

Investors tremble as Chávez enters term 2

Venezuelan President Hugo Chávez's inauguration today could provide another glimpse of the future of his "21st Century Socialism."

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Business people and investors in Venezuela and abroad are preparing for another splash of cold water today as Venezuelan President Hugo Chávez is sworn in for a new term, following a startling push further to the left.

Chávez on Monday promised to accelerate his vision of "21st Century Socialism" not only by nationalizing his country's power and telecommunications companies but by taking full control of the central bank and several privately run refineries. He also will seek special powers from congress to rule by decree.

U.S. officials slammed Chávez's plans on Tuesday and demanded that U.S. firms be properly compensated.

Details about what comes next are expected today when Chávez starts his second six-year-term, even as private business interests are toweling off after Monday's speech.

"People are in a state of shock," said Roberto Bottome, who publishes the *VenEconomía* newsletter. "It was expected to radicalize . . . but this has caught everyone by surprise."

Chávez's actions drew the immediate rebuke of Florida Republican Rep. Connie Mack, an outspoken critic.

"By moving to nationalize key economic sectors, coupled with his continued crackdown on freedom, Chávez is working every day to emulate his mentor, Fidel Castro," Mack said.

The Bush administration condemned Chávez's moves as well.

'INGLORIOUS HISTORY'

"Nationalization has a long and inglorious history of failure around the world," White House Press Secretary Tony Snow said. "We support the Venezuelan people and think this is an unhappy day for them."

The administration avoided a broader critique of the Venezuelan president Tuesday. U.S. officials have accused Chávez of undermining democracy at home and other parts of Latin America. Lately, however, the administration has tried to enter into a dialogue with Caracas.

At least two U.S. companies will be hit by Chávez's decision: AES Corp., an Arlington, Va., firm that operates a Caracas electric utility, and Verizon, which owns almost a third of Venezuela's telecommunications company, CANTV.

In 1991, the Venezuelan government sold CANTV to Verizon for \$1.8 billion amid a wave of privatizations that swept Latin America. As part of its strategy to divest its Latin American holdings, Verizon last April announced it would sell its CANTV stake to Mexican phone giant Telmex in a \$3.7 billion deal that included assets in Puerto Rico and the Dominican Republic.

It was unclear how Monday's announcement will affect the transaction, which was awaiting approval by Venezuelan regulatory authorities.

SHARE PRICE FALLS

CANTV, which traded at nearly \$20 a share before the Chávez speech, saw its price tumble almost 40 percent on Tuesday to just over \$12 a share. Shares of AES fell 4 percent.

The Venezuelan government has previously compensated firms for seized assets, but taking over big utility companies could strain even Venezuela's oil-rich pockets.

Gerver Torres, a former Venezuelan cabinet minister who played a role in the privatization of CANTV, estimates Verizon's stake in the company now at \$3.5 billion and the AES' Caracas electrical utility's worth at \$1.9 billion.

Chávez also hinted at taking over four oil fields, which Torres estimates could be worth as much as \$5 billion each.

As surprising as the announcements were for some, Chávez has been preparing for this moment for years. The former army paratrooper, who took part in a failed coup in 1992 before winning his first presidential election in 1998, has long been talking about stepping up his leftist policies.

Alberto Garrido, who has written several books on the president, says people should have expected his announcements on the nationalizations. Garrido says Chávez has been predicating this type of policy for years and that what is coming next is a socialist system that will resemble Cuba's, with certain Venezuelan idiosyncrasies.

PREDICTIONS

"The socialist revolution has arrived on the continent," Garrido said. "All the areas that are considered strategic will become part of the state, and the capitalist economy will be marginalized more and more every day."

Analysts said they didn't expect the full nationalization of the oil sector, since Chávez already has obtained majority state control over private oil fields and needs private investment to increase production in line with government projections.

Nevertheless, Garrido expects more details to emerge in today's speech about Chávez's new economic system, which he said will be based more on what the government calls "endogenous" zones -- self-sustaining industrial and agricultural bases -- and less on private industry.

"This has only just begun," Garrido added.

Since he took power in 1999, Chávez has slowly implemented new regulations concerning investment and foreign capital expansion. He has steadily reversed the government's decision to open up the oil industry to foreign multinationals in the 1990s, and seized "idle" farms and factories in order to favor workers and landless peasants.

Chávez also has sought to counter U.S. influence and economic projects in the region with his oil largesse and his considerable political charm. Indeed, the radical changes announced on Monday come amid a

shifting political landscape in Latin America, with the recent elections of leftist presidents in Ecuador, Nicaragua and Bolivia.

STOCKS DOWN

Despite Chávez's obvious drift to the left and his own pronouncements since his reelection by a landslide on Dec. 3 that socialism in Venezuela is "inevitable," his announcements on Monday still seemed to have caught the business community off guard. Panicked investors sent the main Caracas stock exchange IBC index down 19 percent, its biggest single-day decline since Bloomberg started tracking the exchange in 1993.

"People are very down," said Juan Carlos Zapata, the editor of the weekly newspaper Decifrado. "No one imagined this would happen so quickly."

But while some investors now seem to be moving fast to escape, others like Richard Francis, a credit analyst at Standard & Poor in New York, are prepared to wait and see.

"Is this really going to go communist?" he asked. "I don't think it's going in that direction."