

How Oil Giant's Technicians Turned Into Revolutionaries

State-Owned Petroleum Firm Holds Out In
Venezuela Strike, Jeopardizing Its Future

By Alexei Barrionuevo Staff Reporter of The Wall Street Journal
Feb. 10, 2003

VALENCIA, Venezuela -- For 30 years, Rogelio Lozada was the sort of dedicated engineer who made Petróleos de Venezuela SA one of the best-run companies in Latin America.

But in recent weeks, Mr. Lozada, the manager of the oil company's El Palito refinery near here, has taken on a new mission: ousting President Hugo Chavez. Like thousands of his colleagues, the 55-year-old engineer fears Mr. Chavez is dragging Venezuela toward a Cuba-style dictatorship and in the process tearing the state-owned oil company apart.

PdVSA now stands virtually alone in maintaining what began two months ago as a general strike against the president. The businesses and

schools that struck to protest Mr. Chavez's increasingly authoritarian regime have ended the action in the hope of some broad political gain. But workers and management at PdVSA don't expect that any trade-off from the current regime will preserve their company.

President Chavez has pledged to funnel more of PdVSA's revenue to the poor and assert control of the company. He has fired about 9,000 of its 40,000 workers in the past two months -- more than 3,000 in a surge of layoffs this past week. Mr. Chavez has gone through five company presidents in four years and replaced nine of the 11 board members with his own people. He has installed security officials who, according to Mr. Lozada and others, are there mainly to harass Chavez opponents and root out disloyalty.

The standoff will have lasting impact no matter when or how the strike ends. The transformation of Mr. Lozada and many of his colleagues from dutiful technicians into antigovernment activists may make it hard for PdVSA to return to its former role as the world's fourth-largest oil company. That could further damage Venezuela's crippled economy and add to concerns, stoked by the threat of a war in Iraq, about rising energy prices. U.S. oil prices, which rose to \$35.12 a barrel on Friday, are up about \$8 since the strike began.

PdVSA's oil production, still only about half of pre-strike levels, is creeping up steadily. The country depends on PdVSA, which had revenue of \$46.3 billion in 2001, for almost 30% of its gross domestic product and nearly half of fiscal revenue. Venezuela supplies 4% of the world's oil and about 15% of U.S. imports of crude oil and other products.

Mr. Chavez, a cashiered army officer who led a failed coup in 1992 before winning election in 1998, has polarized the country since assuming office. He used his election campaign to decry PdVSA -- pronounced pay-day-VAY-za -- believing that its 1976 nationalization took the company away from foreign oil companies only to hand it over to the Venezuelan elite. He attacked its then-president, Luis Giusti, as the poster child for a "gold-card culture" at the company.

It was a line that resonated with the poor. Spectacular oil booms in the 1970s and 1980s left Venezuela awash in petrodollars and set off legendary spending sprees. The shiny skyscrapers and modern subway system in the capital city of Caracas are monuments to that era. But there was constant bickering over how to distribute the wealth, with the poor complaining bitterly that they weren't getting their share.

It didn't help that PdVSA retained its old private-sector culture after nationalization. Unlike many state-owned entities, profitability was more

important than patronage. The company until recently was among the most efficient oil companies in the world. From 1998 to 2000 PdVSA had average costs of \$3 per barrel, better than any international oil firm. With 40,000 employees producing three million barrels of oil a day, PdVSA was streamlined compared with Petróleos Mexicanos, Mexico's state-owned oil company, which has some 139,000 employees and produces about 3.6 million barrels a day.

Company Perks

With profits came perks. Blue-collar employees sent their children to special PdVSA schools. They shopped in special PdVSA commissaries where food is cheaper. Managers unwound at company-owned chalets in the Andes or at beach houses near the tourist resort of Puerto la Cruz.

"PdVSA employees didn't just receive a job," says Mr. Giusti, who ran the company from 1994 to 1999, and was once discussed as a candidate for president of the country. "It was a way of life."

Last month Energy and Mines Minister Rafael Ramirez said PdVSA's high cost structure -- for salaries, benefits and administrative overhead -- has resulted in a "tremendous reduction of the income" for the state.

Mr. Lozada and others concede that PdVSA's bureaucracy has become more unwieldy in the past few years. But they say Mr. Chavez has also added to the company's costs. The government in 2001 nearly doubled the royalties it takes for every barrel of oil, to 30% from 16%. Mr. Chavez says he has redirected most of this money to programs intended to alleviate poverty. Twice during his four years in office the president has approved salary increases for PdVSA unionized workers -- including a 30% pay raise last fall -- to buy loyalty and prevent more labor strife. And the government has used the oil company's superior credit rating to borrow money, which PdVSA then pays back to the government treasury in the form of dividends.

Once in office, Mr. Chavez made it clear that the PdVSA way of life was over. Mr. Giusti, certain that he would be fired under the new administration, resigned and went into exile in the U.S. Mr. Chavez installed Roberto Mandini, an experienced technocrat, and laid plans to funnel more of PdVSA revenue to programs to help the poor.

Mr. Chavez also installed Gustavo Perez as head of PdVSA's losses-and-control department -- essentially an internal police force. A former lieutenant colonel who graduated with Mr. Chavez from the army's military academy and then served in the failed 1992 coup, Mr. Perez let it be known that he was sniffing around for corrupt company officials. But many viewed that as a cover for his real role: rooting out potential

enemies of President Chavez. Most of his team had military or other training in undercover work, according to Guaicaipuro Lameda, an army general who took over as PdVSA president in late 2000 and has since been replaced.

"His mission was clear," says Mr. Lameda. "He was there to dismantle the internal leadership of PdVSA."

Dozens of Investigations

Mr. Perez, who didn't respond to requests for interviews, launched dozens of investigations of PdVSA executives. He used PdVSA's technology and resources to probe bank accounts, review contracts and spy on executives' personal lives to root out embarrassing dirt. He avoided confrontation, preferring to pressure executives with subtle threats, say people who were there.

In December 2000, just weeks after Mr. Lameda took over as the company's president, Mr. Perez showed him photographs taken at a nightclub of a younger woman kissing Mr. Lameda on the cheek. Mr. Perez suggested to Mr. Lameda that it wouldn't be good for the company's reputation -- or his career -- if it got out that the president was having an affair. The woman, it turned out, was Mr. Lameda's niece. He stayed, but some 200 executives left PdVSA in the first two years of Mr.

Chavez's regime rather than face the scrutiny of Mr. Perez, according to several striking PdVSA executives and former board members.

In late February of 2002, Mr. Chavez forced out Mr. Lameda, replacing him with a leftist university professor. This was also when Mr. Chavez replaced nine of 11 members of the PdVSA board with people picked more for their left-leaning ideals and loyalty to Mr. Chavez than for their oil-industry experience.

For Mr. Lozada, the El Palito manager, that was the breaking point. Days after PdVSA executives in Caracas began denouncing Mr. Lameda's ouster and the other board replacements, Mr. Lozada took up the cause. He railed against the government on television and radio, and led demonstrations near the plant, one of five PdVSA refineries in Venezuela.

Mr. Lozada grew up in Puerto la Cruz, where he helped his father sell shoes from the family shoe shop and fruits from a small farm. His father worked hard to give all seven of his children a college education. They rewarded him by all becoming professionals. The younger Mr. Lozada worked his way through management posts at several of Venezuela's refineries, landing at El Palito four years ago. He makes a comfortable living, with a salary around \$65,000 a year. He and his wife, Alicia, take

occasional vacations to Miami and Spain, and both drive pricey sport-utility vehicles.

Mr. Lozada's public appearances after the board replacements caught the attention of the government. In March, after he and some other managers participated in a local radio show criticizing the government, the local representative of the losses-and-control department circulated an e-mail message to employees. It included pictures of the managers leaving the radio station and was meant to show that PdVSA's fight was politically motivated and not about preserving the company's merit-based traditions for management. But the e-mail backfired, according to Mr. Lozada, generating a feeling of solidarity and respect for refinery managers.

Then on April 5, Mr. Lozada arrived at work and found his computer entry card to the plant and his cellphone had been turned off by PdVSA's security team. National Guard troops arrived to take control of the plant. Mr. Lozada directed a shutdown of the refinery, transforming El Palito into a symbol of resistance and inspiring other oil workers to take bold action. He was suspended.

For several days after that, Mr. Lozada says, the government's political police began following him on the streets in jeeps and motorcycles. They showed up at the entrance to his apartment building. On April 10, Mr. Lozada says a government police car tried to run him off the road

and one of the officers pointed a gun at him. Carabobo state police intervened. "Because the Carabobo police was there, he didn't shoot," Mr. Lozada says. Humberto Seijas, the secretary of public security in Carabobo, confirmed the incident. Mr. Lozada says he and his wife began sleeping somewhere new every night, sometimes in the homes of friends, other nights in hotels.

A week after the April 5 shutdown, Mr. Chavez survived a coup attempt. On the advice of the PdVSA board, he granted amnesty to Mr. Lozada and other fired oil-company activists, and workers resumed operations on April 15. Around this time, Ali Rodriguez, a former leftist guerrilla who previously served as oil minister, took over as PdVSA's president.

Late last November, 2,500 PdVSA managers signed a petition demanding the resignation of Mr. Perez, the internal policeman. Nothing came of it. But on Monday Dec. 2, the general strike was launched. A few days later, many of El Palito's operators abandoned their posts. President Chavez ordered National Guard troops to seize control of the plant. Some 300 soldiers surrounded the plant and wouldn't let operators leave, even after some were on the job for 30 hours or more.

By Saturday, shift superintendent Romulo Chirinos had been working for 31 hours when he called his supervisor Luis Cuauero at home, begging for relief, according to both men. "Boss, what do I do?" Mr.

Chirinos sobbed to Mr. Cuauro. "When are they going to get us out of here?" Mr. Rodriguez eventually agreed to let Mr. Lozada and his crew shut down the plant.

Since then the government has tried in vain to restart the plant, a crucial supplier of gasoline to the central part of the country, including a key industrial zone in Valencia that is home to local operations of DaimlerChrysler AG , Coca-Cola Co. , DuPont and other multinational firms. Over the weekend Mr. Ramirez, the energy minister, responding to the reappearance of huge gasoline lines in Caracas, declared in a public statement that the government would reactivate El Palito by month's end and resolve the nation's gasoline shortages. To try to restart the plant, the government has hired retired workers and local volunteers. It has replaced Mr. Lozada as the plant's general manager with a former maintenance superintendent named Astrubel Chavez, who is a cousin of President Chavez. Astrubel Chavez didn't make himself available for interviews and has generally avoided the media. Mr. Rodriguez says the government will begin importing refining specialists from around the world, if necessary.

On a recent Sunday hundreds of men waited outside the plant gate hoping to get contract jobs. National Guard officers busily jotted down names and did quick group interviews. Inside the plant's administration building, confusion reigned and security was lax.

Every day Mr. Lozada struggles to keep up morale. Daily strike briefings have taken on a religious fervor. At one recent meeting of middle managers in Valencia, some 400 strikers proudly wore their PdVSA ID tags on their shirts. They cheered and blew whistles when Mr. Lozada took the microphone. He told workers to "stay on message," drew laughs by mocking government claims that El Palito is up and running and ended by shouting, "Not one step back!" the strikers' mantra.

Despite the enthusiasm, the oil strikers are cagey on the question of how long they can hold out. Strike leaders tell the throng that doctors and pharmacies are offering free medicine and services on a "pay when you can" basis. A table just outside the auditorium collects donations for a local fund that opposition leaders claim, without elaboration, can hold out for weeks, perhaps months.

-- *Marc Lifsher in Caracas contributed to this article.*