Chavez Preparing Government Takeover of Venezuela’s Gold Mining Industry

By Nathan Crooks and Corina Rodriguez Pons - Aug 17, 2011

Venezuelan President Hugo Chavez ordered his government to repatriate $11 billion in gold held in banks abroad to safeguard the country from the economic crisis and said he’ll nationalize the local gold industry.

Venezuela has about 211 tons of its 365 tons of gold reserves held abroad at institutions including the Bank of England, JPMorgan Chase & Co. (JPM), Barclays Plc (BARC), Standard Chartered Plc (STAN) and the Bank of Nova Scotia (BNS), according to a government document.

“We’ve held 99 tons of gold at the Bank of England since 1980. I agree with bringing that home,” Chavez said today on state television. “It’s a healthy decision.”

Chavez, who has said he wants to eliminate the “dictatorship” of the U.S. dollar, has called on Venezuela’s central bank to diversify its $28.7 billion in reserves away from U.S. institutions. Some cash reserves, which total $6.3 billion, will be shifted into currencies from emerging markets including China, Russia, Brazil and India, central bank President Nelson Merentes said today at a news conference.

‘Brutal Place’

Earlier today Chavez said he plans to take control of the country’s gold industry to halt illegal mining and boost reserves.

The government is preparing a decree to stop illegal miners exploiting deposits of gold and coltan, an ore containing tantalum, used in mobile phones and video-game consoles, he said.

Venezuela faces international arbitration over nationalized gold assets from three companies including Crystalllex International Corp. (KRY), a Canadian gold producer whose Las Cristinas mine was taken over by the government in February. Chavez has increased state control over the economy since 2006 by nationalizing companies in the oil, petrochemicals, cement, metal, mining and telecommunications industries.

“Venezuela has established its position as a brutal place to do business,” Tom Winmill, who manages the Midas Fund in New York, said today in a telephone interview.
"Whether it’s a small cap like Crystallex or a large cap like Barrick or Anglo Gold, it doesn’t really make any difference because no one is going to put another nickel into that country," he said.

**Relaxed Restrictions**

The South American country, in an effort to boost stalled production and take advantage of rising prices, last year relaxed restrictions on gold exports to allow some companies and joint ventures with the government to send as much as 50 percent of their output abroad.

Venezuela state gold producer Minerven has been shut for 15 days amid a strike, newspaper El Mundo reported today, citing company President Luis Herrera.

“The area is run by the mafia,” Chavez said of the gold industry today. “We’re going to nationalize gold. We can’t keep allowing them to take it away.”

**Rusoro Mining Ltd. (RML)**, the only publicly traded gold miner still in Venezuela, is in talks with the government to increase gold exports, Chief Executive Officer Andre Agapov said today in a telephone interview.

“We can sell gold in the local market, but we want to sell as much gold as possible at international prices,” Agapov said. He said he didn’t have any information on a possible nationalization.

**Stock Falls**

The company’s stock fell 17 percent to 12.5 Canadian cents on the Toronto Stock Exchange today. It’s fallen 69 percent this year.

Venezuela produces 11 metric tons of gold a year, and illegal miners extract an additional 10 to 11 tons a year, Chavez said in May.

Venezuela’s National Guard first seized control of the Las Cristinas mine, which has reserves of about 27 million ounces, in November 2001 from Canada’s Vanessa Ventures.

Venezuela’s 365.8 metric tons of gold reserves makes it the 15th-largest holder of the precious metal in the world, according to an August report from the World Gold Council. Venezuela’s gold holdings accounted for about 61 percent of the nation’s international reserves, according to the report.

Gold futures for December delivery rose $8.80, or 0.5 percent, to $1,793.80 an ounce on the Comex in New York. Prices touched a record $1,817.60 on Aug. 11.

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