impacts in a new arrangement. Venezuela's significantly larger crude reserve endowments represent an advantage in comparison with Ecuador, which gives the Bolivarian political elite the possibility to take bolder moves while paying a relatively lower cost. Even despite Ecuador's radical changes of contracts, the burdens and costs of companies were not dramatically altered in the current era, as they were in Venezuela. Similarly, each set of state officials interpreted material conditions in different ways. For Ecuador, the context of high oil prices seemed to be constant after 2010, when they decided to negotiate service contracts with a fixed fee for the next 15 years. In Venezuela, government officials' desire to keep PDVSA under control contributed to their offering of assets under joint ventures to foreign companies, something that nationalists and important sectors of society vehemently opposed in the 1970s.

9.2 Contributions to the advancement of knowledge: international politics and global governance

This work is inscribed in the tradition of IPE, a multidisciplinary endeavor that sits at the intersection of politics, economics, international relations and other currents of knowledge.[724] It embraces a wide range of methods and traditions that have been and continue to be a global

[724] Benjamin J. Cohen, *International Political Economy: An Intellectual History* (Princeton: Princeton University Press, 2008); Robert Cox, "The 'British School' in the Global Context," *New Political Economy* 14, no. 3 (2009): 315; Nicola Phillips and Catherine Weaver, *International Political Economy: Debating the Past, Present, and Future* (New York, NY: Routledge, 2011).

conversation.[725] By focusing on the political economy evolution of two Latin American states' treatment of foreign investment in the oil sector, it contributes to an enduring tradition of scholarship that seeks to place Latin American contributions to IPE and development thinking and practice front and center of these discussions.[726] In fact, Latin America has been for long a region of the world where treatment of foreign investment has been the subject of intense experimentation.[727] Venezuela's and Ecuador's debates about how to associate with foreign investors in their oil sector to reap higher benefits for the state are concomitant with intellectual and political discussions in the region that various historical figures have had about the need to enhance certain kinds of investment for the benefit of society.

As mentioned in chapter 2, OBM has been used as the main approach to explain shifting state-company relations. This work provides several contributions to the wealth of literature on this subject. It provides a political economy lens from which to expand on the state-foreign capital link beyond important material considerations affecting state-company bargaining, as current manifestations of the literature have stressed. Generally speaking, my framework contributes to incorporating new considerations in the OBM debates. Considering changes in the global energy market, this work suggests the need to expand the theory's view of industry concentration to include new forms of IOCs. In addition, this work critiques the notion of unitary actors and rational behavior in OBM models. It demonstrates that, while most actors may seek to extract higher rents from the oil business, there may be different interpretations as to how to achieve this within the state. At times, different actors dispute the legitimate role to exercise regulation and extract benefits from the business. This was the case of PDVSA in Venezuela, which in the

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725 Eric Helleiner, "Globalising the Classical Foundations of IPE Thought *," *Contexto Internacional* 37, no. 3 (2015): 975–1010; Diana Tussie and Pia Riggirozzi, "A Global Conversation: Rethinking IPE in Post-Hegemonic Scenarios *," *Contexto Internacional* 37, no. 3 (2015): 1041–68.

726 Helleiner, "Globalising the Classical Foundations of IPE Thought *"; Tussie and Riggirozzi, "A Global Conversation."

727 Early discussions about foreign investment include Haya de la Torre's ideas on control over foreign investment which sprung in the late 1920s. He advocated for the pursuit of regional coordinated efforts in this regard: Victor Raúl Haya De La Torre, "El Antimperialismo Y El APRA," *Santiago: Ercilla*, 1936. Haya was not alone in these debates, others such as José Battle y Ordoñez, Uruguayan president in the early twentieth century, promoted the nationalization of public entities. As has been mentioned, many of these concerns were taken up by major figures of Venezuela's resource nationalism, namely Rómulo Betancourt and Juan Pablo Pérez Alfonso, but also Marxist intellectuals such as Salvador de la Plaza. See: Rómulo Betancourt, *Venezuela, Política Y Petróleo*, vol. Tomo 1 (Editorial Alfa, 2013); Juan Pablo Pérez Alfonzo, *Hundiéndonos En El Excremento Del Diablo* (Caracas: Banco Central de Venezuela, 2011); Salvador de la Plaza, *Estructuras de Integración Nacional* (Caracas: Editora San José, 1973).

1990s, sought ways to replace the Ministry of Energy and Mines as regulator of the industry and openly challenged the President's oil policy goals. PDVSA went further to replace the long-lasting state priority of rent maximization for the goal of increasing production. Inserting the role of NOCs in the bargaining discussions represents a critical contribution. Furthermore, in Ecuador, organized Indigenous groups and environmental activists impacted state policy to the extent that the constitution has granted rights to nature. These rights translated for some time in the current Ecuadorian government into a policy to curb further oil extraction. While this proposal was short-lived, its mere enunciation and actual temporary implementation radically questions the assumption that rational behavior necessarily translates into higher rent capture and therefore higher and more efficient extraction.

By adopting and modifying the politics of bargaining insights, this research also offers a nuanced reading of natural resource governance that details different gradations of regulation. The image of the bargain has been useful to showcase different processes, choices and forms of association that can take place beyond nationalization and liberalization, often seen in the literature as exclusive, and irreconcilable extremes.[728] For example, much of the contemporary literature on the 1970s in Ecuador assumes that the military 'nationalized oil'. While state treatment of foreign investment was indeed stringent, my research shows the contentious nature of the reforms and the limits the government faced in attaining its ultimate goals. Likewise, revolutionary resource nationalism in the current era takes hybrid forms that respond to specific bargaining outcomes and do not necessarily conform to the nationalization versus liberalization pendulum.

Constructivist scholarship in international relations and international political economy has become a reference point encompassing ideational approaches to international politics. The notion of economic nationalism as an ideational device that can in fact coexist with global forces and interests has been explored in constructivist IPE literature.[729] Focusing on the state, I

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[728] Colgan, "Oil, Domestic Politics, and International Conflict"; Jeff D. Colgan, Robert O. Keohane, and Thijs Van de Graaf, "Punctuated Equilibrium in the Energy Regime Complex," *The Review of International Organizations* 7, no. 2 (2012): 117–43.

[729] Rawi Abdelal, Mark Blyth, and Craig Parsons, *Constructing the International Economy* (Cornell University Press, 2015); George T. Crane, "Economic Nationalism: Bringing the Nation Back in," *Millennium-Journal of*

integrated constructivist insights, giving prevalence to the meaning of ideas held by powerful actors and how these meanings affect their motivations in relation to oil investments. Dominant ideas may initiate from state officials or can travel from and to transnational sites based on widely held consensus on major paradigms such as development or liberalization.[730] Moreover, I have shown how peripheral states can help shape international norms, as in the case of the Petroleum Pentagon and Venezuela's thresholds of rent capture in other landlord states. Dominant ideas with respect to national development guided state action for much of the twentieth century. Notions such as 'sowing the oil' became a consensus around industrialization through rent capture in Venezuela. In Ecuador today transforming the country's 'productive matrix' gives meaning to policies of industrialization and innovation that underpin state-led development.

Similarly, political ecology and political geography literatures have for some time depicted the imaginaries and alternative forms of rationalities regarding resource governance as constitutive of the conflicts around extraction.[731] Uncovering the role of subjectivity is crucial for comprehending the position of certain social actors, as understood by post-structuralist constructivist scholars. I integrate insights from both constructivism and political ecology building on the struggles of different actors and their power relations in explaining state action. In this way, it is possible to conceive of ideological contestations between the state and its own company. PDVSA's self-image corresponded for quite some time with that of a large oil producer rather than a national agent of a landlord state. As discussed in the case of Ecuador in particular, contestations around development and liberalism can be expressed through on-the-ground disputes and identities that have for a long time remained at the margins. In sum, ideas

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International Studies 27, no. 1 (1998): 55–75; Eric Helleiner and Andreas Pickel, *Economic Nationalism in a Globalizing World*, Cornell Studies in Political Economy (Ithaca, NY: Cornell University Press, 2005).

[730] Amitav Acharya, "Who Are the Norm Makers? The Asian-African Conference in Bandung and the Evolution of Norms," *Global Governance: A Review of Multilateralism and International Organizations* 20, no. 3 (July 1, 2014): 405–17, doi:10.5555/1075-2846-20.3.405; Amitav Acharya, "'Idea-Shift': How Ideas from the Rest Are Reshaping Global Order," *Third World Quarterly* 37, no. 7 (July 2, 2016): 1156–70, doi:10.1080/01436597.2016.1154433; Eric Helleiner, *Forgotten Foundations of Bretton Woods: International Development and the Making of the Postwar Order* (Ithaca, New York: Cornell University Press, 2014).

[731] Bebbington and Bury, *Subterranean Struggles*; Perreault and Valdivia, "Hydrocarbons, Popular Protest and National Imaginaries"; Kohl and Farthing, "Material Constraints to Popular Imaginaries"; Bebbington and Humphreys Bebbington, "An Andean Avatar"; Tom Perreault, "Nature and Nation: Hydrocarbons, Governance, and the Territorial Logics of 'Resource Nationalism' in Bolivia," in *Subterranean Struggles: New Dynamics of Mining, Oil and Gas in Latin America*, ed. Anthony Bebbington and Jeffrey Bury (Austin, Texas: University of Texas Press, 2013).

have played important roles in the shifting of state treatment of foreign investment. The way the state conceptualized sovereignty over natural resources in Ecuador during the Correa government translated into the signing of service contracts as opposed to other forms of association. In Venezuela, the ideal of socialism and how to achieve control over the main source of wealth in the country prompted state officials to ally with foreign investors to bypass national technocrats and keep PDVSA under strict control.

Bridging together these approaches provides a critical contribution to broad discussions in political science and global governance about the tensions between rationalist and ideational approaches. In fact, as demonstrated herein, they can complement one another, as the tension between structure and agency are often intertwined and embedded in social mechanisms such as negotiations or bargains, mobilizations, and trans-border flows in the oil industry. The struggles waged between various set of actors necessarily include ideational and material considerations, and these considerations evolve through time. States and state officials represent the interests of diverse nations with different groups struggling to seize benefits, both material and symbolic, from state and market structures. States are also constrained by subsoil endowments, despite their ability and agency to change the arrangements with foreign investors.

The bridging of material and ideational constraints and motivations further illuminates contributions in the global governance debates around the issue of diffusion of power. As mentioned in chapter 1, much discussion in global governance literature has centered on the questions of who governs in the global era and through what means do they do so.[732] The notion that authority has been decentered away from the state to other mechanisms, networks and actors remains widely debated.[733] Nevertheless, the coexistence of public and private authority has evolved in ways that need not be contradictory. My work shows that national and global interests can be enhanced through hybrid policies that seek to simultaneously assert control and welcome foreign actors. The state appears in this case as a global actor, both carving out spaces within its

[732] Deborah D. Avant, Martha Finnemore, and Susan K. Sell, *Who Governs the Globe?*, Cambridge Studies in International Relations ; 114 (Cambridge, UK ; New York: Cambridge University Press, 2010).
[733] Strange, *States and Markets*; Saskia Sassen, *Sociology of Globalization*, 1st ed., Contemporary Societies (New York: WWNorton, 2007); Philip Cerny, “The Competition State Today: From Raison d’Etat to Raison Du Monde,” *Policy Studies* 31, no. 1 (2010): 5–21, doi:10.1080/01442870903052801.

territory to enhance global alliances and also as a market actor, through SOEs, that competes with traditional IOCs.

The current hybrid models of state treatment of foreign investment show an emerging mode of energy governance attuned with the rise of a new form of state capitalism after the global financial crisis.[734] The rise of new powers not only offered new life to state-led governance and development strategies but it also strengthened state forces in the international energy market.[735] Nevertheless, the coming of age of new technologies in oil drilling also shows the strength of market power and the centrality of technological innovation that has already affected many oil producers and oil dependent and 'contender' states.[736] The shifting conditions of extraction display complex arrangements of winners and losers that change over time. National states, foreign companies and varied other constituencies will continue to struggle over access to the benefits and exposure to the impacts, however broadly defined, that emerge from the exploitation of this highly politicized resource in the context of volatile markets.

This analysis shows important differences in the political economy agendas embedded in the Venezuelan and Ecuadorian experiments, which tend to be grouped together as part of the same 'camp' of the South American left, blurring their distinctiveness. While the neo-extractivism literature highlights the extractive imperative of the new left as a legitimizing mechanism, it obscures the different development and political projects that are at stake. Venezuela's rentier model of socialism has been centered on exercising political control over various constituencies. It has established a set of command and control policies, while maintaining a hybrid model that controls and welcomes foreign investment. As this work demonstrates, however, a model characterized as rentier socialism is only possible in Venezuela due to the vast crude reserves it possesses. In Ecuador, on the other hand, precisely because of its political elite's awareness of the country's limited oil reserves, the political economy agenda is focused on a new form of developmentalism. This renewed developmentalism is concerned with the transformation of the

[734] van Apeldoorn, de Graaff, and Overbeek, "The Reconfiguration of the Global State–Capital Nexus."
[735] Nana De Graaff, "A Global Energy Network? The Expansion and Integration of Non-Triad National Oil Companies," *Global Networks* 11, no. 2 (2011): 262–83.
[736] Emma Lee, "Fracking into the Future of Petro-Market Civilization," in *Energy, Capitalism and World Order*, ed. Tim Di Muzio and Jesse Salah Ovadia (Palgrave Macmillan, 2016).

country's 'productive matrix'. In this case, the government hopes to transcend its dependence on oil by temporarily deepening its extractive activities, while investing in new technologies and advancing bold industrial policies.

This research brings in an historical perspective that calls into question some of the novelties that are generally ascribed to these processes. When compared to the 1990s, Venezuela and Ecuador seem to follow a more nationalist stance in their treatment of foreign investment. But if we look at a broader historical horizon, it is clear that contemporary resource nationalists are less stringent than other resource nationalist governments were in the past, and specifically, in the 1970s. In other words, both the governments of Chávez and Correa did not aim at full nationalization of their oil industry as their 1970s counterparts did.

According to current narratives that explain the left turn in the region, these governments use resource extraction as a means to extract higher benefits from the export of commodities and use the funds derived from such exports to legitimize their political projects. The neo-extractivism theses highlight, however, that there are still pernicious consequences of resource extraction in the social and environmental makeup of South American countries.[737] They suggest that the confluence of enhancing extraction and redistribution is a rather new process; hence they apply the 'neo' label to the extractivist character of these regimes. The historical perspective allows an understanding that reliance on resource extraction has been a common feature of the many South American countries' political economy since colonial times. This is true of Venezuela and Ecuador, and in the case of oil, the new left certainly did not bring reliance on resource extraction for the first time to their countries' political and economic structures. Similarly, attempts at extracting higher benefits from the industry for the purpose of redistribution have been state goals for a long time.

By providing a detailed historical analysis, this research shows the continued reliance on resource extraction and the fluctuating linkages with foreign investment beyond a functionalist lens. The deepening of extractivism in the current juncture has also been influenced by higher commodity prices and the presence of new actors in the global economy, namely China, its

[737] Gudynas, "Natural Resource Nationalisms and the Compensatory State in Progressive South America."

SOEs, and its financial institutions. Both Venezuela and Ecuador have taken advantage of these changes but they have incorporated these new actors into longstanding dynamics of extraction and association that date to the beginning of the twentieth century.

9.3. New research avenues

The analysis advanced here proposed to examine the evolution of state policy toward foreign investment in two oil-exporting countries in South America. Despite their apparent similarities in terms of wider political views, they differ in terms of their history with oil, and in terms of their resource endowments as well as internal social makeup. The flexibility between the two cases studied here suggests the potential applicability of the framework to other countries in and beyond the region. Exploring new cases could help strengthen the explanatory potential of this framework and uncover country-specific as well as transnational dynamics. In Latin America, the cases of Mexico and Bolivia are particularly salient, since they are the first nationalizers of the region. Bolivia, on the one hand, has a long tradition of social activism around gas and mining together with contentions surrounding national imaginaries and foreign intervention. Mexico, on the other hand, has for a long time remained closed to foreign investment in its oil sector, despite having advanced some of the deepest neoliberal reforms in the region. Cross-regional analyses and sub-national contexts, as in the case of federal states, can yield fruitful similarities and differences.[738]

My prime interest has centered on the interface of states and foreign investment in oil extraction. A close look at the changes in the political economy of extraction in recent years shows the expansion of new frontiers in other underground minerals, which may pose different challenges to this interface. Venezuela and Ecuador are also examples where mining has taken root as an economic activity in which the state relies heavily on foreign investment and where social activism is increasingly opposed to grand scale mining operations.[739] But the integration of

[738] A useful exercise in that regard has been developed in a recent edited volume. See: Paul Haslam and Pablo Heidrich, eds., *The Political Economy of Natural Resources and Development: From Neoliberalism to Resource Nationalism* (New York, NY: Routledge, 2016).
[739] Olivares Francisco, "Arco Minero Y Ambiente," *El Universal*, April 3, 2016, http://www.eluniversal.com/noticias/economia/arco-minero-ambiente_247568; Bebbington and Bury, *Subterranean Struggles*; Jennifer Moore and Teresa Velázquez, "Water for Gold: Onfronting State and Corporte Mining

bargaining models and ideational approaches can potentially apply to other extractive resources and other regions of the world as well.

In analyzing the expansion of resource frontiers, an important avenue of work for IPE scholars and political scientists more generally, is a holistic elaboration of China's power in these developments. China's growing foreign investments and its increasingly prominent role in global governance mechanisms have attracted much attention thus far. Yet, the study of the conditions and relations regarding Chinese investments and interests in the extractive sector world-wide may also render important contributions to understand how this rising power sees its global role. The links between extraction and development finance requires potentially new conceptualizations around dependency and imperialism but also bargaining models, hegemonic stability and global financial markets.

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