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- [Mark Ames](#)
- [Yasha Levine](#)
- [Eileen Jones](#)
- [John Dolan](#)
- [eXile Classics](#)
- [Headlines](#)
- [About](#)
- [Search](#)



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[Freemarket Failures: Investors Prefer Doing Business With Hugo Chavez Over Billionaire Koch Brothers](#)

By [Yasha Levine](#)



You didn't hear this on Fox News or the Drudge Report, but on October 10 Venezuela seized and nationalized a massive fertilizer plant part-owned by Koch Industries. The media silence is a bit puzzling. You'd think the seizure of property belonging to America's second-largest private company, owned by one of the most powerful families in the country and the bankrollers of today's libertarian/Tea Party revolution—the billionaire brothers Charles and David Koch—would be considered newsworthy. But no, even though their Venezuela plant was nationalized a whole three months ago, other than a handful of short business-wire dispatches, this has yet to make the news. Even Koch Industries has been suspiciously silent on the matter.

One reason why the Kochs could be keeping the news under wraps is that the nationalization of the fertilizer plant may appear to be bad news for Charles and David Koch, but here's the big surprise: the Kochs made hundreds of millions on every end of this deal...and even more surprising, bond markets cheered the nationalization. In other words, the free markets championed by the Kochs gave a big thumbs-down to Kochs' negative influence on the value of the business, while at the same time, the free-market Kochs earned huge windfalls doing business with socialists. No wonder this story hasn't made the rounds.

Here's what happened: When Chavez's nationalization of the plant took Koch Industries out of the picture, bond investors responded by driving up the value of the company's bond debt by a whopping 33 percent. That means they had a lot more confidence that the debts would be paid back AFTER the free-market Kochs were out of the picture. As every business school flunky knows, price fluctuations of bonds are very much like those of stocks: the more they cost, the higher the confidence in a given company. And that means investors had less faith in the ability of the Kochs to run a tight business operation than they did in a bunch of Venezuelan socialist bureaucrats.

For a free-market family like the Kochs, such a big pro-nationalization thumbs up from the Invisible Hand isn't just bad PR, it's downright embarrassing.

Here's a dispatch filed by [United Arab Emirates-based Gulf Today](#) describing the nationalization:

#### **Koch Industries awaits Venezuela takeover**

October 18, 2010

CARACAS: Koch Industries said it had received no word that Venezuela nationalised Fertinitro, a large fertilizer maker in which the US-based group has a substantial stake.

Venezuela's President Hugo Chavez announced that the takeover of Fertinitro, one of the world's main producers of nitrogen fertilizer, days after vowing to radicalize his socialist "revolution" following legislative elections last month.

Koch has a 35 per cent stake in Fertinitro and Venezuelan state-run petrochemicals company Pequiven has 35 per cent. Saipem, a unit of Italy's Eni, holds 20 per cent and local brewer and food company Polar has the rest.

"Koch Fertilizer has not received any official or informal notice, nor have we received any notification from Fertinitro regarding any disruption," a Koch spokeswoman told Reuters by email. "We are attempting to obtain details and information."

What were true-believer libertarians like the Kochs doing running a fertilizer plant in Venezuela with two state-run companies, anyway? After all, Charles Koch's own Cato Institute brain trust has been writing for decades that government-owned enterprises are less efficient and productive than private companies. The answer is simple: they were there for the subsidies.

As I revealed last September, [the Kochs have a long history of tapping into socialist programs](#), despite their staunch libertarian rhetoric. Starting with their father, Frederick C. Koch, who amassed the family fortune [building up Soviet oil infrastructure in the 1930s during Stalin's first Five Year Plan](#), the family has been sucking on the big government teat for as long as they've been in business, using government subsidies to maximize their own profits, even while funding the libertarian movement and trying to deny government spending on anyone or anything else.

Here are just a few of Charles and David Koch's [socialist business deals and schemes from the past few decades](#): they enrolled their Matador Cattle operation in a New Deal program that allows ranchers to use federal land basically for free, log public forests for private gain and have taxpayers cover the operating costs, and routinely use the

government's power of eminent domain to forcibly seize private property on behalf of Koch Industries' various oil and gas pipeline subsidiaries, which stretch from Texas all the way up to the border with Canada.



**Fertinitro, where the Kochs come to get their welfare checks...**

Their venture in Venezuela followed the same old corporate welfare business strategy. [Even as Charles Koch was publicly blaming the Venezuela's poverty and economic woes on the country's socialist policies](#), his company was taking advantage of the country's heavily subsidized natural gas. Fertilizer production requires massive amounts of natural gas, which can account for 50 percent of operating costs and seriously eat into profit margins—unless, of course, the natural gas is subsidized by the state. And that is exactly why, in 1998, Koch Industries partnered up with two state-owned companies to build one of the biggest nitrogen-based fertilizer plants in the world. By investing \$100 million—or just 10% of the \$1 billion project—the Kochs were able to tap into a guaranteed supply of cheap natural gas, courtesy of the socialist Venezuelan government.

Steven Bodzin, a former Bloomberg journalist, found that “just on the natural gas, never mind the electricity or water subsidies, Koch profits from a direct Venezuelan government subsidy of \$1.23 for every thousand cubic feet of gas consumed at Fertinitro.” For Koch Industries, whose role in the partnership is to unload half of the 6 million tons of fertilizer produced by Fertinitro every year on the American market, that equals up to \$123.6 million in subsidies every year—which means that the Kochs recouped their investment after just one year.

It's clear why Koch Industries went to business with Venezuela (who wouldn't sign up for a deal where they can make 1.2 times their investment just in the first year?) The question is: Why did Venezuela need to sign up for such a shitty deal with Koch Industries?

Let's look back at the history of this project.

Planning for the Fertinitro project started a few years before Hugo Chavez became president in 1999, and at a time when Venezuela was being subjected to brutal IMF's “structural reforms”, [which included the usual painful “austerity” cuts in social programs, and privatization of state industries](#):

[During the 1990s, under the second term of President Carlos Andres Pérez](#), neoliberal reforms were introduced. In his February 2, 1989, inauguration speech, the newly elected Pérez riled against the International Monetary Fund (IMF) and other international lending organizations, but just a few weeks later he announced a neoliberal policy packet known as El Gran Viraje—the great turnaround. Under pressure from foreign creditors to implement an IMF-style austerity program, he dismantled protections, deregulated prices, and reduced social spending.

IMF “reforms” allowed foreign companies to siphon off Venezuela's vast resource wealth. It was not “wholly unusual for the government of Rafael Caldera to sign contracts that were wholly injurious to the national interest—hence the backlash that led to the election of Chavez and then the latter's sweeping nationalization strategies,” said [Dr Julia Buxton](#), of University of Bradford. At the time, Venezuela sold oil to foreign companies at below the costs of production and handed out state assets to foreign corporations for free, like when Venezuela sold off the entire information-technology division of PDVSA, one of the world's leading oil companies, for \$1,000 to US defense contractor and Fortune 500 company SAIC.

As one of the world's biggest fertilizer middlemen, Koch Industries—which seems to control about 5% of the global fertilizer market and [is the world's third-largest marketer of the stuff](#)—was the sort of multinational American company well positioned to take advantage of these harsh IMF reforms, whereby wealth would be transferred out of impoverished Venezuela and into the Kochs' libertarian coffers.

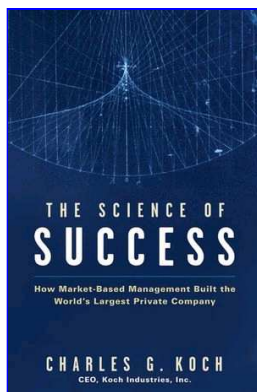
Unfortunately for the Kochs, the subsidized racket didn't last forever. In October 2010, a full 11 years of having the libertarian billionaire brothers draining hundreds of millions of dollars of Venezuela's wealth into their pockets, Chavez finally put an end to their relationship.

“The Koch company grabbed all our fertilizer and was selling it abroad at speculative prices,” Venezuela's Oil Minister Rafael Ramirez told workers at the fertilizer plant. “The future is for the workers, for you who build socialism, for the men and women working in our national industries, to safeguard for our people, our communities, the benefits of worker control over such important companies.”

A few weeks after Venezuela announced the nationalization, *The Economist* predicted that it would have dire consequences for Venezuela's economy, and warned that the government might not honor the fertilizer plant's several hundred million dollars in debt obligations. But according to Bloomberg, the price of the plant's bond notes didn't go down at all—it went up by 33 percent! That's right, as soon as Hugo Chavez announced the takeover, the bonds became more valuable, meaning that bond holders believed that the business was worth more with Koch Industries out of the picture.

This is important and worth repeating: Koch Industries' involvement in the fertilizer plant was actually a drag on the operation and investor confidence. Getting rid of the Koch's stake in Fertinitro had the effect of boosting the value of the company, which is funny considering the fact that Koch Industries was the only major private investor in the fertilizer plant.

But it makes perfect sense. Who would want to invest in a company owned by a billionaire freeloader like Charles Koch, who siphons funds out of other people's pockets and into his personal bank account, while adding nothing of value? No wonder bond holders reacted so positively to the nationalization.



Nope, you won't find it here...

So for all the enterprising Americans out there wondering "What's the secret to the Kochs' success?" The answer isn't pretty—especially if you're one of the gullible Tea Party libertarians who believe the Kochs practice the free-market libertarianism that they preach. Their ability to reap billions and billions in profits year after year isn't about buying low and selling high, but about buying subsidized-by-the-state, and selling subsidized-by-the-state. Using taxpayer money to cover the costs and ensure profits every time—that's the simple formula to the Kochs' success.

Yasha Levine is an editor of [The eXiled](#). Levine and co-editor Mark Ames first broke the connection between the Tea Party and the billionaire Koch brothers in *Playboy.com* in February 2009, sparking lawsuit threats, and causing [CNBC's Rick Santelli to publicly distance himself from the Tea Party movement and cancel his Daily Show appearance](#).

Want to know more? Read:

- [A People's History of Koch Industries: How Stalin Funded the Tea Party Movement](#)
- [A People's History of Koch Industries, Part II: Libertarian Billionaires Charles and David Koch Are Closetcase Subsidy Kings Who Milk Big Government Tyranny. But Want To Slash Spending On Anyone Else](#)
- [Other takedowns of the Koch brothers by Yasha Levine and Mark Ames...](#)



Read more: [Charles Koch](#), [Freemarket](#), [Hugo Chavez](#), [Koch Industries](#), [Libertarian](#), [Libertarian Subsidy Queen](#), [Scam](#), [Venezuela](#), [Yasha Levine](#), [Investigative Report](#)

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## 10 Comments

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- 1. Jack | January 5th, 2011 at 2:20 pm

Seems that you are only ones saying what you are saying as loudly as you are saying it. Why isn't Going Postal a best seller? I read it and it was better than all the drugs I'm taking and I'm taking a lot. The drugs just numb the anger and hatred and stop some of the pain. Writing like Exiled and Going Postal affirm the anger and hatred as totally fucking justified and transform it into joy.

- 2. Aaron | January 5th, 2011 at 2:45 pm

Robber barons also hypocrites! Film at eleven.