

# CRS Report for Congress

## Venezuela: Political Conditions and U.S. Policy

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Prepared for Members and  
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# Venezuela: Political Conditions and U.S. Policy

## Summary

Under the populist rule of President Hugo Chávez, first elected in 1998 and most recently reelected to a six-year term in December 2006, Venezuela has undergone enormous political changes, with a new constitution and unicameral legislature, and a new name for the country, the Bolivarian Republic of Venezuela. U.S. officials and human rights organizations have expressed concerns about the deterioration of democratic institutions and threats to freedom of expression under President Chávez, who has survived several attempts to remove him from power. The government has benefitted from the rise in world oil prices, which has sparked an economic boom and allowed Chávez to increase expenditures on social programs associated with his populist agenda. After he was reelected, Chávez announced new measures to move the country toward socialism. His May 2007 closure of a popular Venezuelan television station (RCTV) that was critical of the government sparked protests. President Chávez was dealt a setback in December 2007 when his proposed constitutional amendment package defeated by a close margin in a national referendum. State and local elections scheduled for November 23, 2008 will be a significant political test for the government and the opposition.

The United States traditionally has had close relations with Venezuela, the fourth major supplier of foreign oil to the United States, but there has been friction with the Chávez government. U.S. officials have expressed concerns about human rights, Venezuela's military arms purchases, its relations with Cuba and Iran, and its efforts to export its brand of populism to other Latin American countries. Declining cooperation on anti-drug and anti-terrorism efforts has also been a concern. Since 2005, President Bush has annually designated Venezuela as a country that has failed demonstrably to adhere to its obligations under international narcotics agreements, and since 2006, the Department of State has prohibited the sale of defense articles and services to Venezuela because of lack of cooperation on anti-terrorism efforts.

Concerns regarding Venezuela in the 110<sup>th</sup> Congress have focused on human rights, energy, and terrorism issues. On May 24, 2007, the Senate approved S.Res. 211, expressing profound concerns regarding freedom of expression. On November 5, 2007, the House approved H.Res. 435, expressing concern about Iran's efforts to expand its influence in Latin America, and noting Venezuela's increasing cooperation with Iran. On July 23, 2008, the House approved H.R. 6545, which would require a national intelligence assessment on national and energy security issues. Additional House initiatives that have been introduced include two human rights resolutions, H.Con.Res. 50 and H.Con.Res. 77; H.Res. 560, expressing concern about Venezuela's actions in the oil sector; H.Res. 965, calling upon Venezuela to deny the use of its territory and weapons from being used by terrorist organizations; and H.Res. 1049, calling for Venezuela to be designated a state sponsor of terrorism. Two Senate bills, S. 193 and S. 1007, would increase hemispheric cooperation on energy issues.

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# Venezuela: Political Conditions and U.S. Policy

## Major Developments

### Developments in 2008

On July 23, 2008, the House passed H.R. 6545 (Cazayouz) by a vote of 414-0, 2 present, which would require a national intelligence assessment on national and energy security issues. This would include an assessment of “the implications of the potential use of energy resources as leverage against the United States by Venezuela, Iran, or other potential adversaries of the United States as a result of increased energy prices.”

On July 17, 2008, the House Subcommittee on the Western Hemisphere of the Committee on Foreign Affairs held a hearing on Venezuela focusing on recent political developments in Venezuela and U.S. policy. The hearing featured Assistant Secretary of State for Western Hemisphere Affairs Tom Shannon who maintained that Venezuela “for the first time in many years, expressed a willingness to explore improved relations with the United States,” including counter-drug cooperation. Shannon maintained that “we have told Venezuela that we would like to explore this diplomatic opening.”

On July 6, 2008, President Chávez met briefly with U.S. Ambassador Patrick Duddy and expressed a desire to reopen cooperation with the United States on drug trafficking and other issues.

On June 18, 2008, the U.S. Treasury Department’s Office of Foreign Assets Control announced that it was freezing the U.S. assets of two Venezuelans for providing financial and other support to Hezbollah. (See “Terrorism Issues” below.)

On June 8, 2008, President Chávez called for the Revolutionary Armed Forces of Colombia (FARC) to release all hostages unconditionally and to cease military operations, maintaining that guerrilla warfare “has passed into history.”

On June 6, 2008, two Venezuelan nationals (one a national guard sergeant) and two Colombians were arrested in eastern Colombia for gun-running. The four were captured with some 40,000 rounds of ammunition allegedly destined for the FARC.

On June 4, 2008, the Department of State upgraded the assessment of Venezuela its annual 2008 Trafficking in Persons (TIP). Since 2004, Venezuela had been on the Tier 3 list for trafficking in persons, which meant that the government was

categorized as one that has failed to make significant efforts to bring itself into compliance with the minimum standards for the elimination of trafficking in persons. In the 2008 report, however, the State Department placed Venezuela on the Tier 2 Watch List category because the government was judged to be making significant efforts to combat trafficking in persons. (See the full TIP report, available at [<http://www.state.gov/g/tip/rls/tiprpt/2008/>].)

On May 14, 2008, for the third year in a row, the State Department determined, pursuant to Section 40A of the Arms Control Export Act, that Venezuela was not cooperating fully with United States antiterrorism efforts. (*Federal Register*, May 20, 2008, p. 29172)

On April 30, 2008, the State Department issued its annual Country Reports on Terrorism, which maintained that “President Chávez persisted in his public criticism of U.S. counterterrorism efforts and deepened Venezuelan relationships with state sponsors of terrorism Iran and Cuba.” The report further stated that President Chávez’s ideological sympathy for Colombian guerrilla groups, along with high levels of corruption among Venezuelan officials, limited Venezuelan cooperation with Colombia in combating terrorism. (See the report’s chapter on the Western Hemisphere, available at [<http://www.state.gov/s/ct/rls/crt/2007/103710.htm>].)

On April 10, 2008, the House Subcommittee on the Western Hemisphere of the Committee on Foreign Affairs held a hearing on the Ecuador-Colombia border crisis featuring the Secretary General of the Organization of American States, José Miguel Insulza. In response to questioning, Insulza maintained that he not seen any evidence of Venezuelan government support for the FARC. (See “Allegations from Captured FARC Computers” below.)

On March 11, 2008, the State Department issued its 2007 human rights report, which stated that Venezuela’s human rights situation continued to be characterized by “politicization of the judiciary,” and “official harassment of the media and of the political opposition. See the full report available at [<http://www.state.gov/g/drl/rls/hrrpt/2007/100657.htm>].

On March 7, 2008 at a Rio Group summit in the Dominican Republic, Colombian President Alvaro Uribe apologized for the military incursion into Ecuador and vowed that it would never happen again. President Chávez played a role in the resolution of the crisis, and his government subsequently announced that it was fully reestablishing ties with Colombia. (See section on “March 2008 Ecuador-Colombia Border Crisis” below.)

On March 1, 2008, the Colombian military bombed a FARC camp in Ecuador, killing the guerrilla group’s second in command, Raúl Reyes. Venezuela subsequently broke relations with Colombia, and President Chávez ordered the mobilization of troops along its border with Colombia. The captured laptops of Raúl Reyes contained files potentially linking the Venezuelan government with efforts to secure arms and support the FARC. Venezuelan officials denied the allegations, and dismissed the captured files as fabricated. Interpol has been asked to verify whether the files are authentic.

On February 29, 2008, the State Department issued its annual *International Narcotics Control Strategy Report* (INCSR), which maintained that Venezuela is one of the preferred routes for trafficking illicit narcotics out of Colombia because of the permissive and corrupt environment in Venezuela and because of counternarcotics successes in Colombia. According to the report, Venezuela has minimized all counternarcotics related cooperation contact with the U.S. government. The full INCSR report is available at [<http://www.state.gov/p/inl/rls/nrcrpt/2008/>]. (See “Counternarcotics Cooperation” below.)

On February 27, the FARC released four hostages, all former members of the Colombian Congress, to Venezuelan officials in Colombian territory.

On February 10, 2008, President Chávez again threatened to stop oil exports to the United States, this time if ExxonMobil was successful in freezing billions in Venezuela oil assets in a compensation dispute for its Orinoco oil investments. A week later, however, Chávez said on February 17 that he would only stop sending oil if the United States attacked Venezuela.

On January 11, 2008, President Chávez called for the international community to no longer label the FARC and the National Liberation Army (ELN) as terrorist groups, an action that prompted condemnation from Colombia and other nations.

On January 10, 2008, the FARC released to Venezuelan officials two prominent Colombians that had been held hostage for several years.

## **Developments in 2007**

On December 31, 2007, President Chávez granted amnesty to those in Venezuela facing charges who had supported the short-lived coup that ousted him temporarily from power in April 2002. Critics maintained that the amnesty was discriminatory because it did not include those individuals who fled Venezuela to other countries. (See “Venezuela’s Activities in Latin America” below.)

On December 11, 2007, three Venezuelans and one Uruguayan national were arrested and charged in U.S. federal court in Miami with acting and conspiring to act as agents of the Venezuelan government without prior notification to the U.S. Attorney General. All four were alleged to have conspired in a scheme to conceal the source and destination and the role of the Venezuelan government in the attempted delivery of \$800,000 to Argentina by a U.S. businessman, Guido Alejandro Antonini Wilson.

On December 2, 2007, Venezuelan voters rejected the Chávez government’s constitutional referendum proposals by a close margin. Among the most controversial provisions were amendments that would have removed presidential term limits, eliminated the independence of the Central Bank, and given the President power to suspend certain constitutional rights during a state of national emergency. There had been growing opposition to the constitutional changes, including opposition by university students, business groups, the Catholic Church, and some prominent former supporters of President Chávez. (See section below on “December 2, 2007 Constitutional Reform Referendum.”)

On November 22, 2007, Colombian President Alvaro Uribe withdrew support of efforts by President Chávez to mediate with the FARC for the release of some 45 hostages, including three American contractors held since 2003. In August 2007, Uribe had authorized Chávez to mediate with the FARC, but halted the efforts when the Venezuelan President broke protocol by having direct contact with the top commander of the Colombian army. Venezuela responded with a public statement accepting Colombia's decision, but expressing its frustration.

On November 15, 2007, the House Subcommittee on International Organizations, Human Rights, and Oversight of the Committee on Foreign Affairs held a hearing focusing on the case of Luis Posada Carriles. Venezuela has requested the extradition of Posada for his alleged role in the 1976 bombing of a Cuban airliner that killed 73 people. (See "Venezuela's Extradition Requests" below.)

On November 5, 2007, the House approved by voice vote H.Res. 435 (Klein), which expressed concern over Iran's efforts to expand its influence in Latin America. The resolution also noted examples of Venezuela's increasing relations and cooperation with Iran.

On September 14, 2007, President Bush, determined (pursuant to international drug control certification procedures set forth in U.S. legislation) that Venezuela, for the third year in a row had failed demonstrably to adhere to its obligations under international counternarcotics agreements. State Department officials maintained that, although Venezuela indicated that it had developed some new programs to fight drug trafficking, its efforts continued to be limited. Venezuela maintains that the U.S. determination process continues to be politicized and disregards Venezuela's international cooperation and advances in counternarcotics efforts. (See "Counternarcotics Cooperation" below.)

On August 15, 2007, President Chávez announced his proposals for constitutional reform to the National Assembly.

On June 26, 2007, Venezuela announced that two U.S. oil companies, ConocoPhillips and ExxonMobil, would be leaving their Orinoco belt oil projects after not being able to negotiate new terms for their minority partnership with the Venezuelan government. Venezuela's state-owned oil company, *Petroleos de Venezuela S.A.* (PdVSA) announced the signing of new Orinoco partnership agreements with four other foreign oil companies — BP, Total, Statoil, and U.S.-owned Chevron.

On June 21, 2007, the House approved by voice vote H.Amdt. 358 (Mack) to H.R. 2764, the FY2008 State Department and Foreign Operations appropriations bill, which would direct \$10 million in international broadcasting operations for targeted broadcasting for Venezuela. The House subsequently approved H.R. 2764 on June 22, 2007.

On June 12, 2007, the State Department issued its annual *Trafficking in Persons Report*, which again categorized Venezuela as a Tier 3 country that has not made adequate efforts to combat trafficking in persons. (See the report at [<http://www.state.gov/g/tip/rls/tiprpt/2007/>].)

On May 27, 2007, the Chávez government refused to renew the broadcast license of Radio Caracas Television (RCTV), which frequently carried programming critical of the government, and the station went off the air. The government's action prompted international condemnation and sparked extensive student-led protests in Venezuela. (See "RCTV Closure and Public Reaction" below.)

On May 24, 2007, the Senate approved S.Res. 211 (Lugar) by unanimous consent, expressing profound concerns regarding freedom of expression and Venezuela's decision not to renew the license of RCTV.

On May 14, 2007, for the second year in a row, the State Department determined, pursuant to Section 40A of the Arms Export Control Act, that Venezuela was not cooperating fully with U.S. antiterrorism efforts. Other countries on the list are Cuba, Iran, North Korea, and Syria.

On April 30, 2007, the State Department issued its annual *Country Reports on Terrorism*, which asserted that President Chávez "persisted in public criticism of U.S. counterterrorism efforts, deepened Venezuelan relationships with Iran and Cuba, and was unwilling to prevent Venezuelan territory from being used as a safe haven" by Colombian terrorist groups.

On March 9, 2007, the Inter-American Commission on Human Rights (IACHR) issued a statement expressing concern about the human rights situation in Venezuela and appealing to the government to allow an IACHR representative to visit the country.

On March 6, 2007, the State Department released its annual human rights report, which stated that Venezuela's human rights situation was characterized by "politicization of the judiciary, harassment of the media, and harassment of the political opposition." (See the full report at [<http://www.state.gov/g/drl/rls/hrrpt/2006/78909.htm>].)

On March 1, 2007, the Department of State released its 2007 *International Narcotics Control Strategy Report* (INCSR), which maintained that Venezuela is one of the principal drug-transit countries in the hemisphere because of its geography, rampant high-level corruption, weak judicial system, and lack of international counternarcotics cooperation.

In February 7, 2007, testimony before the House Foreign Affairs Committee, Secretary of State Condoleezza Rice stated that she believes "there's an assault on democracy in Venezuela" and that "the president of Venezuela is really destroying his own country economically, politically." Venezuelan Foreign Minister Nicolas Maduro responded by saying that "no U.S. official has the morality to qualify Venezuelan democracy or the democratic leadership of President Chávez."

In January 11, 2007, testimony before the Senate Select Committee on Intelligence, Director of National Intelligence John Negroponte stated that President Chávez "is among the most stridently anti-American leaders anywhere in the world, and will continue to try to undercut U.S. influence in Venezuela, in the rest of Latin America, and elsewhere internationally." Negroponte also expressed concern that the

Venezuelan leader's military purchases and moves toward developing his own weapons production capability are increasingly worrisome to his neighbors, and could fuel an arms race in the region.

On January 10, 2007, President Chávez was sworn in to another six-year term, pledging to move Venezuela toward socialism and proposing changes to the constitution that would allow the president to be reelected indefinitely instead of the current two-term limit.

On January 8, 2007, President Chávez announced plans to nationalize the country's largest telecommunications company, CANTV, which is partly owned by Verizon Communications, and electricity companies, which would include EdC (Electricidad de Caracas), which is majority-owned by the U.S.-based AES Corporation. In February, the Venezuelan government negotiated agreements for the purchase of the majority stake of AES in EdC and for Verizon's stake in CANTV, with officials from both AES and Verizon describing the agreements as fair.

On January 5, 2007, Secretary General of the Organization of American States José Miguel Insulza issued a statement expressing concern that Venezuela's decision not to renew the license of RCTV gave the appearance of censorship.

## Political Situation

### Background

With his election as President in December 1998, Hugo Chávez began to transform Venezuela's political system. The watershed election, in which former coup leader Chávez received 56% of the vote (16% more than his closest rival), illustrated Venezuelans' rejection of the country's two traditional parties, Democratic Action (AD) and the Social Christian party (COPEI), that had dominated Venezuelan politics for much of the past 40 years. Elected to a five-year term, Chávez was the candidate of the Patriotic Pole, a left-leaning coalition of 15 parties, with Chávez's own Fifth Republic Movement (MVR) the main party in the coalition.

Most observers attribute Chávez's rise to power to Venezuelans' disillusionment with politicians whom they judge to have squandered the country's oil wealth through poor management and endemic corruption. A central theme of his campaign was constitutional reform; Chávez asserted that the

#### Chávez Biography

Hugo Chávez Frias was born on July 28, 1954, in a small farming town in the western Venezuelan state of Barinas. The son of school teachers, Chávez was a 1975 graduate of Venezuela's Military Academy. He reached the rank of lieutenant colonel by 1990. In February 1992, Chávez led an unsuccessful attempt to overthrow the elected government of President Carlos Andres Perez. He was imprisoned for two years for the coup attempt before being pardoned. While in the military, Chávez founded the nationalistic and left-leaning Bolivarian Revolutionary Movement, which was later transformed into the Fifth Republic Movement in the 1998 elections when Chávez was first elected president.

**Source:** Current Leaders of Nations, Gale Group. May 20, 2004.

system in place allowed a small elite class to dominate Congress and that revenues from the state-run oil company, *Petroleos de Venezuela S.A.* (PdVSA), had been wasted.

Although Venezuela had one of the most stable political systems in Latin America from 1958 until 1989, after that period numerous economic and political challenges plagued the country and the power of the two traditional parties began to erode. Former President Carlos Andres Perez, inaugurated to a five-year term in February 1989, initiated an austerity program that fueled riots and street violence in which several hundred people were killed. In 1992, two attempted military coups threatened the Perez presidency, one led by Chávez himself, who at the time was a lieutenant colonel railing against corruption and poverty. Ultimately the legislature dismissed President Perez from office in May 1993 on charges of misusing public funds, although some observers assert that the President's unpopular economic reform program was the real reason for his ouster.<sup>1</sup> The election of elder statesman and former President Rafael Caldera as President in December 1993 brought a measure of political stability to the country, but the Caldera government soon faced a severe banking crisis that cost the government more than \$10 billion. While the macro-economy began to improve in 1997, a rapid decline in the price of oil brought about a deep recession beginning in 1998.

Under President Chávez, Venezuela has undergone enormous political changes, with a new constitution in place and even a new name for the country, the Bolivarian Republic of Venezuela, named after the 19<sup>th</sup> century South American liberator Simon Bolivar, whom Chávez often invokes. In 1999, Venezuelans went to the polls on three occasions — to establish a constituent assembly that would draft a new constitution, to elect the membership of the 165-member constituent assembly, and to approve the new constitution — and each time delivered victory to President Chávez. The new document revamped political institutions, eliminating the Senate and establishing a unicameral National Assembly, and expanded the presidential term of office from five to six years, with the possibility of immediate reelection for a second term. Under the new constitution, voters once again went to the polls in July 2000 for a so-called mega-election, in which the President, national legislators, and state and municipal officials were selected. President Chávez easily won election to a new six-year term, capturing about 60% of the vote while his opponent, fellow former coup leader Francisco Arias, received 38%. Chávez's Patriotic Pole coalition also captured 14 of 23 governorships and a majority of seats in the National Assembly.

From the outset, critics raised concerns about Chávez and his government. They feared that he was moving toward authoritarian rule and pointed to his domination of most government institutions. Some argue that Chávez had replaced the country's multiparty democracy with a political system that revolves around himself, in essence a cult of personality; others pointed to Chávez's open admiration of Fidel Castro and close relations with Cuba as a disturbing sign. Other observers expressed concern about the increased role of the military in the government, with Chávez appointing

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<sup>1</sup> For example, see M. Delal Baer, "Revenge of the Venezuelan Dinosaurs," *Wall Street Journal*, June 18, 1993.

dozens of retired and active duty officers to key positions, as well as the mobilization of thousands of army reservists for social projects. Still other critics of Chávez believed that he was trying to politicize the educational system by making changes to school curriculums. They feared Chávez's call for his followers to form political cells in schools, hospitals, and businesses in order to support his revolution and believe that such groups, known as Bolivarian circles, could mirror Cuba's controversial neighborhood committees.<sup>2</sup>

**Chávez's Brief Ouster in April 2002.** Although President Chávez remained widely popular until mid-2001, his standing eroded considerably after that, amid concerns that he was imposing a leftist agenda on the country and that his government was ineffective in improving living conditions in Venezuela. In late 2001 and early 2002, opposition to Chávez's rule grew into a broad coalition of political parties, unions, and business leaders. Trade union opposition became stronger amid the President's attempt to replace the Venezuelan Workers Confederation (CTV) with a pro-government union. President Chávez's own Fifth Republic Movement also became plagued with internal dissent.

In April 2002, massive opposition protests and pressure by the military led to the ouster of Chávez from power for a brief period. However, he ultimately was restored to power by the military. Chávez was ousted from office on April 11, 2002, after protests by hundreds of thousands of Venezuelans and the death of at least 18 people. Venezuelan military leaders expressed outrage at the massacre of unarmed civilians and blamed President Chávez and his supporters. On April 12, Pedro Carmona of the country's largest business association — the Federation of Associations and Chambers of Commerce and Industry (Fedecamaras) — proclaimed himself interim president, but Carmona quickly lost the support of the military when he took such hardline measures as dismantling the National Assembly, firing the Supreme Court, and suspending the constitution. Carmona stepped down just a day after he took office, paving the way for Chávez's return to power early in the morning of April 14. The interim government's hardline policies as well as strong support in the streets from Chávez supporters convinced military commanders to back Chávez's return. Moreover, some military factions had continued to support Chávez during his ouster.

**Continued Opposition and Strike in 2002 and 2003.** After Chávez's return to power, some 40 disparate opposition groups united in a coalition known as the Democratic Coordinator (CD) in an effort to remove Chávez from office, focusing on efforts to hold him accountable for the death of civilian protestors in April 2002 and to push for a national referendum on his presidency. The CD demanded a non-binding referendum on Chávez's rule in early February 2003, which they believed would force the President to resign, but Venezuela's Supreme Court ruled against holding such a referendum. President Chávez maintained that, according to the constitution (Article 72), a binding referendum on his rule could take place after the halfway point of his term, which would occur in August 2003.

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<sup>2</sup> For example, see William S. Prillman, "The Castro in Caracas: Venezuelan Strongman Hugo Chávez, in Fidel's Image," *National Review*, April 3, 2003; Stephen Johnson, "Venezuela Erupting," *National Review*, March 5, 2004.

From early December 2002 until early February 2003, the CD orchestrated a general strike that severely curtailed Venezuela's oil exports and disrupted the economy but was unsuccessful in getting President Chávez to agree to an early non-binding referendum on his rule or new elections. At various junctures, there were violent clashes between Chávez supporters and the opposition, resulting in several deaths. The Chávez government responded to the oil sector strike by firing 13,000-16,000 PdVSA employees.

**August 2004 Presidential Recall Referendum.** After months of negotiations facilitated by the Organization of American States (OAS) and the Carter Center, the government of Hugo Chávez and the opposition signed an agreement on May 29, 2003, that set forth mechanisms to help resolve the political crisis. Implementation of the accord was difficult at times and hampered by political polarization between supporters and opponents of President Chávez. Nevertheless, Venezuela's National Electoral Council (CNE) announced on June 8, 2004, that a presidential recall referendum would be held on August 15, 2004. Chávez won the referendum convincingly by a margin of 59.3% to 40.7%, according to the CNE's final official results.<sup>3</sup>

**Background Leading to the Referendum.** For a recall referendum to take place, the constitution required a petition signed by 20% of registered voters (which means 2.4 million signatures out of a registry of 12.3 million). Petition signatures were collected during a four-day period beginning in late November 2003, but on March 2, 2004, the CNE ruled that there were only 1.83 million valid signatures supporting a presidential recall referendum. The CNE subsequently updated this to 1.91 million valid signatures, with almost 1.2 million signatures that could be valid if individuals confirmed their signatures in a *reparo* or "repair" period. This meant that about 525,000 signatures of those under review would need to be validated for a referendum to be required. The CNE's announcement that there were not yet enough valid signatures for a referendum prompted strong opposition protests, but the opposition ultimately agreed to participate in a repair period that was held May 27-31, 2004, in more than 2,600 centers around the country. About 100 observers from the OAS and the Carter Center monitored the repair period; President Carter reported that the overall process was peaceful and orderly, although he did note some initial concern about the temporary suspension of the CNE's tabulation process.<sup>4</sup>

On June 3, 2004, the CNE announced that enough signatures had been secured for a recall referendum, and subsequently scheduled the referendum for August 15. The date of the referendum was significant because under the constitution, if it were held after August 19 (one year after the half-way point of Chávez's term) and Chávez lost the referendum, then Vice President Jose Vicente Rangel (a Chávez ally) would serve the remainder of the President's term until January 2007.

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<sup>3</sup> "CNE Emitió Resultados Oficiales Del Referendo Revocatorio Presidencial," Consejo Nacional Electoral, August 26, 2004.

<sup>4</sup> "President Carter's Trip Report on Venezuela, May 29-June 1, 2004," The Carter Center, June 4, 2004.

In order for President Chávez to be recalled, the majority of voters needed to vote “yes” and the number of votes to recall him needed to exceed the number that he received when last elected in July 2000 (3.75 million). If Chávez had been recalled, new presidential elections would have been held within 30 days. It was unclear whether President Chávez would have been allowed to run for reelection, but most observers believed that the Supreme Court would have ruled that he was eligible to run. One of the problems that plagued the opposition was that it did not have a well-organized or coherent political coalition. As a result, it could have been difficult for the opposition to present a single candidate who could have defeated Chávez in new elections, assuming that he was permitted to run.

Public opinion polls conducted in June and July 2004 by various survey firms yielded significantly different results, with some favoring the opposition and some favoring Chávez, but by early August 2004 a number of polls showed Chávez with an advantage. A June 2004 poll by Datanálisis, a Venezuelan research firm, showed that 57% of Venezuelans would vote to recall President Chávez, while another poll in June by the U.S.-based Greenberg, Quinlan, Rosner Research firm found that only 44% would vote to recall the president.<sup>5</sup> Another poll by North American Opinion Research Inc. published in early July 2004 showed that 41% would vote to recall Chávez, compared to 57% favoring the president.<sup>6</sup> A poll in late July by the U.S. firm of Evans/McDonough and Varianzas Opinión of Venezuela showed that 43% would vote against Chávez and 51% would vote for him.<sup>7</sup> In early August, a newspaper that has been a strong opposition supporter, *Ultimas Noticias*, published four polls showing that Chávez would win by at least 10%.<sup>8</sup> Some observers, however, maintained that many people were not being truthful in these opinion polls because of fear of retribution for answering truthfully; they maintained that these so-called “hidden voters” could determine the outcome of the referendum.<sup>9</sup>

**Referendum Results.** With a turnout of about 70% of registered voters, President Chávez won the recall referendum convincingly with 5.80 million people voting “no” to reject his recall, or 59.25% of the vote, and 3.989 million people, or 40.74%, voting “yes” in favor of his recall.<sup>10</sup> Observers from the OAS and the Carter Center maintained that these results were compatible with their own quick count results. The opposition claimed that massive fraud had taken place and cited their exit polls showing that 59% had voted to recall President Chávez.<sup>11</sup> The Carter Center and the OAS conducted a second audit of the vote on August 19-21 and

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<sup>5</sup> “Battle of the Polls is Engaged,” *Latin American Weekly Report*, July 6, 2004.

<sup>6</sup> “Venezuela’s Recall Referendum,” *BBC Worldwide Monitoring*, July 8, 2004.

<sup>7</sup> “A Poll of Polls,” *Miami Herald*, August 11, 2004.

<sup>8</sup> “Chávez on Course for Victory,” *Latinnews Daily*, August 9, 2004.

<sup>9</sup> Steven Dudley, “Chávez Recall Vote Confounds Pollsters,” *Miami Herald*, August 11, 2004.

<sup>10</sup> “CNE Emitió Resultados Oficiales Del Referendo Revocatorio Presidencial,” Consejo Nacional Electoral, August 26, 2004.

<sup>11</sup> Andy Webb-Vidal, “Auditing of Chávez Vote Begins as Fraud Allegations Multiply,” *Financial Times*, August 20, 2004.

concluded that the vote results announced by the CNE reflect the will of the Venezuelan people.<sup>12</sup>

On August 26, 2004, the OAS approved a resolution expressing “satisfaction with the holding of the presidential recall referendum” and calling “upon all players to respect the results.” In the resolution, the OAS also welcomed the offer made by President Chávez “to foster national dialogue” and called “for a process of reconciliation ... in which differences are settled in the framework of the democratic systems and in a spirit of transparency, pluralism, and tolerance.”<sup>13</sup>

Various factors explain President Chávez’s victory in the recall referendum. The economy, fueled by proceeds from high oil prices, turned around in 2004. The president was able to use oil proceeds to boost social spending for the poor. He made anti-poverty programs an important focus of his administration. Another factor has been the strength of the opposition. As noted above, the opposition in Venezuela has been fragmented and did not wage an effective campaign during the recall referendum. Even if it had won the referendum, it was unclear whether it would have been able to present a single candidate to challenge Chávez in a subsequent election.

After the August 2004 recall referendum, President Chávez’s rule was further strengthened when his allies won a majority of gubernatorial and municipal posts in elections held in late October 2004 and municipal posts in municipal elections held in August 2005.

**December 2005 Legislative Elections.** Just days before the December 4, 2005, elections, in which all 167 seats in the National Assembly were at stake, Venezuela’s five major opposition parties announced that they would boycott the election. They maintained that the National Electoral Council (CNE) was dominated by the government and accused it of making decisions in favor of parties supporting the government. The parties withdrawing from the race consisted of the country’s two parties that had been historically dominant until 1998, Democratic Action (AD) and the Social Christian Party (COPEI), and three other key opposition parties: the Movement to Socialism (MAS), the center-right Justice First party (PJ), and Project Venezuela (PV).

Before the boycott, the opposition’s major concern was the CNE’s plan to use digital fingerprint machines. The opposition feared that the government would be able to determine how individuals had voted and that this information would be used for political retribution, just as they assert that there was discrimination against those people who signed the petition in favor of having the 2004 presidential recall referendum. On November 28, 2005, however, the CNE, in a decision brokered by the Organization of American States, announced that it would not use the controversial digital fingerprint machines. Nevertheless, a day later, opposition

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<sup>12</sup> *Last Phase of the Venezuelan Recall Referendum: Carter Center Report* (English and Spanish), Carter Center, August 21, 2004.

<sup>13</sup> Organization of American States, Permanent Council. “Results of the Presidential Recall Referendum Held in Venezuela on August 15, 2004,” CP/RES. 869 (1436/04), Adopted August 26, 2004.

parties began announcing their boycott of the legislative elections. The move surprised election officials, and some reports indicate that international observers were unhappy that the opposition had reneged on a commitment to participate in the elections if the digital fingerprint machines were not used.<sup>14</sup>

In the lead up to the legislative elections, some opposition groups had also objected to parties fielding candidates under two separate banners in order to increase the chances of winning additional seats. (Venezuela's electoral system utilizes a combination of proportional representation on a national party list and electoral districts where individuals who win a majority of votes are elected.) The pro-Chávez coalition had used this method to win some 77% of seats in municipal elections held in August 2005. In late October 2005, Venezuela's Supreme Court rejected an injunction against this practice that was filed by the opposition AD.<sup>15</sup>

**Election Results.** Because of the opposition boycott, pro-Chávez parties won all 167 seats in the National Assembly, with 114 going to the President's Fifth Republic Movement (MVR) and the remaining 53 going to smaller pro-Chávez parties as well as to independents and representatives of some social groups that support the government. The voter participation rate was low and estimated at 25%, or 2.9 million voters out of an electorate of 14.5 million. Legislators were elected for five-year terms that began on January 5, 2006. In the previous National Assembly, which had 165 members, pro-Chávez supporters controlled 86 seats, while opposition parties controlled 79. In the lead-up to the December 2005 election, observers predicted that the opposition would struggle to win one-third of the seats in the Assembly and that the pro-Chávez parties would win a two-thirds majority control of the legislature. The opposition's boycott guaranteed that pro-Chávez supporters will completely control the legislative branch.

**International Observers.** Both the OAS and the European Union sent delegations to observe the elections. Both groups lamented the withdrawal of the opposition, but also raised questions and had criticisms regarding the conduct of the elections.

The EU observer group maintained that wide sectors of Venezuelan society do not have trust in the electoral process and in the independence of the electoral authority. It found that the electoral campaign focused almost exclusively on the issue of distrust in the electoral process and the lack of independence of the CNE. Overall, the EU concluded that the elections represented a lost opportunity and did not contribute to the reduction of the fracture in Venezuelan society. Nevertheless, the EU lauded the steps taken by the CNE to open the automated voting system to external scrutiny and to modify various aspects that were questioned by the opposition. In particular, the EU stated the CNE's decision to eliminate the digital fingerprint devices from the voting process was timely, effective, and constructive,

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<sup>14</sup> Phil Gunson, "Vote Boycott Sparks Test of Wills," *Miami Herald*, December 3, 2005.

<sup>15</sup> "Court Rebuffs AD Bid to Change Electoral Rules," *Latin American Weekly Report*, November 1, 2005.

and noted with surprise the opposition's withdrawal just four days before the election.<sup>16</sup>

The OAS delegation noted that there remains a distrust of the CNE on the part of a significant segment of the population in terms of the origin and composition of the CNE and the perception that its actions lack transparency and impartiality. It suggested that a new democratic consensus be reached through dialogue that could include a discussion of the election of the CNE, the automated voting system, the electoral law, the process of issuing identification cards, a parliamentary system to ensure proportional representation of minorities, and the strengthening of the principle of separation, independence, and balance of powers. It criticized the opposition's withdrawal from the election, stating that every democracy requires an institutional opposition committed to the electoral process, so that it can loyally participate in the democratic system.<sup>17</sup>

**Political Significance.** With Chávez supporters controlling the legislature, it will be far easier for the government to enact its legislative agenda and to enact constitutional changes. With opposition parties having no representation in the legislature, they will virtually have no official role in the political system. Some observers question the wisdom of the opposition's boycott of the election and contend that the decision not to participate will erode its legitimacy. According to Jose Miguel Vivanco from Human Rights Watch, which has been a critic of President Chávez, the opposition's tactics will not help them "gain any ground," and it will be difficult for "them to present themselves as victims that deserve solidarity from the international community."<sup>18</sup> Other observers contend that the high abstention rate in the election could allow the opposition to question the legitimacy of the National Assembly. According to this view, the boycott helped send a message that democracy is at threat in Venezuela and could bolster international support to press the Chávez government for transparency and accountability.

**December 2006 Presidential Election.** In Venezuela's December 3, 2006, presidential election, President Chávez was resoundingly elected to another six-year term in an election that international observers judged to be satisfactory. In the lead up to the vote, polls showed Chávez with a lead of more than 20% over opposition candidate Manuel Rosales in an election with 22 candidates on the ballot. The final result showed Chávez with 62.87% and Rosales with 36.88%.

The government benefitted from the rise in world oil prices, which increased government revenues and sparked an economic boom. As a result, Chávez was able to increase government expenditures on anti-poverty and other social programs associated with the populist agenda of his Bolivarian revolution. His reelection demonstrated strong and widespread support for his social policy of redistributing the

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<sup>16</sup> "EU Election Observation Mission to Venezuela, Parliamentary Elections 2005," Preliminary Statement, December 6, 2005.

<sup>17</sup> "Preliminary OAS Observations on the Legislative Elections in Venezuela," Press Release, December 6, 2005.

<sup>18</sup> Juan Forero, "Chávez's Grip Tightens as Rivals Boycott Vote," *New York Times*, December 5, 2005.

country's oil wealth. Most observers credit the government's numerous *misiones* or social programs as the key to the government's support and do not believe that Venezuelans' support for President Chávez is ideologically based.

For the opposition, the most significant aspect of the race was that Rosales conceded his defeat in a legitimate election. Although the political opposition remained weak and fragmented in the aftermath of the August 2004 recall referendum and their boycott of the December 2005 legislative elections, it managed to agree on a single unified presidential candidate for 2006, Manuel Rosales, who was governor of the western oil-rich state of Zulia and former mayor of Maracaibo, Venezuela's second largest city. A primary had been scheduled for August 13, 2006 to select the opposition candidate, but on August 9, eight other candidates dropped out of the presidential race in support of Rosales who was the frontrunner. Those standing down in favor of Rosales included Julio Borges of the center-right Justice First Party, and Teodoro Petkoff, a leftist newspaper editor and former planning minister.

Although Rosales trailed in the polls, most observers credit him with running a strong campaign that resonated with many Venezuelans. He ran a populist campaign that emphasized social justice and an alliance between lower income sectors and the middle class. He criticized the Chávez government for not doing enough to reduce poverty and called for a program to transfer oil revenues directly to the poor via a debit card, controversially named "Mi Negra," that would provide payments to poor families ranging from \$280 to \$460 monthly. He supported efforts to bolster the private sector and a strategy to increase both domestic and foreign investment. Rosales also called for efficiency and transparency in the judicial system and has pledged to crack down on soaring crime. He vowed to call new legislative elections with a system of proportional representation and supported a reduction in the presidential term of office from six to four years. He criticized President Chávez for providing so much assistance to foreign countries while there is extensive poverty in Venezuela, and he criticized the government's alliances with countries like Cuba and Iran.<sup>19</sup>

Opposition supporters and other observers had complained that President Chávez had used state resources for his reelection, with government expenditures for advertising and access to television. They argued that the Chávez government had distributed Christmas bonuses for public-sector employees earlier than normal in order to gain favor in the presidential vote. Observers also asserted that the government was using political coercion to ensure support among public sector employees and pointed to a video of Venezuela's Minister of Energy and Petroleum urging PdVSA workers to support Chávez's reelection.<sup>20</sup>

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<sup>19</sup> "Can Rosales Win?," *Andean Group Report*, November 7, 2006; "Venezuela: Opposition Candidate Proposes Building New Social Democracy," *Open Source Center* (Caracas Globovision Television) November 7, 2006; Simon Romero, "Venezuelans Square Off Over Race, Oil and a Populist Political Slogan," *New York Times*, November 12, 2006.

<sup>20</sup> Steven Dudley, "Government Power Give Chávez Campaign Edge," *Miami Herald*, November 11, 2006; Elizabeth M. Nunez, "Opponents of Chávez Release Video," (continued...)

Both the Organization of American States and the European Union sent delegations to observe the elections and, despite various problems, judged the elections to have been held in a satisfactory manner. According to a preliminary statement by the EU, “the high turnout, peaceful nature, and general acceptance of results of the presidential elections in Venezuela open the way forward to substantial improvements in the quality and public confidence in electoral processes.”<sup>21</sup> The OAS congratulated “the Venezuelan people, its government, and its political parties and democratic institutions for the civic behavior that prevailed during the electoral process.”<sup>22</sup>

## Political Developments in 2007

As President Chávez was inaugurated to another six-year term in January 2007, he announced a number of measures to further strengthen his power and move Venezuela toward his vision of 21<sup>st</sup> century socialism. He called for the National Assembly to approve a new law that would enable him to pass laws by decree. Subsequently, on January 31, the Assembly approved a law giving Chávez broad powers, for a period of 18 months, to enact measures by decree in a number of economic, social, and military areas. Critics fear that the move will further undermine democratic institutions and lead to authoritarianism, while supporters maintain that the measure will help the President move ahead more quickly to enact a new economic and social model in Venezuela.

Among other proposals announced by the President in January were plans to eliminate the autonomy of the central bank; to make PdVSA a majority shareholder of current Orinoco Belt oil projects with foreign companies; to change the constitution to allow the president to be reelected indefinitely instead of the current two-term limit; to launch a new drive for “Bolivarian popular education” that would deepen Venezuela’s new social values; to create federations of communal councils (thousands of local communal councils were established in 2006) that could eventually replace state government institutions; and to nationalize the country’s largest telecommunications company, CANTV, and electricity companies, including EdC (Electricidad de Caracas).<sup>23</sup>

CANTV is partly owned by Verizon Communications, while EdC is majority-owned by the U.S.-based AES Corporation. When the nationalizations of CANTV and EdC were announced, there was considerable concern that the companies would not receive adequate compensation. In February 2007, the Venezuelan government

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<sup>20</sup> (...continued)

*Associated Press*, November 3, 2006.

<sup>21</sup> European Union Election Observation Mission, Presidential Elections Venezuela 2006, Preliminary Statement, December 5, 2006.

<sup>22</sup> “OAS Hears Reports on Elections in Ecuador and Venezuela,” Organization of American States, Press Release, December 13, 2006.

<sup>23</sup> “21<sup>st</sup> Century Socialism,” *Latin American Regional Report, Andean Group*, January 2007; Gregory Wilpert, “Chávez Sworn in to Second Full Term as Venezuela’s President,” *Venezuelanalysis.com*, January 10, 2007.

ultimately negotiated agreements for the purchase of the majority stake of AES in EdC and for Verizon's stake in CANTV. Officials of both AES and Verizon described the agreements as fair.<sup>24</sup> Foreign investors will likely be wary of investing in Venezuela giving the nationalizations and the government's increasing role in the economy.

**RCTV Closure and Public Reaction.** On December 28, 2006, President Chávez announced that his government would not renew the broadcast license for RCTV, Venezuela's oldest television station, which frequently carried programming critical of the Chávez government. Venezuelan officials maintained that the non-renewal of RCTV's license was for its actions in support of the April 2002 coup against President Chávez. Because of this, they assert that it was within the government's rights not to renew RCTV's public broadcasting license, but that RCTV could continue to broadcast on private cable or satellite stations. RCTV maintains that its broadcast license is valid until 2022, not May 27, 2007, as claimed by the Venezuelan government, and that the action by the government is part of an effort to silence public opinion.

The OAS Office of the Special Rapporteur for Freedom of Expression expressed concern in late December 2006 about Venezuela's decision and its effect on freedom of expression. OAS Secretary General José Miguel Insulza issued a statement on January 5, 2007, expressing concern that Venezuela's decision not to renew the license of Radio Caracas Television (RCTV) gave the appearance of censorship. He expressed hope that the action would be reversed by the Venezuelan government.<sup>25</sup> The Inter-American Commission on Human Rights expressed concern about freedom of expression in Venezuela and called on the Venezuelan government to protect pluralism in the media.<sup>26</sup>

Numerous human rights also organizations denounced Venezuela's decision not to renew RCTV's license as a violation of freedom of speech. These included the Inter-American Press Association, Reporters Without Borders, the Committee to Protect Journalists, the *Instituto Prensa y Sociedad*, and Human Rights Watch, which maintained that the government's decision was politically motivated and was a serious setback for freedom of expression.<sup>27</sup>

Thousands of protestors marched in Caracas at events in April and May 2007 denouncing the government decision, but the government followed through with its

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<sup>24</sup> "AES to Sell Utility Stake to Venezuela," *Washington Post*, February 9, 2007; "Venezuela: Government Buys Verizon's Stake in CANTV," *Latinnews Daily*, February 13, 2007.

<sup>25</sup> Organization of American States, "OAS Secretary General Expresses Concern Over Decision Not to Review Broadcasting License of Venezuelan Television Station," Press Release, January 5, 2007.

<sup>26</sup> Inter-American Commission on Human Rights, "IACHR Concerned About Freedom of Expression in Venezuela," Press Release, May 25, 2007.

<sup>27</sup> "Venezuela: Shutdown Harms Free Expression," Press Release, Human Rights Watch, May 25, 2007.

decision and RCTV ceased its public broadcasting on May 27. The closure of RCTV prompted protests, primarily by students who oppose the government's action as a violation of freedom of their civil rights. The strength and endurance of the student-led protests appear to have taken the government by surprise. Polls reportedly show that more than 70% of Venezuelans disagree with President Chávez's decision to close RCTV.<sup>28</sup> Nevertheless, the government has threatened legal action against another private television station, Globovisión, accusing it of inciting assassination attempts against President Chávez. Venezuelan Foreign Minister Nicolas Maduro has asserted that the United States is behind plans to destabilize Venezuela.

Several countries, including the United States, spoke out against Venezuela's action. The U.S. Senate approved S.Res. 211 (Lugar) on May 24, 2007 by unanimous consent expressing profound concerns regarding freedom of expression in Venezuela and the government's decision not to renew the license of RCTV. In the aftermath of RCTV's closure, the State Department issued a statement calling on Venezuela to reverse its policies that limit freedom of expression.<sup>29</sup> The European Parliament adopted a resolution on May 24, 2007, expressing concern about Venezuela's action, and calling for the government to ensure equal treatment under the law for all media. On May 31, 2007, the Brazilian Senate issued a strong statement calling for President Chávez to review his decision. The Chilean Senate also supported a resolution against the closure of RCTV. At the OAS General Assembly meeting held in Panama June 3-5, 2007, several nations, such as Canada, Chile, El Salvador, Guatemala, and Peru, in addition to the United States, spoke out for freedom of the press. Ultimately, however, the OAS did not approve a resolution specifically criticizing Venezuela for its actions, but adopted a resolution reaffirming the right to freedom of expression and calling upon member states to respect and ensure respect for this right.<sup>30</sup>

In July 2007, RCTV resumed broadcasting through cable and satellite, as RCTV International (a subsidiary of RCTV). Only about a third of Venezuelan households, however, have access to cable or satellite television.<sup>31</sup> The government responded to the broadcaster's return to the airwaves by ordering RCTV International to register as a Venezuelan broadcaster in order to be subject to local regulations. Otherwise, it would face losing its licence to broadcast via cable. Since RCTV International is based in Miami, it claims that it is not a national broadcaster and therefore exempt from registration and local regulations. The Venezuelan National Telecommunications Commission rejected this argument and threatened cable

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<sup>28</sup> Richard Lapper, "TV Channel Axed in Latest Chávez Drama," *Financial Times*, May 26, 2007.

<sup>29</sup> U.S. Department of State, "Statement on Closing of Venezuela's Only Independent Television Network with Nationwide Broadcast Coverage," *Daily Press Briefing*, May 29, 2007.

<sup>30</sup> Organization of American States, Declaration and Resolutions Adopted by the General Assembly, June 5, 2007, pp. 100-103, AG/RES. 2287, Right to Freedom of Thought and Expression and the Importance of the Media.

<sup>31</sup> Benedict Mander, "Television Channel Critical of Chavez Returns," *Financial Times*, July 16, 2007.

companies with fines if they continued to carry RCTV International. On August 2, 2007, the Venezuelan Supreme Court ruled that cable companies could continue to carry RCTV International without fear of government retaliation, since no clear regulation exists defining what constitutes a national broadcaster.<sup>32</sup> Venezuela's telecommunications minister, Jesse Chacon, responded to the Supreme Court's decision by stating that norms that clearly define a national broadcaster would be elaborated in order to compel RCTV International to submit to government regulation.

**December 2, 2007 Constitutional Reform Referendum.** In August 2007, Venezuelan President Hugo Chávez announced his proposals for constitutional reform that would alter 33 of the 350 articles of the 1999 Venezuelan constitution, and that he claimed would move Venezuela toward a new a model of development known as “socialism in the 21<sup>st</sup> century” embracing participatory democracy and a mixed economy. According to the Venezuelan government, the purpose of the reforms was to speed the redistribution of Venezuela's oil resources to benefit the poor; de-centralize political power to grant citizens more direct say in their affairs; and outline the legal foundation of a new, more equitable model of development and democracy.<sup>33</sup> Venezuela's National Assembly debated the proposals in three rounds, and ended up adding reforms to amend 36 additional articles for a total of 69 constitutional amendments that were finalized by the Assembly on November 2, 2007.

The amendments were subject to a public referendum held on December 2, 2007, with the 69 reforms split into two parts. Block “A” consisted of amendments to 46 of the constitution's articles, including the 33 reforms proposed by Chávez and 13 proposed by the National Assembly. Block “B” consisted of amendments to 23 articles proposed solely by the National Assembly.

Among some of the proposals for constitutional changes included in Block A of the referendum were the following amendments:

- to lower the voting age from 18 to 16 years of age (Article 64);
- to prohibit foreign financing of associations with political goals, and provide for government financing of electoral activities (Article 67);
- to decrease the workweek from 44 to 36 hours and the workday from 8 hours to 6 hours (Article 90);
- to recognize Venezuela's multi-cultural diversity and the importance of its indigenous, European, and African cultures (Article 100);
- to provide that the government promote and develop distinct forms of businesses and economic units of social property and social production or distribution in order to create the best conditions for the collective and cooperative construction of a socialist economy (Article 112);

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<sup>32</sup> “RCTV Allowed to Broadcast Despite Misgivings,” *Latin American Andean Group Report*, August 2007.

<sup>33</sup> “Constitutional Reforms in Venezuela,” Embassy of the Bolivarian Republic of Venezuela, Washington, D.C., November 2007.

- in addition to private property, to add several new classifications for property – public, social, collective, and mixed (Article 115);
- to remove the presidential two-term limit, and extend the presidential term from six to seven years (Article 230);
- to state that the socioeconomic system of Venezuela is founded on socialist and anti-imperialist principles, among others (Article 299); and
- to eliminate the independence of the Central Bank, which would include putting international reserves under the administration and direction of the President (Article 318).

Among some of the proposals for constitutional changes included in Block B of the referendum were the following amendments:

- to prohibit discrimination based on health and sexual orientation (Article 21);
- to give the President power to suspend certain constitutional rights, such as the right of information and certain rights of due process (that are protected under the current constitution) during a declared “state of exception” (national emergency), but prohibit the suspension of the rights to life, defense, and personal integrity or the suspension of prohibitions against torture, being held incommunicado, or disappearance (Article 337);
- to remove the time limitation for a declared state of exception (Article 338);
- to increase the percentage of signatures required for citizens to initiate constitutional amendments from 15% to 20% of those on the electoral registry (Article 341).

One of the most controversial reforms would have extended the presidential term from six to seven years and abolished the presidential two-term limit by allowing indefinite reelection, a reform that would have allowed President Chávez, last elected in 2006, to run for reelection in 2012. Opponents viewed it as a means for President Chávez to remain in power indefinitely, while government officials pointed out that constitutional provisions would still require the president to be re-elected each term, with the possibility of facing a recall referendum midway in the presidential term.

Other proposed reforms that raised concerns included amendments that would have: given the state greater control over the economy; eliminated the independence of the Central Bank and put international reserves under the control of the President; given the President power to suspend certain rights (right of information and certain rights of due process) during a state of emergency that are currently protected under the existing constitution; and removed the time limits that a state of emergency could be imposed.

Various provisions that would promote a “socialist economy” and “socialist democracy” were also controversial. The reforms would have declared that the socioeconomic system was based on socialist principles, and that state should promote the active participation of citizens, restoring power to the people and

creating the best conditions for the construction of a socialist democracy. The proposed reforms would have allowed for changes in the administrative division of Venezuelan territory and the structure of local government, which according to President Chávez, would represent “a new geometry of power.” New federal districts with economic and political autonomy would be created and existing communal councils (thousands have been created since 2006) would be given legal status and empowered. As a result of this change, the government could channel funds and resources directly to the federal districts and communal councils, bypassing local government officials. National budget payments to the states would have increased from 20% to 25% of the budget, with 5% designated for financing the communal councils. Councils of popular power (such as communal councils, workers councils, student councils, youth councils fishermen councils etc) would have been established as a means of citizen participation. The work of the missions (the social programs begun by the Chávez government in 2003) would be set forth in the constitution as an official part of public administration created to satisfy the urgent needs of the population.

The proposed constitutional reforms also included changes to the structure of the military. The military would have been defined as a patriotic, popular, and anti-imperialist body with the objective of guaranteeing Venezuela’s independence and sovereignty. The National Reserves would be transformed into the “National Bolivarian Militia,” which would constitute the fifth official component of the armed forces.

**Referendum Results.** While initially it appeared that President Chávez’s overall popularity and the decision to include such popular measures in the reform as decreasing the work day would help ensure passage of the referendum, its approval no longer appeared certain in the days leading up to the vote. There was growing opposition to the constitutional reforms, including by a number of student organizations, business groups, the Catholic Church, and even some past supporters of President Chávez, such as the popular former minister of defense General Raúl Baduel. Various polls in November 2007 showed that those opposing the referendum had gained momentum and were in the majority.<sup>34</sup> Despite the polls, many observers still maintained that the government had the organization and resources to mobilize its supporters, and pointed out that Chávez, who still remains popular, had never lost an election.<sup>35</sup>

Early in the morning of December 3, 2007, Venezuela’s National Electoral Council (CNE) announced that both blocks had been rejected by a slim margin, with Block A defeated by 1.41% and Block B defeated by 2.11%. President Chávez immediately addressed the country on national television, and conceded the loss. The CNE subsequently issued an updated total of the vote on December 7, 2007 that

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<sup>34</sup> Ian James, “Venezuelan Voters Oppose Chávez’s Proposed Constitutional Changes, Poll Shows,” *Associated Press*, November 24, 2007; Enrique Andres Pretel, “Poll Says Chávez Loses Venezuela Referendum Lead,” *Reuters News*, November 24, 2007.

<sup>35</sup> Tyler Bridges, “Turnout of anti-Chávez Voters is Questionable,” *Miami Herald*, November 25, 2007.

changed the margin only slightly, with Block A defeated by 1.31% and Block B defeated by 2.02%. (Table 1 below shows the CNE's final vote totals.)

**Table 1. CNE's December 2, 2007 Constitutional Reform Results**

	Yes (votes)	Yes (%)	No (votes)	No (%)
<b>Block A</b>	4,404,626	49.34%	4,521,494	50.65%
<b>Block B</b>	4,369,014	48.99%	4,539,707	51.01%

**Source:** National Electoral Council, Bolivarian Republic of Venezuela, December 7, 2007.

**Why the Reform Failed.** A key to the failure of the reform effort appears to lie with the large abstention of Venezuelans that in the past supported President Chávez. About 56% of the electorate participated in the referendum vote compared to almost 75% in the December 2006 presidential election. About three million fewer voters supported the constitutional reform than voted for Chávez in 2006. President Chávez acknowledged these statistics in his concession speech pointing out the abstention of many of his supporters. In contrast, those rejecting the constitutional reform received almost 250,000 votes more than opposition candidate Manuel Rosales had in the 2006 presidential election, just a slight increase.

There are a number of factors that resulted in Chávez supporters staying home for the referendum. One of the most significant was former and current supporters of President Chávez concerned that the Chávez government is becoming too radicalized with power too concentrated in the presidency. In the National Assembly, the Podemos Party, a democratic socialist party that had been supportive of the Chávez government, called the reform amendments a “constitutional coup,” and was the sole party to vote against the reforms. Its leader Ismael García and other party members were dubbed traitors for opposing the reform effort. The party, which actively participated in the “No” campaign, had originally supported the establishment of a Constituent Assembly to amend the Constitution. It is likely that the opposition of Podemos contributed to the No vote, and also resulted in Chavistas abstaining.

Another significant defection from the Chavista camp was the ex-wife of President Chávez, Marisabel Rodríguez, who actively opposed the reform, maintaining that it would concentrate absolute power. Rodríguez has a significant political profile in Venezuela, and was a member of the Constituent Assembly that drafted the current 1999 Constitution, which she maintains was a product of legitimate and valid public debate.<sup>36</sup>

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<sup>36</sup> Chris Kraul, “Despite Outcry, Chávez Plan Likely to Pass,” *Los Angeles Times*, November 15, 2007.

Perhaps the most significant opposition from within the Chavista movement was from retired General Raúl Baduel, former commander of the Venezuelan army and former Defense Minister, who in early November 2007 labeled the reform proposal a coup d'état intended to abolish checks on the President's expanding power.<sup>37</sup> Baduel had been one of Chávez's closest advisors since he helped him return to power in April 2002, and reportedly commands respect among many Chavistas and within the Venezuelan military.<sup>38</sup> Baduel asserted that the constitutional reform proposal was "nothing less than an attempt to establish a socialist state in Venezuela." He also cited the government's failure to address such severe problems as high rates of crime and violence, inflation, a housing shortage, and poor education and health care, and maintained that the current constitution gives ample room for any decent and honest government to address these challenges.<sup>39</sup>

Despite a booming Venezuelan economy and a fall in poverty rates over the past several years, several significant economic problems in Venezuela contributed to the rejection of the constitutional reform. Inflation, estimated at over 20% in 2007, has been the highest in the region. Price controls on basic staples like milk, eggs, and chicken have resulted in significant product shortages and long lines as domestic production has dwindled. Venezuela's currency is also significantly overvalued, with a substantial difference between the official exchange rate and the parallel market. The economic difficulties caused Venezuelans to question the government's management of the economy, asking such questions as how a booming economy could be experiencing so many problems.

As expected, the political opposition also strongly criticized the proposed constitutional changes, maintaining that the reforms would be a means for President Chávez to extend his power and remain in office indefinitely, while steering Venezuela towards Cuban-style totalitarianism. Opposition leader and former presidential candidate Manuel Rosales of the Un Nuevo Tiempo (UNT) party called the proposed changes a "constitutional coup," and warned that the reform would further exacerbate shortages for basic products as the country moves toward a socialist system.<sup>40</sup> An important aspect of the opposition's "No" campaign was that it concentrated on the substance of the reforms, and was not focused on Chávez himself. Such a strategy proved less threatening for Chávez supporters who could oppose the reform or abstain from voting and still support Chávez as their President through 2012.

University students, which took the lead in the demonstrations against the government's closure of Radio Caracas Television ( RCTV) in May 2007, also

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<sup>37</sup> Simon Romero, "Venezuelan General Likens Chávez's Proposals for Constitution to a Coup," *New York Times*, November 6, 2007.

<sup>38</sup> John Otis, "One-time Allies Blast Chávez's Push for Power," *Houston Chronicle*, November 17, 2007.

<sup>39</sup> Raul Isaias Baduel, "Why I Parted Ways with Chávez," *New York Times*, December 1, 2007.

<sup>40</sup> "Advierte Líder Opositor Venezolano Que Reforma Profundizará Desabasto," *Agencia Mexicana de Noticias*, November 24, 2007.

played a major role in defeating the constitutional reform by taking the lead in street protests. On November 7, 2007, some 80,000 thousand students marched to the Supreme Court calling on the judicial body to suspend the referendum. Students also played a major role in the final demonstration of the “No” campaign, which mobilized more than 100,000 people in Caracas on November 29, 2007. With their ability to mobilize demonstrators, students emerged as perhaps the most prominent and visible opponents of the constitutional reform effort, and some observers believe that the reform would not have been defeated had it not been for the students. Historically, students in Venezuela have often played an important role in political change, including most notably in the overthrow of dictator Marcos Pérez Jiménez in 1958. The student movement that emerged in 2007 was not discredited by the Chávez government despite attempts to portray them as spoiled children of the oligarchy.

The Catholic Church in Venezuela, which criticized the constitutional reform effort as concentrating power in the hands of the President and favoring authoritarianism, also likely had some influence on the vote. In October 2007, Venezuelan bishops issues a public statement on the reforms, maintaining that the proposition of a Socialist State was contrary to the fundamental principles of the existing constitution, and asserting that the reforms would restrict liberties and represent a step backward in progress on human rights.<sup>41</sup>

Venezuelan human rights groups also actively questioned and criticized the constitutional reforms. Forum for Life, a coalition of Venezuelan nongovernmental human rights organizations, petitioned the Supreme Court in mid-November to declare the proposed reforms unconstitutional. The coalition of human rights activists believed that the reforms represented a regression in the protection of human rights recognized in the 1999 constitution. Among the various objections of the Forum were concerns about proposed reforms to Article 337, which would eliminate the right of information and essential elements of the right of due process from the list of rights that cannot be suspended during a state of emergency. The Forum also opposed the reform to Article 338, which would have removed the time limit on a state of exception or emergency.<sup>42</sup>

**Looking Ahead.** The rejection of the constitutional reform will likely improve public confidence in the electoral process, and in the National Electoral Council. In the past, critics have often portrayed the CNE as dominated by the Chávez government and questioned the outcome of elections. In the aftermath of the “No” win, some opposition politicians claimed that the reform was defeated by a much larger margin. But opposition leaders, including Manuel Rosales of the UNT,

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<sup>41</sup> Conferencia Episcopal Venezolana, “Exhortación de los obispos sobre la reforma constitucional,” October 19, 2007, available at [[http://www.cev.org.ve/noticias\\_det.php?id=266](http://www.cev.org.ve/noticias_det.php?id=266)]

<sup>42</sup> “Foro por la Vida introduce acción de inconstitucionalidad de la propuesta de reforma ante el TSJ,” Comunicado de Prensa, Foro por la Vida, Caracas, November 15, 2007, available at [[http://www.derechos.org.ve/actualidad/comunicados/comu\\_prensa\\_2007/recursoreforma.html](http://www.derechos.org.ve/actualidad/comunicados/comu_prensa_2007/recursoreforma.html)]

agreed with the CNE's numbers, which are listed on the electoral body's website down to the level of each voting site and table.<sup>43</sup> Such level of transparency should increase confidence that Venezuela can conduct free and fair elections.

Nevertheless, while many observers lauded the CNE for the conduct of the vote on election day, government critics still claim that during the electoral campaign the CNE sided with the government on many decisions, and did nothing to stop the government from using its considerable resources to fund the campaign in favor of the reform. For example, Caracas was blanketed with propaganda in favor of the reform. The CNE was also widely criticized, including by the non-governmental Venezuelan domestic election observer group Electoral Eye, for the several hour delay in releasing the vote results, which contributed to increased tension across the country until the vote was announced.

The win of the "No" vote could result in more independent debate with the National Assembly, with more legislators feeling safer to question the government's projects and proposals. In particular, the role of the small Podemos party and its leader Ismael Garcia has been elevated and will likely promote legitimate debate in the legislative body. The rejection of the reform also elevated the potential future political role of former Gen. Raúl Baduel, a former close supporter of President Chávez, who reportedly is close with the Podemos party.

For opposition parties such as the center-left UNT and center-right Primero Justicia, the rejection of the reform demonstrates that they can oppose the Chávez government at the ballot box and win. Going forward, however, it is obvious that the margin was very slim, and that just a small shift of votes – less than 60,000 for Block A and about 85,000 for Block B – would have reversed the results. Observers assert that victory by such a close vote suggests that the opposition will need to be unified and work with other former Chávez supporters such as Podemos to attract more electoral support. The next electoral races will take place in October 2008 when regional and state elections will be held, and in December 2010 when national elections will be held for the National Assembly

For President Chávez, while the referendum vote was his first electoral loss, he still wields considerable power as President. While initially conciliatory in his remarks following the defeat of the referendum, the President subsequently spoke disparagingly of those Chavistas who abstained and vowed to continue efforts to get the constitutional reforms approved. Moreover, observers point out that Chávez could enact a number of the reform proposals by decree or through the regular legislative process since he still has the support of most of the National Assembly. Some of the more controversial proposals, however, including the elimination of presidential term limits, can only be changed through the constitutional reform process spelled out in the current constitution, which includes the avenue of using an elected Constituent Assembly.

A key decision for President Chávez will be how he proceeds politically in the aftermath of the defeat of the constitutional reform. In the past, the President has

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<sup>43</sup> The CNE's website is available at [<http://www.cne.gov.ve/>].

resorted to harsh political rhetoric and polarization to win at the ballot box, and ensure his popular support. The defeat of the referendum, however, could be a sign that such hardline tactics may no longer be as successful. Some observers think that the defeat could cause Chávez to use more pragmatic political tactics that would appeal to moderate Chavistas and those supporters that abstained in the 2007 referendum. Such an approach might enable the President to regain strong popular support, or enough support to again attempt efforts to achieve passage of constitutional reforms in the future, particularly the elimination of presidential term limits. Other observers contend that it is unlikely that Chávez will refrain from hardline tactics to enact his radical agenda, especially given now that he is term limited until early 2013. Such a strategy of continued polarization, however, could be counterproductive for the President at the ballot box if it alienates moderate Chavistas. Moreover, at this juncture, the government's attempt to impose any unpopular policy that affects civil rights or the state of democracy risks triggering widespread street protests by an energized student movement and the political opposition.

## Political Developments in 2008

In January 2008, Chávez again floated the idea of another attempt at a constitutional reform amendment in 2010 that would allow him to be re-elected again in December 2012, but such a move would be controversial given the defeat of the government's constitutional reform package in December 2007. It would also have to be an initiative proposed by signatures of 15% of the electorate that would be then subject to a referendum.<sup>44</sup>

In 2008, the Venezuelan government has moved forward with nationalizations in key industries. In March 2008, the government nationalized two food companies maintaining that the takeover would improve production and distribution and help resolve food shortages. In early April 2008, President Chávez announced the nationalizations of the cement industry – which involves taking majority shares in Mexican, French, and Swiss companies operating in Venezuela, – and the country's largest steel maker, Sidor, an Argentine-controlled unit of the Luxembourg-based company Ternium. Venezuelan officials maintain that the cement nationalizations were justified because the companies were producing below capacity and exporting too much, while the steel company had been bogged down in a labor dispute and criticized the company for exploiting workers.<sup>45</sup> Other observers have criticized the nationalizations as an attack on the private sector, and as a attempt by the government to improve the President's popularity.<sup>46</sup>

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<sup>44</sup> Ian James, "Chávez Looks to New Vote," *Associated Press Newswires*, January 13, 2008; "Chávez Reverts to Indefinite Election," *Latinnews Daily*, January 14, 2008.

<sup>45</sup> "Venezuela Country Report," *Economist Intelligence Unit*, April 2008; James Suggett, "Venezuelan Steel Company to be Nationalized in Wake of Labor Conflict," *Venezuelanalysis.com*, April 10, 2008.

<sup>46</sup> "Venezuela Economy: Cement Grab," *EIU ViewsWire*, April 8, 2008.

In early June 2008, Chávez rescinded a decree that he had made days earlier overhauling the country's intelligence polices. Human rights groups and legal scholars had strongly criticized the extensive decree, maintaining that it would force citizens to inform on one another in order to avoid prison terms and would force judges to cooperate with intelligence services.<sup>47</sup>

President Chávez's popularity has declined in 2008 with such problems as high crime rates, food shortages, and inflation contributing to the decline. Some reports in March 2008 maintained that support for his government had dropped to as low as 34%, while more recent reports maintain that his popularity is around 50% (compared to December 2006 when he was re-elected with 63% of the vote).<sup>48</sup>

**November 2008 State and Local Elections.** Looking ahead, state and municipal elections are scheduled to be held on November 23rd this year, which could be a significant test for the political strength of President Chávez and the opposition. Chávez has moved to unite his supporters into a single party – the United Socialist Party of Venezuela (PSUV) – which was inaugurated in January 2008, although several parties that had supported Chávez in the past declined to join. The PSUV held primary elections around the country on June 1, 2008, to select candidates, although the process has been criticized for a lack of transparency. The vote also sparked protests in several states, with some PSUV members maintaining that the candidacies were pre-determined.<sup>49</sup>

The opposition as well appears to be having some difficulty in unifying and selecting candidates even though they signed an accord that they would ultimately agree on a single slate of candidates so as not to split the opposition vote. Currently the opposition includes newer parties such as Justice First, Project Venezuela, and A New Era (Un Nuevo Tiempo, UNT); leftist parties that defected from the Chavista coalition such as the Movement toward Socialism (MAS) and Podemos; and the traditional political parties from the past such as Democratic Action (AD) and the Social Christian Party (COPEI).<sup>50</sup>

Some observers fear that the opposition could squander an opportunity to challenge the government effectively in the November 2008 elections by not unifying behind a single list of candidates.<sup>51</sup> One of the major problems for the opposition is

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<sup>47</sup> Simon Romero, "Chávez Suffers Military and Policy Setbacks," *New York Times*, June 8, 2008, and "Chávez Decree Tightens Hold on Intelligence," *New York Times*, June 3, 2008.

<sup>48</sup> "Crime, Inflation Erode Chávez Govt's Popularity," *Reuters News*, March 19, 2008; "Poll Shows Support for Venezuelan Government Drops," *BBC Monitoring Americas*, March 26, 2008; Tyler Bridges, "Chávez Boosting His Loyalist Candidates," *Miami Herald*, June 1, 2008.

<sup>49</sup> "Venezuela: Power Struggle," *Economist Intelligence Unit – Business Latin America*, June 23, 2008.

<sup>50</sup> "Venezuela: Opposition Disarray Hurts Electoral Hopes," *Oxford Analytica*, July 1, 2008.

<sup>51</sup> "Time Running Out for the Opposition," *Latin American Andean Group Report*, July (continued...)

that the Venezuelan government's comptroller general has disqualified 272 individuals (down from almost 400 originally disqualified) from running for office, purportedly for cases involving the misuse of government funds.<sup>52</sup> There are several challenges to Venezuela's Supreme Court that the comptroller general's action violates the Constitution, but the court would need to decide on these challenges before the August 5-12, 2008 period when candidates need to register in order to compete in the November elections.

The Venezuelan government maintains that the majority of those disqualified are from the ranks of the its own supporters,<sup>53</sup> although the list includes several high-profile opposition candidates. According to Jennifer McCoy of the Carter Center, there is a perception that popular opposition candidates are being disqualified in order to prevent true competition with government-sponsored candidates.<sup>54</sup> Among those excluded is Leopoldo López, the popular mayor of Chacao, who is seeking to run for mayor of all Caracas. Some members of the opposition are drawing international attention to the government's actions, and have launched a complaint at the Inter-American Commission on Human Rights.

While there have been street demonstrations in Venezuela against the government for its actions, it is unclear what the opposition will do if the government does not allow the opposition candidates to compete for office. Some opposition parties want to decide on new nominees, while others want to continue pressing the government to let the disqualified candidates run. However it plays out, analysts maintain that the opposition will likely gain less than a third of the governorships and municipal positions that are being contested.<sup>55</sup>

At this juncture, President Chávez appears to be focusing on measures to combat issues that have eroded his popular support, including high crime, food shortages, unemployment, and housing shortages. It remains to be seen, however, whether the government will be able to tackle these problems effectively in a way that will increase his popular support. Other recent policy reversals by President Chávez – such as his call in early June for the Revolutionary Armed Forces of Colombia (FARC) to lay down its arms and release all hostages, and a statement in early July that he hopes to renew antidrug cooperation with the United States – can also be viewed as an attempt by Chávez to moderate his behavior ahead of the November elections. Beyond this November, the next key political test at the polls will likely be in 2010 when the National Assembly is up for election.

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<sup>51</sup> (...continued)  
2008.

<sup>52</sup> “Inhabilitaciones a Políticos en Venezuela Se Reducen de 400 a 272,” *Agence France-Presse*, July 11, 2008.

<sup>53</sup> Embassy of the Bolivarian Republic of Venezuela, “Fact Sheet, Myths and Realities of the Disqualifications from Holding Public Office,” July 17, 2008.

<sup>54</sup> Testimony of Dr. Jennifer McCoy, before a hearing of the House Committee on Foreign Affairs, Subcommittee on the Western Hemisphere, July 17, 2008.

<sup>55</sup> “Venezuela: Opposition Disarray Hurts Electoral Hopes,” *Oxford Analytica*, July 1, 2008.

## Human Rights Concerns

In addition to concerns about some of the constitutional amendments proposed in 2007, human rights organizations and U.S. officials have expressed concerns for several years about the deterioration of democratic institutions and threats to freedom of speech and press in Venezuela under the Chávez government. The State Department's March 2008 human rights report stated that Venezuela's human rights situation continued to be characterized by "politicization of the judiciary," and "official harassment of the media and of the political opposition."<sup>56</sup>

At the same time, however, a majority of Venezuelans, almost 60%, express satisfaction with how democracy in their country is working, according to a 2007 poll by Latinobarómetro, a far greater percentage than in most Latin American countries.<sup>57</sup> The defeat of President Chávez's constitutional reform amendments in December 2007 by a close margin in a largely free and fair process demonstrated the legitimacy of the voting process in many observers eyes.

In March 2007, the Inter-American Commission on Human Rights (IACHR) issued a statement expressing concern about the human rights situation in Venezuela and appealing to the government to allow an IACHR representative to visit the country. The Commission stated that in the last years it "has observed a gradual deterioration of the constitutional order that has compromised the full enjoyment of human rights" and expressed concern about freedom of expression in the country.<sup>58</sup> In its 2007 annual report, the Inter-American Commission on Human Rights highlights the difficulties that human rights defenders face in Venezuela, including attacks and threats on their life, and other obstacles such as public discrediting by state officials.<sup>59</sup>

Some observers are concerned that Chávez is using his political strength to push toward authoritarian rule. Human Rights Watch maintains that the Chávez government dealt a severe blow to judicial independence by packing the Supreme Court with his supporters under a new law that expanded the court from 20 to 32 justices. Since 2004, according to Human Rights Watch, the packed Court has fired hundreds of provisional judges and granted to permanent judgeships to about 1,000 others.<sup>60</sup> The Chávez government enacted a broadcast media law in December 2004 that could allow the government to restrict news coverage that is critical of the government, while in March 2005 it amended Venezuela's criminal code to broaden laws that punish "disrespect for government authorities." The IACHR and human rights groups such as the Committee to Protect Journalists, Reporters Without

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<sup>56</sup> See the full report at [<http://www.state.gov/g/drl/rls/hrrpt/2007/100657.htm>].

<sup>57</sup> "The Latinobarómetro Poll, A Warning for Reformers," *The Economist*, November 15, 2007

<sup>58</sup> Inter-American Commission on Human Rights, "The Inter-American Commission on Human Rights Appeals To Be Allowed To Visit Venezuela," Press Release, March 9, 2007.

<sup>59</sup> Organization of American States, "Annual Report of the Inter-American Commission on Human Rights 2007," December 29, 2007.

<sup>60</sup> Human Rights Watch, *World Report 2008*.

Borders, and the Inter-American Press Association maintain that these measures have restricted freedom of expression, with newspapers and broadcasters practicing self-censorship. (Also see “RCTV Closure and Public Reaction” above.)

Human rights groups and the Bush Administration have criticized Venezuela’s charges against four leaders of the Venezuelan civic group Súmate (Join Up) for accepting U.S. foreign assistance for a program to encourage citizen participation in the presidential recall referendum. The four, including María Corina Machado who met with President Bush in May 2005, are charged with conspiracy and treason. The State Department’s March 2008 human rights report noted the trial of leaders was indefinitely postponed in 2006.

With regard to religious freedom, the State Department human rights report maintained that the Venezuelan government generally respects the right of freedom of religion, but noted some concerns. According to the report, President Chávez used political rhetoric to engage in political attacks on specific Catholic bishops in Venezuela, and warned the bishops not to comment on political issues. More recently, Catholic Church officials criticized the government for reportedly financing a new Reform Catholic church that adopts many Catholic rites, but solidly supports Chávez’s Bolivarian revolution.<sup>61</sup> The State Department human rights report also maintained that President Chávez, along with other government officials, and government-affiliated media made numerous anti-Semitic comments. Moreover, according to the report, there was a reported rise in anti-Semitic vandalism, caricatures, intimidations, and physical attacks against Jewish institutions during the year. In December 2007, Jewish leaders in Venezuela and abroad condemned an armed police raid, in search of weapons, on a Jewish center in Caracas. An earlier armed police raid on the center’s school occurred in 2004, but in neither case were weapons found.

**Trafficking in Persons.** Venezuela had been on the State Department’s Tier 3 list for trafficking in persons from 2004 through 2007, which meant that the government was categorized as one that has failed to make significant efforts to bring itself into compliance with the minimum standards for the elimination of trafficking in persons. In the State Department’s June 2008 Trafficking in Persons (TIP) Report, however, Venezuela was upgraded to the Tier 2 Watch List category because the government was judged to be making significant efforts to combat trafficking in persons. According to the TIP report, Venezuela is a source, transit, and destination country for men, women, and children trafficked for sexual exploitation and forced labor. The report noted that the government showed greater resolved to address trafficking through law enforcement and prevention measures. According to the report, Venezuela was placed on the Tier 2 Watch List because it failed to provide evidence of increasing efforts to protect and assist trafficking victims.<sup>62</sup> (Also see CRS Report RL33200, *Trafficking in Persons in Latin America and the Caribbean*, by Clare Ribando Seelke.)

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<sup>61</sup> Casto Ocando, “Chávez-linked Church Decried,” *El Nuevo Herald*, June 29, 2008.

<sup>62</sup> U.S. Department of State, “Trafficking in Persons Report,” June 4, 2008. See the report at [<http://www.state.gov/g/tip/rls/tiprpt/2008/>].

## Economic Conditions

Venezuela's major economic sector is petroleum, which accounts for one-third of its gross domestic product and 80% of exports. The country is classified by the World Bank as an upper middle income developing country because of its relatively high per capita income of \$6,070 (2006).

Despite the country's oil wealth, economic conditions in the country deteriorated in the 1990s. The percentage of Venezuelans living in poverty (income of less than \$2 a day) increased from 32.2% to 48.5% of the population between 1991 and 2000, while the percentage of the population in extreme poverty (income of less than \$1 a day) increased from 11.8% in 1990 to 23.5% in 2000.<sup>63</sup> In 2002-2003, the country's political instability and polarization between the government and the opposition contributed to a poor investment climate, capital flight, and declines in GDP. The national strike orchestrated by the opposition from late 2002 to early 2003 contributed to a contraction of the national economy by almost 9% in 2002 and 7.7% in 2003.

Since 2004, however, the economy has rebounded, with a growth rate over 18% in 2004 and 10.3% in 2005 and 2006, fueled by the windfall in international oil prices. Growth in 2007 slowed to 8.4%, and is forecast to be 5.2% in 2008.<sup>64</sup> Strong economic growth has allowed the Chávez government to move ahead with economic goals that fit into his "Bolivarian revolution." These include the expansion of a state-led development model, land reform, renegotiation of contracts with large foreign investors (especially in the petroleum sector), the restructuring of operations at the state oil company, and diversification of trade and investment partners. The government has nationalized a number of enterprises, including telecommunications, electricity, and food companies, and this year announced the nationalization of cement companies, the country's largest steel company, sugar plantations, a dairy products company, and a cattle estate.

Beginning in 2003, the government began implementing an array of social programs and services known as missions. As a result of the booming economy and increased social spending, poverty rates in Venezuela have declined, from 48.6% in 2002 to 30.2% in 2006, with extreme poverty falling from 22.2% to 9.9% over the same period.<sup>65</sup>

Despite the country's economic growth and progress in reducing poverty, Venezuela's economy is experiencing significant problems, such as shortages of basic food staples and high levels of inflation that are eroding purchasing power. In 2007, the inflation rate at year's end reached 22.5%, the highest in Latin America,

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<sup>63</sup> World Bank, "Venezuela Country Brief," August 2004.

<sup>64</sup> "Venezuela Country Report," *Economist Intelligence Unit*, July 2008.

<sup>65</sup> U.N. Economic Commission for Latin America and the Caribbean, *Social Panorama of Latin America, 2007*, November 2007.

while the forecast for 2008 is 35%.<sup>66</sup> In January 2008, the government introduced a new currency, the bolívar fuerte (strong bolivar), that eliminated three zeroes from the bolívar and was intended in part to stem high inflation rates, but inflation has continued to increase monthly. Shortages of basic staples such as milk, sugar, and eggs worsened in 2007 as a result of price controls that stifled local production. In response, the government has raised price caps on basic food items, and nationalized a large dairy company and a food distribution company that were incorporated into a subsidiary of the Venezuelan oil company, PdVSA. The policies have reportedly worked to help ease shortages for some staples, but not all.<sup>67</sup>

## Venezuela's Social Missions<sup>68</sup>

As noted above, Venezuela is using windfall oil profits to boost social spending and programs to fight poverty. Beginning in 2003, the Chávez government began implementing an array of social programs and services known as *misiones*, or missions.

The popularity of the missions was instrumental to President Chávez's reelection in December 2006 and has been a major factor in the President's support among the poor. A key characteristic of the missions is that they are generally deinstitutionalized, functioning primarily through a parallel system that is not a part of the bureaucratic apparatus of the state. The missions have been funded through the government's central budget and allocations by PdVSA. Some observers contend that the work of the missions should be integrated into existing ministries and institutions of the Venezuelan government in order to improve administration and oversight.<sup>69</sup>

There are currently some 20 social missions in Venezuela, covering a wide array of services in the fields of education, health, nutrition, the environment, sports, culture, housing, and targeted programs for indigenous rights and services for street children and adolescents.<sup>70</sup>

In the education field, the *Misión Robinson* constitutes a national literacy campaign, with the government reporting that over 1.5 million Venezuelans have learned to read and write since the program began in 2003.<sup>71</sup> The *Misión Robinson 2* focuses on adults in need of primary school education, particularly those who have just learned how to read and write through the *Misión Robinson*. According to

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<sup>66</sup> "Venezuela Country Report," *Economist Intelligence Unit*, July 2008, p. 7.

<sup>67</sup> "A Funny Way to Beat Inflation – Venezuela's Economy," *The Economist*, June 21, 2008.

<sup>68</sup> This section was originally written by Nelson Olhero, a Research Associate in the CRS Foreign Affairs, Defense, and Trade Division in 2007.

<sup>69</sup> "Venezuela Country Profile 2007," *Economist Intelligence Unit*, p. 18.

<sup>70</sup> For background on the various missions, see the Venezuelan government's website at [<http://www.misionesbolivarianas.gob.ve/>].

<sup>71</sup> See the government's website on the *Misión Robinson* at [<http://www.misionesbolivarianas.gob.ve/misiones/mision-robinson.html>].

government figures, between 2003 and 2006, over 1.2 million people were enrolled in the mission's primary school education program.<sup>72</sup> The *Misión Ribas* provides adult Venezuelans who never finished high school the opportunity to obtain a secondary education. The *Misión Sucre* has established state-run university villages in order to provide opportunities to attend university to those who were previously excluded from the higher educational system. These universities are especially geared to those students who completed their secondary education through the *Misión Ribas*.

In the health field, the *Misión Barrio Adentro* (Inside the Neighborhood Mission) consists of free health care clinics in historically marginalized areas throughout the country that are staffed primarily by Cuban medical personnel. The medical personnel live in the barrios and make home visits to those who are too ill to visit the community health clinics. The government intends to gradually replace many of the Cuban doctors with Venezuelan doctors. Although there were more than 20,000 Cuban medical personnel serving in Venezuela supporting the mission, over the past year thousands reportedly have left, leaving about 15,000; as a result, a number of the clinics reportedly have closed.<sup>73</sup> A July 2006 report published by the Pan American Health Organization showed that the mission has had a positive impact on the health of Venezuela's poor. The report maintains that there has been a reduction in child mortality from diarrhea and pneumonia since the mission began operating and that medical consultations performed by the mission in 2004 and 2005 saved over 18,000 lives.<sup>74</sup> A related health mission, the *Misión Milagro* (Miracle Mission), provides free eye care clinics and eye surgery.

In the area of nutrition, *Misión Mercal* attempts to ensure that poor Venezuelans obtain staple foodstuffs. The key component of the mission is the state-run Mercal supermarket and grocery store chain, where prices are subsidized by the government up to 40% less expensive than elsewhere.<sup>75</sup> This mission also includes soup kitchens that provide daily free meals and a service by which foodstuffs and meals are delivered to the homes of those living in extreme poverty. The government claims that the mission has been successful by pointing to the fact that over 47% of Venezuelans shop at Mercal<sup>76</sup> and that over nine and a half million people have benefitted from the Mercal Mission in some way.<sup>77</sup>

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<sup>72</sup> See the government's website on the *Misión Robinson 2* at [<http://www.misionesbolivarianas.gob.ve/misiones/mision-robinson-2.html>].

<sup>73</sup> Phil Gunson, "Venezuela Struggles with Doctor Shortage," *Miami Herald*, February 12, 2007.

<sup>74</sup> "Mission Barrio Adentro: The Right to Health and Social Inclusion in Venezuela," Pan American Health Organization, July 2006, pp. 82 and 107-112.

<sup>75</sup> Indira A.R. Lakshmanan, "Critics Slam Venezuelan Oil Windfall Spending," *Boston Globe*, August 13, 2006.

<sup>76</sup> "Chávez Reaches Out with Bolivarian Missions," *NPR, Weekend Edition*, December 3, 2006.

<sup>77</sup> See the government's website on the *Misión Mercal* at [<http://www.misionesbolivarianas.gob.ve/misiones/mision-alimentacion.html>]

Some observers have praised the missions for constituting an integrated package of poverty-reduction measures that address the various conditions associated with poverty, representing a holistic approach to poverty-reduction. The missions are viewed by some as a potentially more effective alternative to simple cash transfers, which have been the primary basis for poverty-alleviation programs in Latin America. Some critics of the missions, however, maintain that they focus on alleviating the harsh conditions associated with poverty rather than addressing the structural roots of the problem. They maintain that the missions are paternalistic and create a dependency on the state among the poor, without providing solutions to lift people out of poverty permanently. Some critics question the sustainability of the missions since they are funded primarily from oil revenues. They argue that the missions will likely disappear or be cut back significantly if oil revenue declined.<sup>78</sup>

## U.S. Policy

### Overview of U.S.-Venezuelan Relations

The United States traditionally has had close relations with Venezuela, the fourth major supplier of foreign oil to the United States, but there has been significant friction with the Chávez government. Tensions in relations turned especially sour in the aftermath of President Chávez's brief ouster from power in April 2002. Venezuela alleged U.S. involvement in the ouster, while U.S. officials repeatedly rejected charges that the United States was involved.

Over the past several years, U.S. officials have expressed concerns about human rights, Venezuela's military arms purchases (largely from Russia), its relations with Cuba and Iran, and its efforts to export its brand of populism to other Latin American countries. Declining Venezuelan cooperation on antidrug and antiterrorism efforts also has been a U.S. concern. Since 2006, the Department of State has prohibited the sale of defense articles and services to Venezuela because of lack of cooperation on antiterrorism efforts. In the aftermath of Colombia's March 1, 2008 bombing of a FARC camp in Ecuador that killed the terrorist group's second in command, captured laptops contained files potentially linking the Venezuelan government with efforts to support the FARC. In a turn of events, on June 8, 2008, President Chávez publicly urged the FARC to end its armed struggle, and release all hostages.

While strong political rhetoric from both U.S. and Venezuelan officials in the 2002 to 2006 period contributed to elevated tensions in U.S. relations, the tenor of U.S. political rhetoric appears to have changed since the second half of 2006. When Chávez spoke disparagingly of President Bush at the United Nations in September 2006, U.S. officials refrained from responding to those personal attacks. Likewise, when President Chávez led an anti-American rally in Argentina in March 2007 during President Bush's visit to Brazil and Uruguay, President Bush ignored the

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<sup>78</sup> Indira A.R. Lakshmanan "Critics Slam Venezuelan Oil Windfall Spending," *Boston Globe*, August 13, 2006; José Orozco, "With 'Misiones,' Chávez Builds Support Among Venezuela's Poor," *WorldPoliticsWatch*, December 10, 2006.

taunts and U.S. officials emphasized that they wanted to focus on a positive agenda of U.S. engagement with Latin America.

Today, U.S. policy toward Venezuela appears to be to refrain from getting into any unneeded conflicts or spats with President Chávez, and instead to focus on a positive U.S. agenda for the hemisphere while at the same time being open to constructive cooperation with Venezuela on issues of mutual concern. Assistant Secretary of State for Western Hemisphere Affairs Tom Shannon stated in July 17, 2008 congressional testimony that “we remain committed to a positive relationship with the people of Venezuela and have the patience and the persistence necessary to manage our challenging relationship.” Shannon pointed out in his testimony that Venezuela “for the first time in many years, expressed a willingness to explore improved relations with the United States,” including counter-drug cooperation, and that “we have told Venezuela that we would like to explore this diplomatic opening.”<sup>79</sup>

**Tensions Increase in 2005.** Administration officials voiced increasing concern about President Chávez in 2005, and tensions increased in U.S.-Venezuelan relations, with elevated rhetoric on both sides. In both March and September 2005, State Department officials testified to Congress that President Chávez’s “efforts to concentrate power at home, his suspect relationship with destabilizing forces in the region, and his plans for arms purchases are causes of major concern.” They asserted that the United States “will support democratic elements in Venezuela so they can fill the political space to which they are entitled.”<sup>80</sup> Then Secretary of Defense Donald Rumsfeld expressed concerns in March about Venezuela’s plan to buy 10 military helicopters and 100,000 AK-47 rifles from Russia and questioned why Venezuela needs the weapons.<sup>81</sup> U.S. officials have also expressed concerns about Venezuela’s plans to buy patrol boats and military transport aircraft from Spain as well as a decision by Venezuela in April 2005 to cancel a U.S.-Venezuelan bilateral military exchange program.

On May 31, 2005, President Bush met with Maria Corina Machado, the founder of *Súmate*, a Venezuelan civic group that was involved in the signature drive for the August 2004 recall referendum. The meeting exacerbated the already tense U.S.-Venezuelan bilateral relations. Machado is facing charges in Venezuela for conspiring against the government by accepting U.S. funding from the National Endowment for Democracy for *Súmate*’s activities leading up to the recall referendum. U.S. officials and some Members of Congress have strongly defended

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<sup>79</sup> Testimony of Thomas A. Shannon, Assistant Secretary of State for Western Hemisphere Affairs, hearing on “Venezuela: Looking Ahead,” House Committee on Foreign Affairs, Subcommittee on the Western Hemisphere, July 17, 2008.

<sup>80</sup> House International Relations Committee, Subcommittee on the Western Hemisphere, Hearing on “The State of Democracy in Latin America,” Testimony of Roger F. Noriega, Assistant Secretary of State for Western Hemisphere Affairs, March 9, 2005; Hearing on “Keeping Democracy on Track: Hotspots in Latin America,” Testimony of Charles A. Shapiro, Principal Deputy Assistant Secretary of State, September 28, 2005.

<sup>81</sup> Todd Benson, “Rumsfeld in Brazil, Criticizes Venezuela on Assault Rifles,” *New York Times*, March 24, 2005.

the NED's activities in Venezuela and have criticized the Venezuelan government's efforts to intimidate the leaders of Súmate. (See *U.S. Funding for Democracy Projects*, below.)

In early August 2005, Venezuela suspended its cooperation with the U.S. Drug Enforcement Administration (DEA) because it alleged that DEA agents were spying on Venezuela. U.S. officials asserted that the accusations were "baseless and outrageous" but also indicated that the United States would like to improve U.S. relations with Venezuela and reverse the negative trend in relations over the past few months.<sup>82</sup>

While traveling in South America in August 2005, then Secretary of State Donald Rumsfeld asserted that "there certainly is evidence that both Cuba and Venezuela have been involved in the situation in Bolivia in unhelpful ways."<sup>83</sup> Some Members of Congress, such as Senator Arlen Specter, reportedly called for the Secretary to tone down his rhetoric.<sup>84</sup> Specter met with President Chávez and Venezuelan ministers in mid-August 2005 to discuss cooperation on drug interdiction. Subsequently, on September 15, 2005, President Bush designated Venezuela as a country that has "failed demonstrably during the previous 12 months to adhere to their obligations under international counternarcotics agreements." At the same time, the President waived economic sanctions that would have curtailed U.S. assistance for democracy programs in Venezuela. (Also see *Counternarcotics Cooperation* below.)

On August 22, 2005, the comments of TV evangelist Pat Robertson that the United States should "assassinate" Chávez evoked a strong response from Venezuelan officials and from many U.S. policymakers. The State Department responded by labeling Robertson's comments as "inappropriate."<sup>85</sup> (For further information on the U.S. prohibition against assassination, see CRS Report RS21037, *Assassination Ban and E.O. 12333: A Brief Summary*, by Elizabeth B. Bazan.)

In testifying to Congress on November 17, 2005, the new Assistant Secretary of State for Western Hemisphere Affairs Thomas Shannon asserted that there is "a growing hemispheric and international consensus that democracy in Venezuela is in grave peril." He stated that the United States was working multilaterally and bilaterally with Latin American and European nations to support Venezuelan civil society, speak out against abuses of democracy, and hold Venezuela accountable to its commitments under the Inter-American Democratic Charter. He described U.S. funding for democracy projects in Venezuela as "working to preserve political and

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<sup>82</sup> Lauren Monsen, "United States Hopes for Improved Cooperation," *Washington File*, U.S. Department of State, August 19, 2005.

<sup>83</sup> Josh White, "Rumsfeld in Latin America, Voices Democracy Concerns," *Washington Post*, August 17, 2005.

<sup>84</sup> Holly Yeager, "Senator Takes Rumsfeld to Task Over Chávez Criticism," *Financial Times*, August 20, 2005.

<sup>85</sup> U.S. Department of State, Daily Press Briefing, August 23, 2005.

civic space for increasingly at-risk groups.”<sup>86</sup> Reflecting an escalation of the Venezuelan President’s harsh rhetoric, Chávez responded to Shannon’s comments by calling President Bush a “crazy, genocidal killer.”<sup>87</sup>

U.S. reaction to the Venezuelan elections on December 5, 2005, was restrained, with a State Department spokesman indicating that United States would wait until the OAS and EU observers make their reports. Nevertheless, the State Department did point to the high voter abstention rate in the election and maintained that it reflected “a broad lack of confidence in the impartiality and transparency of the electoral process.”<sup>88</sup> (There was a 75% abstention rate in the December legislative election, compared to an abstention rate of 44% in the last legislative election in July 2000, which occurred at the same time that voters elected a president and state and local officials.<sup>89</sup>)

**Relations in 2006.** U.S.-Venezuelan relations continued to be tense in 2006, with several incidents and rhetoric exacerbating the poor state of relations. On February 2, 2006, then Secretary of Defense Donald Rumsfeld compared President Chávez to Adolf Hitler in terms of someone who was elected legally and then consolidated power.<sup>90</sup> Chávez responded by referring to President Bush as Hitler and as a madman, with plans to invade Venezuela. On February 2, 2006, President Chávez announced that his government would expel a U.S. naval attache for spying, which U.S. officials strongly denied. In response, the United States expelled a Venezuelan diplomat based in Washington.

Administration testimony before Congress in February 2006 highlighted U.S. concern about Venezuela’s foreign relations. In February 16, 2006 congressional testimony, Secretary of State Condoleezza Rice stated that one of the biggest problems for the United States in Latin America was Venezuela, which she characterized as “attempting to influence its neighbors away from democratic processes.” Secretary Rice also expressed concerns about Venezuela’s relationship with Cuba, describing it as “a particular danger to the region,” and also referred to both countries as Iran’s “sidekicks” in reference to those countries’ votes in the International Atomic Energy Agency against reporting Iran to the U.N. Security Council over its uranium enrichment program.<sup>91</sup> Also in February 2006 congressional testimony, Director of National Intelligence John Negroponte

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<sup>86</sup> House International Relations Committee, Subcommittee on the Western Hemisphere, Hearing on Democracy in Venezuela, Statement by Asst. Sec. of State Thomas A. Shannon, November 17, 2005.

<sup>87</sup> “Venezuela: Chávez Responds to Shannon’s Criticism,” *Latinnews Daily*, November 18, 2005.

<sup>88</sup> U.S. Department of State, Daily Press Briefing, December 5, 2005.

<sup>89</sup> “State Department Holds Fire on Election Result,” *Latinnews Daily*, December 6, 2005.

<sup>90</sup> “Donald H. Rumsfeld Delivers Remarks at the National Press Club,” *CQ Transcriptions*, February 2, 2006.

<sup>91</sup> House International Relations Committee, Hearing on the Fiscal Year 2007 International Affairs Budget, Testimony of Secretary of State Condoleezza Rice, February 16, 2006.

expressed concern that President Chávez “is seeking closer economic, military, and diplomatic ties with Iran and North Korea.”<sup>92</sup>

In April 2006, the State Department issued its annual *Country Reports on Terrorism*, which asserted that “Venezuela virtually ceased its cooperation in the global war on terror, tolerating terrorists in its territory and seeking closer relations with Cuba and Iran, both state sponsors of terrorism.” This was followed up in mid-May 2006, with a State Department announcement that, pursuant to Section 40A of the Arms Export Control Act, it was prohibiting the sale or license of defense articles and services to Venezuela because of its lack of cooperation on antiterrorism efforts. The State Department asserted that the determination was based on Venezuela’s near lack of antiterrorism cooperation over the last year, citing its support for Iraqi insurgents and Iran’s development of nuclear capabilities, the country’s status as a safe haven for Colombian and Basque terrorist groups, and its effort to derail hemispheric efforts to advance counter-terrorism policies in the OAS. In July 13, 2006, congressional testimony, the State Department’s Principal Deputy Coordinator for Counterterrorism, Frank Urbancic, asserted that Venezuelan travel and identification documents are easy to obtain for persons not entitled to them, including non-Venezuelans, and maintained that the United States was detaining increasing numbers of third-country aliens at its borders carrying falsified or fraudulently issued Venezuelan documents.<sup>93</sup>

On August 18, 2006, U.S. Director of National Intelligence John Negroponte announced the establishment of the position of Mission Manager for Cuba and Venezuela responsible for integrating collection and analysis on the two countries across the Intelligence Community. Venezuelan officials responded that they would reconsider signing an anti-drug cooperation agreement negotiated between the two countries. Press reports in June and July had indicated that the two countries were on the verge of signing such an agreement.

In speaking before the U.N. General Assembly on September 20, 2006, President Chávez strongly criticized U.S. foreign policy and spoke pejoratively of President Bush. President Chávez repeatedly referred to President Bush as the “Devil” and asserted that “the hegemonic pretension of U.S. imperialism ... puts at risk the very survival of the human species.”<sup>94</sup>

In response to President Chávez’s comments, Secretary of State Condoleezza Rice maintained his remarks “were not becoming of a head of state,” while then U.S. Ambassador to the United Nations John Bolton said that the Administration would

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<sup>92</sup> Senate Select Intelligence Committee, Hearing on World Wide Threats, Testimony of Director of National Intelligence John Negroponte, February 2, 2006.

<sup>93</sup> House International Relations Committee, Subcommittee on International Terrorism and Nonproliferation, Hearing on “Venezuela: Terrorism Hub of South America?,” July 13, 2006.

<sup>94</sup> “Venezuela’s Chávez Says World Faces Choice Between U.S. Hegemony and Survival,” *Venezuelanalysis.com*, September 20, 2006 [includes transcript of President Chávez’s speech before the U.N. General Assembly].

“not address this sort of comic-strip approach to international affairs.”<sup>95</sup> State Department spokesman Tony Casey said that he would “leave it to the Venezuelan people to determine whether President Chávez represented them and presented them in a way they would have liked to have seen.”<sup>96</sup> President Chávez’s remarks at the U.N. were not the first time that the Venezuelan president has spoken disparagingly of President Bush or other U.S. officials or criticized U.S. policy. He routinely refers to President Bush as a “donkey,” “Mr. Danger,” or other pejorative terms.<sup>97</sup> U.S. officials appear largely to have refrained from responding to such personal charges or criticisms leveled by President Chávez and instead have focused on the negative aspects of his policies, such as the status of democracy and human rights under his government, the extent of Venezuela’s military purchases, or President Chávez’s efforts to influence political events in other Latin American countries. Several Members of Congress criticized President Chávez for his anti-American rhetoric and introduced resolutions condemning his statements, including S.Res. 607 approved by the Senate on December 6, 2006.

In response to President Chávez’s reelection on December 3, 2006, State Department officials initially emphasized that the United States was looking forward to working with the Venezuelan government on issues of mutual concern.<sup>98</sup> Subsequently, Assistant Secretary of State for Western Hemisphere Affairs Thomas Shannon stated that the election was positive in that there was a clear winner and that the opposition accepted the results.<sup>99</sup>

**Relations in 2007.** U.S. officials continued to speak out about threats to democracy in Venezuela, its military buildup, and other concerns in 2007. In January 11, 2007, testimony before the Senate Select Committee on Intelligence, then Director of National Intelligence John Negroponte stated that President Chávez “is among the most stridently anti-American leaders anywhere in the world, and will continue to try to undercut U.S. influence in Venezuela, in the rest of Latin America, and elsewhere internationally.” Negroponte also expressed concern that the Venezuelan leader’s military purchases and moves toward developing his own weapons production capability are increasingly worrisome to his neighbors and could fuel an arms race in the region.

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<sup>95</sup> U.S. Department of State, Secretary of State Condoleezza Rice, “Remarks After the United Nations Security Council Meeting on the Middle East Process,” September 21, 2006; Pablo Bachelet, “Chávez Bashes Bush on U.N. Stage,” *Miami Herald*, September 21, 2006.

<sup>96</sup> U.S. Department of State, Daily Press Briefing, September 20, 2006.

<sup>97</sup> For example, see “President Hugo Chávez Travels the World,” *Voice of America News*, September 15, 2006; “Danger, Danger George Bush,” *Washington Post*, August 6, 2006; Christopher Toothaker, “U.S. Ambassador Urges Venezuela to Consider Dialogue, Leave Insults Aside,” Associated Press, March 30, 2006; “Venezuela’s Chávez Calls Bush ‘Coward’ Over Iraq,” *BBC Worldwide Monitoring*, March 20, 2006; “Hugo Chávez to Condi Rice: Don’t Mess with Me, Girl,” *Agence France Presse*, February 19, 2006.

<sup>98</sup> “U.S. Gives Tepid Response to Reelection of Chávez,” *Miami Herald*, December 5, 2006.

<sup>99</sup> “Election Result in Venezuela Positive,” *Agence France Presse*, December 14, 2006; State Department Briefing, Press Roundtable with Thomas Shannon, December 13, 2006.

In February 7, 2007, testimony before the House Foreign Affairs Committee, Secretary of State Condoleezza Rice stated that she believes “there’s an assault on democracy in Venezuela” and that “the president of Venezuela is really destroying his own country economically, politically.” Venezuelan Foreign Minister Nicolas Maduro responded by saying that “no U.S. official has the morality to qualify Venezuelan democracy or the democratic leadership of President Chávez.”<sup>100</sup>

President Chávez continued his tough rhetoric against the United States and President Bush. During the U.S. President’s visit to Latin America in March 2007, Chávez led a rally in Argentina in which he denounced President Bush and U.S. policy in Latin America. U.S. officials maintained that they do not want to get into a rhetorical contest with Chávez, but want to focus on a positive agenda of U.S. engagement in Latin America. Many observers contend that President Bush’s March trip to the region was at least in part an attempt to counter the growing influence of President Chávez in Latin America.

As noted above, in the aftermath of the closing of the Venezuelan government’s closing of RCTV in late May 2007, the State Department issued a statement calling on Venezuela to reverse its policies that limit freedom of expression.<sup>101</sup> Secretary of State Condoleezza Rice raised the issue on June 4, 2007, at the OAS General Assembly Meeting in Panama, and called on the OAS to address the issue. Ultimately, the OAS did not specifically criticize Venezuela for its action, but adopted a resolution calling upon members states to respect freedom of expression.

In the aftermath of the rejection of President Chávez’s proposed constitutional changes in December 2007, President Bush said that the “Venezuelan people rejected one-man rule,” and “voted for democracy.”<sup>102</sup> Under Secretary of State for Political Affairs Nicholas Burns said that the vote was a “victory for the people of Venezuela.”<sup>103</sup>

**Relations in 2008.** In testimony before the Senate Select Committee on Intelligence on February 5, 2008, Director of National Intelligence Michael McConnell maintained that the defeat of the constitutional referendum in December 2007 may slow President Chávez’s movement toward authoritarian rule and implementation of socialism in Venezuela, although McConnell stated that Chávez would not abandon his goal of sweeping change in Venezuela. McConnell testified that Chávez will continue to attempt to unite Latin America under his leadership behind an anti-U.S. and radical leftist agenda, but that his leadership ambitions are likely to encounter growing opposition as time passes. McConnell also noted

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<sup>100</sup> Liza Figueroa-Clark, “Venezuelan Foreign Minister, Bishop, Slam Rice over Comments on Venezuela.” *Venezuelanalysis.com*, February 10, 2007.

<sup>101</sup> U.S. Department of State, “Statement on Closing of Venezuela’s Only Independent Television Network with Nationwide Broadcast Coverage,” *Daily Press Briefing*, May 29, 2007.

<sup>102</sup> White House, Press Conference by the President, December 4, 2007.

<sup>103</sup> U.S. Department of State, R. Nicholas Burns, Under Secretary for Political Affairs, “Media Roundtable in Singapore,” December 3, 2007.

Venezuela's increasing relations with Iran, expressed concerns about more than \$3 billion in arms purchases from Russia over the past two years, and noted growing anxiety among Venezuela's neighbors because of this arms build-up.

On February 10, 2008, President Chávez once again threatened to stop oil exports to the United States, this time if ExxonMobil was successful in freezing billions in Venezuela oil assets in a dispute over compensation for its Orinoco oil investments. State Department officials played down the threat, pointing out that Chávez has made the same threat in the past, but has never cut oil.<sup>104</sup>

In light of information found on documents from laptops captured by Colombian forces during a March 1, 2008 raid on a camp of the FARC in Ecuador, some observers, including some Members of Congress, have called on the Bush Administration to designate Venezuela as a state sponsor of acts of international terrorism. The Bush Administration began an inquiry on the matter of designating Venezuela as a state sponsor. According to press reports, the computer files appear to link the Venezuelan government with efforts to secure arms for the FARC, and Colombian officials maintain that the documents for the computers show that the Venezuelan government may have channeled some \$300 million to the FARC. President Hugo Chávez and other Venezuelan officials strongly deny the accusations.<sup>105</sup>

Since June 2008, President Chávez has reversed policy directions in several areas. In early June, he called for the FARC to disarm, and in early July, in a meeting with U.S. Ambassador to Venezuela Patrick Duddy, he called for cooperation with the United States on drug trafficking and other issues. This was noted by Assistant Secretary of State for Western Hemisphere Affairs Tom Shannon in congressional testimony on July 17, 2008 before the House Western Hemisphere Subcommittee. Shannon stated that Venezuela "for the first time in many years, expressed a willingness to explore improved relations with the United States," including counter-drug cooperation, and maintained that "we have told Venezuela that we would like to explore this diplomatic opening."

## **U.S. Funding for Democracy Projects**

The United States has funded democracy-related projects in Venezuela for a number of years through a variety of programs funded by the State Department, the U.S. Agency for International Development (USAID), and the National Endowment for Democracy (NED).

USAID, through its Office of Transition Initiatives, has funded democracy projects in Venezuela since 2002, with the goals of strengthening democratic institutions, promoting space for dialogue, and encouraging citizens' participation in

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<sup>104</sup> Benedict Mander, "U.S. Shrugs Off Chávez Threat Over Oil," *Financial Times*, February 12, 2008.

<sup>105</sup> Simon Romero, "Files Released by Colombia Point to Venezuelan Bid to Arm Rebels," *New York Times*, March 30, 2008; and Alexei Barrionuevo, "U.S. Studies Rebels' Data for Chávez Link," *New York Times*, March 14, 2008.

democratic processes. Transitions Initiatives (TI) funding in recent years was \$5 million in FY2005, \$3.7 million in FY2006, \$3 million in FY2007, and an estimated \$4 million in FY2008. According to USAID, the funding supports projects implemented by five U.S. organizations: Development Alternatives Inc, which focuses on dialogue, public debate, citizen participation and leadership training; the International Republican Institute and the National Democratic Institute, which offer technical assistance for political parties; Freedom House, which provides technical support to human rights groups; and the Pan-American Development Foundation, which provides support to civil society.<sup>106</sup>

The State Department has supported democracy projects in Venezuela through Economic Support Funds (ESF). In FY2004, \$1.497 million was provided (including \$1 million in reprogrammed funds to support political reconciliation), and in FY2005, \$2.4 million in ESF was provided. For FY2006, although the Administration requested \$500,000 in ESF for such projects, it did not allocate any ESF for Venezuela. For FY2007, the Administration allocated \$1.6 million in ESF for Venezuela democracy initiatives. For FY2008, the Administration did not request any ESF for Venezuela for FY2008, but it requested \$3 million in Development Assistance “to help ensure civil society groups continued serving as one of the last checks on an increasingly authoritarian Venezuelan government.”<sup>107</sup> Ultimately for FY2008, however, the Administration allocated an estimated \$1.5 million in Development Assistance and almost \$3 million in ESF to support civil society in Venezuela. The Administration’s FY2009 request is for \$5 million in ESF to support civil society.

NED has funded democracy projects in Venezuela since 1992, but the level of funding has increased under the Chávez government. In FY2003, NED funded 15 Venezuela projects with \$1.05 million. In FY2004, it funded 13 projects with about \$874,000. In FY2005, NED funded 16 democracy projects with \$902,000. For FY2006, the FY2006 Foreign Operations appropriations measure (P.L. 109-102) provided \$2 million in Democracy Funds for NED for democracy programs in Venezuela. During FY2006, NED funded 18 democracy projects in Venezuela and 5 regional democracy projects that included components in Venezuela. For FY2007, NED funded 17 projects with over \$800,000 in funding.

The Venezuelan government and some other critics have criticized NED’s funding of opposition groups.<sup>108</sup> They maintain that the NED has funded groups headed by people involved in the overthrow of Chávez in April 2002 as well as a group, Súmate, involved in the signature collecting process for the 2004 recall referendum campaign. Critics argue that Súmate led the signature drive for the recall referendum, and question whether the NED should have funded such a group.

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<sup>106</sup> U.S. Agency for International Development, USAID/OTI Venezuela Annual Summary Report, October 2006-September 2007.

<sup>107</sup> U.S. Department of State, FY2008 Congressional Budget Justification for Foreign Operations, p. 1204.

<sup>108</sup> Testimony of Mark Weisbrot, Center for Economic and Policy Research, at a hearing of the Senate Foreign Relations Committee on “The State of Democracy in Venezuela,” June 24, 2004.

U.S. officials and some Members of Congress strongly defended the NED's activities in Venezuela and have criticized the Venezuelan government's efforts to intimidate the leaders of Súmate by charging them with conspiring against the government. The State Department asserts that the charges are without merit, and constitute an attempt "to intimidate members of civil society for exercising their democratic rights."<sup>109</sup>

According to the NED, its program in Venezuela "focuses on promoting citizen participation in the political process, civil and political rights, freedom of expression and professional journalism, and conflict mediation." The NED asserts that all of the Venezuelan programs that it funds operate on a non-partisan basis. It maintains that Súmate, which received a grant of \$53,400 in September 2003, mobilized a citizen campaign to monitor the signature collection process and that the money was used "in developing materials to educate citizens about the constitutional referendum process and to encourage citizens to participate."<sup>110</sup> NED officials also assert that they did not fund the Democratic Coordinator for the development of its July 2004 consensus platform. The NED points out that it did fund a consensus building project in 2002 for one of the NED's core institutions, the Center for International Private Enterprise (CIPE). For the project, CIPE partnered with a Venezuelan group, the Center for the Dissemination of Economic Information (CEDICE) to work with several Venezuelan nongovernmental organizations and the business sector for the development of a broad-based consensus.<sup>111</sup> In early September 2005, the board of the NED approved a new \$107,000 grant to Súmate for a program to train thousands of people on their electoral rights.<sup>112</sup>

As a result of the controversy, the conference report to the FY2005 Consolidated Appropriations Act (Division B of P.L. 108-447, H.Rept. 108-792) required a comprehensive report on NED's activities in Venezuela since FY2001, and reaffirmed NED's duty to ensure that all sponsored activities adhere to core NED principles. The reporting requirement had first been included in the report to the House version of the FY2005 Commerce, Justice, and State Appropriations bill (H.R. 4754, H.Rept. 108-576).

## Oil Issues

Since Venezuela is a major supplier of foreign oil to the United States (the fourth major foreign supplier in 2007, after Canada, Mexico, and Saudi Arabia), providing about 11.5% of U.S. crude oil imports, a key U.S. interest has been ensuring the continued flow of oil exports. Some 68% of Venezuela's oil exports are destined for the United States, highlighting the dependency of Venezuela on the U.S.

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<sup>109</sup> "United States Rejects Venezuelan Decision to Try Civic Group," Department of State, *Washington File*, July 8, 2005.

<sup>110</sup> National Endowment for Democracy, "NED Venezuela Programs FAQ," available online at [<http://www.ned.org/grants/venezuelaFacts.html>].

<sup>111</sup> Telephone conversation with NED official July 15, 2004; also see Andres Oppenheimer, U.S. Group's Funds Aid Democracy, *Miami Herald*, July 15, 2004.

<sup>112</sup> Pablo Bachelet, "Citizens Group to Get U.S. Funds," *Miami Herald*, September 13, 2005.

market, and oil exports account for the overwhelming majority of Venezuela's exports to the United States. In 2007, Venezuela's total exports destined for the United States amounted to \$39.9 billion, with oil products accounting for almost 96% of the total.<sup>113</sup> The December 2002 strike orchestrated by the opposition reduced Venezuela's oil exports, but by May 2003, Venezuelan officials maintained that overall oil production returned to the pre-strike level. Venezuela's state-run oil company, PdVSA, owns CITGO, which operates three crude oil refineries and a network of some 14,000 retail gasoline stations in the United States.

The Chávez government has benefitted from the rise in world oil prices, which has increased government revenues and sparked an economic boom. As a result, Chávez has been able to increase government expenditures on anti-poverty and other social programs associated with his populist agenda. In April 2008, the government approved a measure that taxes foreign oil companies 50% when crude oil is \$70 a barrel, and 60% when oil exceeds \$100 a barrel.<sup>114</sup>

Under President Chávez, the Venezuelan government has moved ahead with asserting greater control over the country's oil reserves. By March 2006, it had completed the conversion of its 32 operating agreements with foreign oil companies to joint ventures, with the Venezuelan government now holding a majority share of between 60-80% in the ventures. In 2007, the government completed the conversion of four strategic associations involving extra-heavy oil Orinoco River Basin projects. Six foreign companies had been involved in the projects — U.S.-based ConocoPhillips, Chevron, and ExxonMobil, Norway's Statoil-Hydro, Britain's BP, and France's Total.

In the conversion to Venezuelan government majority ownership, Chevron and BP maintained their previous investments, Total and Statoil-Hydro reduced their holdings, while ConocoPhillips and ExxonMobil chose to leave the projects.<sup>115</sup> However, Statoil-Hydro, Total, and Italy's Eni subsequently signed agreements that could result in additional investments in the Orinoco Belt projects.<sup>116</sup> Other state-owned oil companies, such as Iran's Petropars, the China National Petroleum Corporation, Cuba's Cupet, as well as Russian companies such as Gazprom, TNK-BP, and Lukoil have also signed agreements for exploration in the Orinoco region.

ExxonMobil has been in a high-profile dispute with the Venezuelan government over compensation to be paid by Venezuela for its oil investments in the country. The company filed a request in 2007 for arbitration with the World Bank-affiliated International Center for Settlement of Investment Disputes. ExxonMobil initially won a UK court order in January 2008 freezing as much as \$12 billion in Venezuelan oil sector assets, but this was overturned by a UK High Court order on March 18,

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<sup>113</sup> Department of Commerce statistics, as presented by World Trade Atlas.

<sup>114</sup> "Venezuela Passes Tax on Oil Companies," *New York Times*, April 16, 2008.

<sup>115</sup> U.S. Energy Information Administration, "Country Analysis Briefs: Venezuela," October 2007.

<sup>116</sup> Benedict Mander "Venezuela's Oil Belt Reopens to Private Groups," *Financial Times*, March 11, 2008.

2008.<sup>117</sup> ExxonMobil, however, also previously had won court orders in the Netherlands and Netherlands Antilles freezing up to \$12 billion in Venezuelan assets, and in February 2008, a U.S. federal court in New York upheld a freeze of \$300 million in PdVSA assets.<sup>118</sup>

According to some critics, majority state ownership in the oil sector has reportedly slowed the rate of foreign investment. Production also has reportedly not been able to recover from the firing of some 18,000 PdVSA employees in early 2003 and from continued underinvestment in maintenance and repairs.<sup>119</sup> PdVSA announced in early April 2008 that it would raise output to 3.5 million barrels a day (mbd), up from 3.15 mbd in 2007, but other sources, including the International Energy Agency, put 2007 production at far less, just 2.4 million mbd.<sup>120</sup> Some oil analysts also question whether PdVSA is prepared to take over operation of the heavy oil fields in the Orinoco.<sup>121</sup>

Despite notable frictions in bilateral relations, Venezuela continues to be a major supplier of oil to the United States. Even though Venezuela opposed the U.S. war in Iraq, the Chávez government announced before the military conflict that it would be a reliable wartime supplier of oil to the United States.

On numerous occasions, however, Chávez has threatened to stop selling oil to the United States. In February 2006, he asserted that the “U.S. government should know that, if it crosses the line, it will not get Venezuelan oil.”<sup>122</sup> In April 2006, he warned that his government would blow up its oil fields if the United States ever were to attack.<sup>123</sup> In November 2006 (amid Venezuela’s presidential election campaign), President Chávez asserted that Venezuela would “not send one more drop of oil to the U.S.” if the United States or its “lackeys” in Venezuela try a “new coup,” fail to recognize the elections, or try to overthrow the oil industry. Many observers believe Chávez’s threats have been merely part of his rhetoric that is designed to bolster his domestic political support. Venezuela’s Ambassador to the United States asserted in July 2006 that oil-cutoff comments by Venezuelan officials,

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<sup>117</sup> Robert Perkins, “UK Court Overturns Asset Freeze on PdVSA,” *Platts Oilgram News*, March 19, 2008.

<sup>118</sup> “U.S. Court Upholds Freeze of Venezuelan Oil Firm’s Assets,” *EFE News Service*, February 13, 2008.

<sup>119</sup> Danna Harman, “Venezuela’s Oil Model: Is Production Rising or Falling?,” *Christian Science Monitor*, May 31, 2006.

<sup>120</sup> “Worldwide Look at Reserves and Production,” *Oil & Gas Journal*, December 24, 2007; Jack Chang and Kevin G. Hall, “Falling Oil Production a Challenge for Chávez,” *Miami Herald*, March 22, 2008; “Venezuela: PdVSA-ExxonMobil Tensions Continue,” *Oxford Analytica*, April 9, 2008.

<sup>121</sup> Juan Forero, “Venezuela Set to Assume Control of Its Oil Fields,” *Washington Post*, May 1, 2007.

<sup>122</sup> “U.S. Warned to Back off or Risk Losing Oil Supply,” *Miami Herald*, February 18, 2006; “Chávez Threatens To Cut Oil in Case U.S. ‘Crosses Line,’” Open Source Center, Foreign Broadcast Information Service, February 18, 2006.

<sup>123</sup> “Chávez Says He’ll Blow up Oil Fields If U.S. Attacks,” *Miami Herald*, April 20, 2006.

including President Chávez, only reflect what would be Venezuela's response against aggression initiated by the U.S. government.<sup>124</sup> Once again in February 2008, President Chávez once again threatened to stop oil exports to the United States, this time if ExxonMobil was successful in freezing billions in Venezuela oil assets in a dispute over compensation for its Orinoco oil investments. State Department officials played down the threat, pointing out that Chávez has made the same threat in the past, but has never cut oil.<sup>125</sup> A week later, on February 17, Chávez said that he would only stop sending oil if the United States attacked Venezuela.<sup>126</sup>

Because of these comments, however, some observers have raised questions about the security of Venezuela as a major supplier of foreign oil. There are also concerns that Venezuela is looking to develop China as a replacement market, although Venezuelan officials maintain that they are only attempting to diversify Venezuela's oil markets. In June 2006, the Government Accountability Office (GAO) issued a report, requested by Senate Foreign Relations Committee Chairman Richard Lugar, on the issue of potential Venezuelan oil supply disruption. The GAO report concluded that a sudden loss of all or most Venezuelan oil from the world market could raise world prices up to \$11 per barrel and decrease U.S. gross domestic product by about \$23 billion. It also concluded that if Venezuela does not maintain or expand its current level of oil production, then the world oil market may become even tighter than it is now, putting pressures on both the level and volatility of energy prices.<sup>127</sup>

For additional information see CRS Report RL33693, *Latin America: Energy Supply, Political Developments, and U.S. Policy Approaches*.

## Counternarcotics Cooperation

Because of Venezuela's extensive 1,370-mile border with Colombia, it is a major transit route for cocaine and heroin destined for the United States. As noted above, Venezuela suspended its cooperation with the U.S. Drug Enforcement Administration in early August 2005 because it alleged that DEA agents were spying on Venezuela. U.S. officials maintained that the charges were baseless. Since 2005, President Bush has annually designated Venezuela, pursuant to international drug control certification procedures set forth in the Foreign Relations Authorization Act, FY2003 (P.L. 107-228), as a country that has failed demonstrably to adhere to its obligations under international narcotics agreements, although he waived economic sanctions that would have curtailed U.S. assistance for democracy programs in Venezuela. Venezuelan officials maintain that President Bush's decision to

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<sup>124</sup> Andy Webb-Vidal, "Venezuela Will Not Cut Off Oil Despite Hostile U.S. Attitude," *Financial Times*, August 1, 2006.

<sup>125</sup> Benedict Mander, "U.S. Shrugs Off Chávez Threat Over Oil," *Financial Times*, February 12, 2008.

<sup>126</sup> "Venezuela: Chávez Dials Back Threat to Halt Oil," *Los Angeles Times*, February 18, 2008.

<sup>127</sup> U.S. Government Accountability Office, "Energy Security: Issues Related to Potential Reductions in Venezuelan Oil Production," GAO-06-668, June 2006.

designate Venezuela was purely political because of the overall state of U.S.-Venezuelan relations.<sup>128</sup>

Press reports in late June and July 2006 indicated that the United States and Venezuela were on the verge of signing an anti-drug cooperation agreement that would allow the DEA to continue working with the Venezuelan government, but approval of the agreement has still not taken place.<sup>129</sup> In August 2006, Venezuelan officials said that they were reconsidering signing the agreement in response to the announcement by U.S. Director of National Intelligence John Negroponte on the establishment of a new position of Mission Manager for Cuba and Venezuela. According to the Bush Administration's September 2006 justification for determining that Venezuela had "failed demonstrably" to adhere to counternarcotics obligations, "the role and status of the DEA in Venezuela remains in limbo since the host country refuses to sign a memorandum of understanding authorizing" a DEA presence "even after successfully concluding a lengthy process of negotiation with U.S. officials."<sup>130</sup> On July 26, 2006, the House approved H.Con.Res. 400 (Burton), which, among other provisions, condemned Venezuela's failures to stem the flow of narcotics through its territory and calls for, among other measures, steps to restore cooperation between Venezuela and the DEA.

In September 2007, President Bush issued a determination that Venezuela, for the third year in a row, had failed demonstrably over the previous 12 months to adhere to its obligations under international counternarcotics agreements. State Department officials maintained that, although Venezuela indicated that it had developed some new programs to fight drug trafficking and were making seizure, its efforts continued to be limited. They maintained that Venezuela is a growing transshipment point for drugs bound for the United States and for Europe. The officials also pointed out that Venezuela has not renewed formal counternarcotics agreements with the United States.<sup>131</sup> Venezuela maintains that the U.S. determination process continues to be politicized and disregards the government's international cooperation and advances in counternarcotics efforts. The Venezuelan government also maintains that the U.S. prohibition on the sale of military equipment, imposed in 2006, has blocked equipment crucial to patrol its coasts and combat drug trafficking.<sup>132</sup>

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<sup>128</sup> Ian James, "Venezuela Says U.S. Move to Call Country Uncooperative on Drugs is Pure Politics," *Associated Press*, September 16, 2005.

<sup>129</sup> "DEA to Continue Working with Venezuela," *Latin American Regional Report, Andean Group*, July 2006; "Venezuela, U.S. to Sign Anti-drug Agreement," *Miami Herald*, June 27, 2006.

<sup>130</sup> U.S. Department of State, "Memorandum of the Secretary of State: Presidential Determination on Major Drug Transit or Major Illicit Drug Producing Countries for Fiscal Year 2007," Presidential Determination No. 2006-24, White House Press Release, September 15, 2006.

<sup>131</sup> U.S. Department of State, "Briefing on Release of Annual Report on the Major Illicit Drug Producing Countries for FY2008," September 17, 2007.

<sup>132</sup> "Venezuela's Fight Against Drug Trafficking," Venezuela Information Office, (continued...)

The Department of State, in its February 2008 *International Narcotics Control Strategy Report* (INCSR), maintained that Venezuela is one of the preferred routes for trafficking illicit narcotics out of Colombia because of the permissive and corrupt environment in Venezuela and because of counternarcotics successes in Colombia. The majority of narcotics transiting Venezuela are destined for the United States, according to the report, but an increasing percentage has started to flow towards western Africa and then toward Europe. Venezuela's corruption problem has been compounded by the transit of drugs, as has the increased level of crime and violence throughout the country. According to the report, Venezuela reported that 28 metric tons of cocaine were seized in 2007 (down from 38.9 metric tons in 2006), but the report noted that a large portion of these seizures were made by other countries in international waters and then returned to Venezuela.

According to the State Department report, the government of Venezuela has minimized all counternarcotics related cooperation contact with the U.S. government, including, despite repeated U.S. requests, the signing of an anti-drug agreement negotiated with Venezuela in 2005. In 2007, Venezuela ended the judicial sector's participation in several United Nations Office of Drugs and Crime (UNODC) programs funded by the U.S.-government, and maintained that it would not participate in any programs receiving U.S. funding. Venezuela has not made the U.S.-funded Container Inspection Facility (CIF) at Puerto Cabello operational, even though the facility was completed in 2006. In terms of progress, the State Department report maintained that Venezuela continues to authorize the U.S. government to board Venezuelan flagged vessels on the high seas suspected of being engaged in narcotics trafficking.

Looking ahead, the State Department maintained in the report that the United States remains prepared to renew cooperation with Venezuela to fight the increasing flow of illegal drugs, and pointed to two Venezuelan steps that would be positive: 1) the signing of the outstanding bilateral anti-drug agreement negotiated in 2005 and 2) working with the United States to make the CIF operational. Additional bilateral cooperation beyond these initial steps would be the development of a drug intelligence fusion and analysis center, and the initiation of riverine interdiction operations on the Orinoco River.

In 2008, the Venezuela government appears to have taken more action on antidrug measures, and to be open to renewing cooperation with the United States. It began a program aimed at destroying clandestine airstrip used by Colombian drug traffickers and at tracking drug smuggling planes. In early April 2008, it was reported that more than 150 clandestine runways had been destroyed in the past two weeks. Venezuela's National Assembly is also expected to approve a law permitting Venezuelan fighter planes to shoot down aircraft smuggling cocaine.<sup>133</sup> In early July 2008, President Chávez met briefly with U.S. Ambassador Patrick Duddy and

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<sup>132</sup> (...continued)  
Washington D.C. 2007.

<sup>133</sup> Juan Forero, "Venezuela Steps Up Efforts to Thwart Cocaine Traffic," *Washington Post*, April 7, 2008.

expressed a desire to reopen cooperation with the United States on drug trafficking and other issues.

From FY2002-FY2007, Venezuela received small amounts of U.S. assistance under the Administration's Andean Counterdrug Initiative (ACI) focusing on counternarcotics cooperation and judicial reform support. Some \$5 million was provided in FY2002; \$2.075 million in FY2003; \$5 million in FY2004; almost \$3 million in FY2005; \$2.229 million in FY2006; and \$1 million in FY2007. For FY2008 and FY2009, the Administration did not request any funding for Venezuela under the newly named Andean Counterdrug Program (ACP).

## Venezuela's Military Purchases

For several years, the Bush Administration has expressed concerns about Venezuela's purchases of military equipment. Defense Intelligence Agency (DIA) Director Lt. Gen. Michael Maples expressed concern in February 2006 congressional testimony about Venezuela's arms purchases, maintaining that Venezuela was seeking to increase their capability for their own defense and to operate elsewhere in the region.<sup>134</sup>

In January 2006, the State Department indicated that the United States had denied licenses — required by the Arms Export Control Act — to transfer U.S. technology for use in 12 military transport planes that Spanish companies had contracted to sell to Venezuela. According to a State Department spokesman, the proposed sale could contribute to de-stabilization in Latin America. Spain initially responded by indicating that it would go ahead with the sale of the airplanes utilizing non-U.S. technology, but in mid-October 2006, Spain's Foreign Minister announced that such an alternative was not economically feasible and the deal was cancelled.<sup>135</sup> Venezuela responded to the U.S. action by labeling it as "imperialist." The State Department official also indicated that the United States had expressed similar concerns to Brazil about military sales to Venezuela. Venezuela expressed interested in purchasing at least a dozen light-attack aircraft, manufactured by Embrarer, that contain U.S. technology.<sup>136</sup>

In May 2006, as discussed below ("Venezuela and U.S. Anti-Terrorism Sanctions"), the State Department determined (pursuant to Section 40A of the Arms Export Control Act) that Venezuela was not fully cooperating with U.S. antiterrorism efforts, an action that triggered a prohibition on the sale or license of defense articles and services to Venezuela. The State Department made the same determination in May 2007 and May 2008.

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<sup>134</sup> Senate Armed Services Committee, Hearing on Worldwide Threats to U.S. National Security, Testimony of Lt. Gen. Michael D. Maples, Direction, DIA, February 28, 2006.

<sup>135</sup> Renwick McLean, "U.S. Objections Lead Spain to End Venezuela Deal," *New York Times*, October 19, 2006.

<sup>136</sup> U.S. Department of State, Daily Press Briefing, January 13, 2006; Phil Gunson and Pablo Bachelet, "Spain's Planes for Chávez Can't Use U.S. Components," *Miami Herald*, January 14, 2006; Leslie Crawford and Andy Webb-Vidal, "Spain to Defy U.S. over Military Sale to Venezuela," *Financial Times*, January 14, 2006.

In January 11, 2007 testimony before the Senate Select Committee on Intelligence, Director of National Intelligence (DNI) John Negroponte expressed concern that the President Chávez's military purchases and moves toward developing his own weapons production capability were increasingly worrisome to his neighbors, and could fuel an arms race in the region.

In February 5, 2008 testimony before the Senate Select Committee on Intelligence, current DNI Michael McConnell expressed concerns about more than \$3 billion in arms purchases from Russia over the past two years, and noted growing anxiety among Venezuela's neighbors because of this arms build-up. McConnell testified at a February 27, 2008 Senate Armed Services Committee hearing that Venezuela's military build-up is probably 3 to 4 times what would be needed for external defense. With regard to rifles from Venezuela potentially ending up in the hands of the FARC, DIA Director Maples maintained at the hearing that he had not seen that, and that the likely purpose was "using asymmetric capabilities and tactics and empowering the population in some way, in a home guard sense." (For additional developments, see "Allegations from Captured FARC Computers" below.)

President Chávez has vowed to continue with his nation's military purchases, asserting that he was acquiring the minimum equipment for Venezuela to defend itself from the United States. Venezuela is buying significant amounts of military equipment from Russia. This includes contracts to buy 24 Sukhoi Su-30 fighter jets, 50 military helicopters, 100,000 Kalashnikov assault rifles, a license to build a factory to produce Kalashnikov rifles in Venezuela, and several submarines.<sup>137</sup> The Venezuelan government maintains that it is buying the Russian fighter jets because the United States is refusing to sell the country spare parts for its aging fleet of F-16 fighters that it purchased in the 1980s. Some press reports indicate that future additional military purchases from Russia could include transport planes, tanks, additional submarines, and an air defense missile system.<sup>138</sup>

## Venezuela's Activities in Latin America

As U.S.-Venezuelan relations have deteriorated over the past several years, the Chávez government has focused its relations with Latin America and its activities in the region in part as a means of countering the United States and U.S. interests and influence in the hemisphere. DNI Michael McConnell testified in February 5, 2008 testimony before the Senate Select Committee on Intelligence, Chávez will continue to attempt to unite Latin America under his leadership behind an anti-U.S. and radical leftist agenda, but noted that as time passes, Chávez's leadership ambitions are likely to encounter growing opposition.

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<sup>137</sup> Neil Buckley and Andy Webb-Vidal, "Chávez Seeks to Link Putin with Anti-U.S. Alliance," *Financial Times*, July 26, 2006; Simon Romero, "Venezuela Spending on Arms Soars to World's Top Ranks," *New York Times*, February 25, 2007.

<sup>138</sup> "Russian S-300 Missiles 'Would Ensure Venezuela's Oil Security,'" *RIA Novosti*, July 24, 2008; "Venezuela's Chávez Shopping for Russian Weapons," *Miami Herald*, July 21, 2008.

Over the years, there have been concerns about President Chávez's attempts to export his brand of populism to other Latin America countries. He has strongly supported Bolivia's President Evo Morales, and offered assistance to help Bolivia rewrite its constitution and implement radical reforms to the economy. In Peru's 2006 presidential elections, Chávez openly supported the unsuccessful presidential candidacy of a nationalist former army colonel who had led a failed military uprising in 2000. Current Peruvian President Alan Garcia, a strong U.S. ally, has expressed concern about Venezuelan activities in Peru. Venezuela also has had close with Nicaragua under the presidency of Daniel Ortega, providing substantial assistance, and with Ecuador under the presidency of Rafael Correa.

In 2004, President Chávez launched a Bolivarian Alternative for the Americas (ALBA) as an alternative to the Free Trade Area of the Americas. ALBA advocates a socially oriented trade block that would include mechanisms for poverty reduction, and cooperation in a range of areas including health, education, culture, investment, and finance. Venezuela and Cuba were the first countries to launch ALBA in 2004, while Bolivia joined in 2006, and Nicaragua in 2007. In 2008, the Caribbean nation of Dominica joined in January, while in late July, Honduran President Manuel Zelaya announced that his country would join pending approval by the Honduran Congress. Notably Ecuador has not joined ALBA. President Chávez's proposal in January 2008 that ALBA should establish a joint defense council was only supported by Nicaragua, while Bolivia's Evo Morales appeared to distance himself from the idea.<sup>139</sup>

In December 2007, Venezuela and six other South American countries – Argentina, Bolivian, Brazil, Ecuador, Paraguay, and Uruguay – joined to sign the founding act of a new Bank of the South, a Chávez initiative to offer a new source of development financing apart from the World Bank and the International Monetary Fund. The bank reportedly will have a start-up capital of some \$7 billion, largely from Brazil and Venezuela, but it remains unclear what the lending conditions of the bank will be.<sup>140</sup>

Venezuela joined the Southern Common Market (Mercosur) in 2006, but its application for full membership has run into problems because of President Chávez's decision not to renew the broadcast license of RCTV in 2007, an action that could be construed as contradictory to Mercosur's democratic clause. (For additional information, see CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.)

Since 2005, President Chávez has used so-called "oil diplomacy" to provide oil to Caribbean Basin nations on preferential terms in a program known as PetroCaribe, prompting U.S. concern that Venezuela is using these programs to increase its influence in the region. Under the program, Venezuela initially offered to supply

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<sup>139</sup> "Chávez's Belligerent Rhetoric Loses Him Support in the Andes," *Latin American Regional Report, Andean Group*, February 2008.

<sup>140</sup> "South Americans Will Start Bank," *Wall Street Journal*, December 10, 2007; Alexei Barrionuevo, "Chávez's Plan for Development Bank Moves Ahead," *New York Times*, October 22, 2007.

190,000 barrels per day of oil to the region on preferential terms with 50% of the oil financed over 25 years at an annual interest rate of 1%. At a July 2008 PetroCaribe summit, President Chávez announced that up to 60% of the oil could be financed while oil prices remained over \$100 a barrel, and this would rise to 70% financed if oil prices rise to over \$150 a barrel. Most Caribbean nations are members, with the exception of Barbados and Trinidad and Tobago. Cuba, a major beneficiary, receives some 90,000 barrels per day (bpd) of oil under the program. In Central America, Nicaragua and Honduras joined PetroCaribe in 2007, Guatemala joined in July 2008, and Costa Rica has applied to become a member. PetroCaribe also has the goal of putting in place a regional supply, refining, and transportation and storage network, and establishing a development fund for those countries participating in the program.

In addition to these preferential oil arrangements, Venezuela is investing in energy sectors in several Latin American countries. Chávez has pledged to invest \$1.5 billion in Bolivia's gas industry. Ecuador and Venezuela have signed agreements for joint development in oil, gas, refining, and petrochemical sectors. In 2005, PdVSA signed an agreement to build an oil refinery in northeastern Brazil. Construction on the 200,000 bpd refinery began in September 2007, and is to be supplied with oil from both Brazil and Venezuela when it begins operations in 2010. Colombia and Venezuela signed an agreement in July 2006 initiating a gas pipeline project that would initially supply gas to Venezuela from northern Colombia, and then reverse the flow once Venezuela develops its own natural gas reserves. Argentina and Venezuela also announced an alliance in July 2006 involving cooperation on hydrocarbon exploration and development in both countries. In Cuba, PdVSA helped refurbish an oil refinery in Cienfuegos, and has signed an exploration and production agreement with Cupet, Cuba's state-oil company.<sup>141</sup>

The potential use of Venezuela's windfall oil profits abroad to influence activities in other Latin American countries was highlighted in December 2007 when three Venezuelans – Franklin Duran, Moises Maionica, and Carlos Kauffmann – and one Uruguayan national were arrested and charged in U.S. federal court in Miami with acting and conspiring to act as agents of the Venezuelan government without prior notification to the U.S. Attorney General. All four were alleged to have conspired in a scheme to conceal the source and destination and the role of the Venezuelan government in the attempted delivery of \$800,000 to Argentina by a U.S. businessman, Guido Alejandro Antonini Wilson. The funds were alleged to be destined for the presidential campaign of Argentine President Cristina Fernández de Kirchner. High-level Venezuelan officials also were alleged to be involved in the matter, including from the Office of the Vice President and the Intelligence and Preventative Services Directorate (DISIP).<sup>142</sup> To date, three of the four defendants facing trial in the case have pled guilty, leaving Franklin Duran to face trial beginning in September 2008.

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<sup>141</sup> "Venezuela: Oil Revenues Boost International Influence," *Oxford Analytica*, July 19, 2006.

<sup>142</sup> United States District Court, Southern District of Florida, Case No. 1:07-cr-20999-JAL, Document 24, December 20, 2007.

**Chávez Role in Release of FARC Hostages.** In August 2007, Colombian President Alvaro Uribe authorized President Chávez and Colombian Senator Piedad Cordoba to play a role in negotiations with the FARC to release some 45 high-profile hostages. This included efforts to release three American defense contractors – Marc Gonsalves, Keith Stansell, and Thomas Howes – held since February 2003, when their plane crashed in FARC-controlled territory. In late November 2007, however, Uribe withdrew his support of these efforts because Chávez reportedly broke protocol by having direct contact with the top commander of the Colombian army. Nevertheless, Chávez continued to play a key role in the effort to release the hostages. On January 10, 2008, the FARC ultimately released to Venezuelan officials two prominent Colombians that had been hostage for several years. A day after the two hostages' release, Chávez's calls for the international community to no longer label the FARC and the National Liberation Army (ELN) as terrorist groups prompted widespread condemnation. Nevertheless, his role in the release of hostages continued. On February 27, 2008, the FARC released four former members of the Colombian Congress to Venezuelan officials in Colombian territory. On March 7, 2008, the Venezuelan government received from the FARC "proofs of life" for 10 Colombian soldiers held by the FARC.

In the aftermath of the Ecuador-Colombia border crisis (discussed below), Chávez's role in future hostage releases became unclear. Moreover, on July 2, 2008, the Colombian military rescued the three American hostages along with former Colombian presidential candidate Ingrid Betancourt and 11 other hostages. Over 700 hostages are still being held by the FARC.

**March 2008 Ecuador-Colombia Border Crisis.** Venezuela initially played a significant role in stoking regional tensions in the aftermath of Colombia's March 1, 2008 bombing of a FARC camp in Ecuador that killed Raúl Reyes, the FARC's second highest commander. President Chávez warned Colombian President Uribe not to do anything similar in Venezuelan territory "because it would be a cause for war."<sup>143</sup> Venezuela, along with Ecuador, announced that it would mobilize troops along its border with Colombia, and Chávez threatened to send its Russian fighter jets to attack Colombia if President Uribe attempted a similar operation against the FARC rebels on the Venezuelan side of the border. He ordered 10 battalions to the Colombian border, including tank units, closed the Venezuela Embassy in Bogotá, and expelled Colombia's Ambassador from Venezuela.

Few analysts took Chávez's order to send tanks and fighter jets to the border as a serious threat of war, maintaining that Venezuela's active military of 115,000 troops pales in comparison to Colombia's 254,000 troops that have seen active combat against insurgent groups for many years.<sup>144</sup> Moreover, some maintain that

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<sup>143</sup> Sibylla Brodzinsky, "Colombia's Cross-Border Strike on FARC Irks Neighbors," *Christian Science Monitor*, March 3, 2008.

<sup>144</sup> Benedict Mander and Anastasia Moloney, "Venezuelan Forces Fall Short of Chávez's Bellicose Bluster," *Financial Times*, March 4, 2008; and Toby Muse, "Troops Deployed as Tensions Rise," *South Florida Sun-Sentinel*, March 5, 2008, citing statistics from the International Institute for Strategic Studies.

Venezuela's troop movements were delayed for several days, and may have been far less than Chávez led everyone to believe.<sup>145</sup>

Just days after the Colombian incursion, President Chávez reportedly played an important role at the successful Rio Group summit that helped resolve the crisis. OAS Secretary General Insulza maintained that Chávez's role was "decisive and tremendously constructive" in sorting out the crisis at the Santo Domingo meeting.<sup>146</sup> After six hours of contentious exchanges, Chávez reportedly called for reflection and cooling off, and paved the way for Dominican President Leonel Fernández to urge the parties to end the meeting with a cordial embrace.<sup>147</sup> He maintained that the conflict cannot be solved militarily, and must be resolved by a negotiated settlement. By March 10, Venezuela announced that it was fully establishing diplomatic and commercial ties with Colombia, and pulled its troops back.

## Terrorism Issues

U.S. officials have expressed concerns over the past several years about Venezuela's lack of cooperation on antiterrorism efforts, its relations with Cuba and Iran, and President Chávez's sympathetic statements for Colombian terrorist groups. Since May 2006, the Secretary of State has made an annual determination that Venezuela has not been "cooperating fully with United States antiterrorism efforts" pursuant to Section 40A of the Arms Export Control Act (P.L. 90-629). As a result, the United States has imposed an arms embargo on Venezuela since 2006, which ended all U.S. commercial arms sales and re-transfers to Venezuela. When the State Department issued its first determination in 2006, it that it was based on Venezuela's near lack of antiterrorism cooperation over the previous year, citing its support for Iraqi insurgents and Iran's development of nuclear capabilities, the country's status as a safe haven for Colombian and Basque terrorist groups, and its effort to derail hemispheric efforts to advance counter-terrorism policies in the OAS. The determination was renewed in May 2007 and again in May 2008.

According to the State Department's *Country Reports on Terrorism 2007* report, issued at the end of April 2008, President Chávez continued his public criticism of U.S. counterterrorism efforts and deepened Venezuelan relationships with Iran and Cuba, while his ideological sympathy for two Colombian insurgencies (the FARC and the National Liberation Army) and high levels of corruption among Venezuelan officials, have limited Venezuelan cooperation with Colombia in combating terrorism. In addition, according to the report, Venezuelan citizenship, identity, and travel documents remained easy to obtain, making the country a potentially attractive way-station for terrorists. In July 2006, congressional testimony, the State Department's Principal Deputy Coordinator for Counterterrorism, Frank Urbancic, had asserted that the United States was detaining increasing numbers of third-country

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<sup>145</sup> "Special Focus, Region: Peering Through the Fog of the War That Wasn't," *Latin American Security & Strategic Review*, March 2008.

<sup>146</sup> "Chávez Hailed as Peacemaker with Colombia," *Latinnews Daily*, March 10, 2008.

<sup>147</sup> "How Diplomacy Silenced the Drums of War in Less Than a Week," *Latin American Security & Strategic Review*, March 2008.

aliens at its borders carrying falsified or fraudulently issued Venezuelan documents.<sup>148</sup>

**Allegations of Venezuelan Support for the FARC.** As in past years, the State Department terrorism report covering 2007 stated that “it remained unclear to what extent the Venezuelan government provided support to Colombian terrorist organizations.” It noted that limited amounts of weapons and ammunition from official Venezuela stocks and facilities turned up in the hands of Colombian terrorist organizations. The report also noted that Venezuela did not systematically police its 1,400 mile border with Colombia in order to prevent the movement of terrorists or to interdict arms or the flow of narcotics. Information on captured computer files from Colombia’s March 2008 raid of a FARC camp in Ecuador raised further questions about potential support of the FARC by the Chávez government. Venezuelan officials have dismissed the data as having been fabricated even though Interpol verified in May 2008 that the files had not been tampered with since they were seized. On June 6, 2008, two Venezuelan nationals (one a national guard sergeant) and two Colombians were arrested in eastern Colombia for gun-running. The four were captured with some 40,000 rounds of ammunition allegedly destined for the FARC.

In a welcome turn of events on June 8, 2008, President Chávez called for the FARC to release all hostages unconditionally and to cease military operations, maintaining that guerrilla warfare “has passed into history.”<sup>149</sup> Assistant Secretary of State for Western Hemisphere Affairs Tom Shannon noted the importance of Chávez’s words, and expressed hope that they would be “backed up by actions designed to prevent the use of Venezuela’s frontier with Colombia for the movement of weapons.”<sup>150</sup>

**State Sponsors of Terrorism List.** In light of the captured FARC documents cited above, some observers, including some Members of Congress, have called on the Bush Administration to designate Venezuela as a state sponsor of terrorism pursuant to Section 6(j) of the Export Administration Act (EAA) of 1979 (P.L. 96-72). Other countries currently on the state sponsors of terrorism list include Cuba, Iran, North Korea, Sudan, and Syria. The Bush Administration began an initial inquiry into designating Venezuela as a state sponsor in March. In the House, H.Res. 1049 (Mack), introduced in March 2008, would urge the Administration to designate Venezuela as such.

In terms of economic sanctions associated with being on the terrorism list, the EAA requires a validated license for the export of goods and technology to a country if the Secretary of State determines that the government of such a country “has

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<sup>148</sup> Testimony of Frank Urbanic, State Department Principal Deputy Coordinator for Counterterrorism before a July 13, 2006 hearing of the House International Relations Committee, Subcommittee on International Terrorism and Nonproliferation.

<sup>149</sup> “Analysis: Chávez Reverses FARC Stance, Domestic Moves Ahead of Elections,” *Open Source Center*, June 19, 2008.

<sup>150</sup> U.S. Department of State, Thomas A. Shannon, Jr. Assistant Secretary of State for Western Hemisphere Affairs, “U.S. Diplomacy in the Americas,,” June 10, 2008.

repeatedly provided support for acts of international terrorism” and if the export of such goods and technology could make a significant contribution to the country’s military potential or could enhance its ability to support acts of international terrorism. Beyond the EAA, several provisions of law impose additional sanctions on countries on the state sponsors of terrorism list, such as: a ban on arms-related exports and sales; various restrictions and prohibitions on foreign assistance; denial of duty-free treatment of goods exported to the United States under the Generalized System of Preferences (GSP); denying companies and individuals tax credits for income earned in the terrorist-listed countries; and authority to prohibit any U.S. citizen from engaging in a financial transaction with a terrorist-list government without a Treasury Department license.

The sanctions associated with being on the terrorism list would likely have an effect on U.S.-Venezuelan economic relations. A substantial portion of U.S. exports to Venezuela, particularly for the oil sector, would likely require validated licenses for so-called dual-use exports and technology. The termination of the tax credit that prevents double taxation would increase the cost of U.S. companies operating in Venezuela, and could be a disincentive for some U.S. companies operating there. The stock of U.S. foreign investment in Venezuela is estimated at \$11.6 billion, concentrated in the manufacturing and mining sector.<sup>151</sup> The state sponsor of terrorism designation also potentially could complicate U.S. oil imports from Venezuela, in part because PdVSA owns *Citgo*, based in Houston Texas, which operates three oil refineries and two asphalt refineries in the United States and has some 14,000 branded retail outlets selling gasoline across the United States. PdVSA also has a 50% interest in a large refinery in the U.S. Virgin Islands.<sup>152</sup> According to the Venezuelan government, PdVSA and *Citgo* annually purchase more than \$2 billion in goods and services from 800 U.S. companies.<sup>153</sup>

The designation of Venezuela as a state sponsor of terrorism could increase popular support for President Chávez at a time when Venezuela is preparing for state and local elections. Some Venezuelan opposition figures maintain that such a designation would only be helpful to the Chávez government, which would portray itself as a victim. Short of designating Venezuela as a state sponsor of terrorism, some observers have suggested the consideration of “smart” or targeted sanctions aimed at Venezuelan officials or particular activities in order to demonstrate U.S. concern with their alleged actions supporting the FARC.<sup>154</sup> Suggestions for such sanctions generally include freezing assets of named individuals or entities, or denying entry into the United States of designated individuals.

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<sup>151</sup> United States Trade Representative, *2008 National Trade Estimate on Foreign Trade Barriers*, March 28, 2008.

<sup>152</sup> U.S. Energy Information Administration, “Venezuela: Country Analysis Brief,” October 2007.

<sup>153</sup> Bolivarian Government of Venezuela, Embassy in the United States of America, “Terrorism and Trade: Assessing the Impacts,” March 2008.

<sup>154</sup> For example, see Ray Walser, “The FARC Files, Colombia, and International Terrorism,” Heritage Foundation, Web Memo #1872, March 28, 2008; and “Hard Drive Diplomacy,” *Washington Post*, editorial, May 18, 2008.

**Iran and Hezbollah.** Venezuela's relations with Iran have been longstanding because they were both founding members of OPEC. Nevertheless, as their relations have intensified over the past several years, U.S. officials and some Members of Congress have expressed concerns. In November 2007, the House approved H.Res. 435 (Klein), expressing concern about Iran's efforts to expand its influence in Latin America, and noting Venezuela's increasing cooperation with Iran.

Iranian President Mahmoud Ahmadinejad has visited Caracas on three occasions since 2006, and President Chávez has visited Iran several times. The two nations have signed a variety of agreements in agriculture, petrochemicals, oil exploration in the Orinoco region of Venezuela, and the manufacturing of tractors, bicycles, and automobiles. Weekly flights between the two countries began last year. In February 5, 2008 testimony before the Senate Select Intelligence Committee, Director of National Intelligence Michael McConnell maintained that most cooperation between Iran and Venezuela has been on the economic and energy fronts, but that military cooperation is growing, and the two nations have discussed cooperation on nuclear energy.

A major rationale for Iran's recent overtures toward Venezuela is to show that it is not isolated diplomatically. Moreover, some observers maintain that Ahmadinejad's increased interest in Venezuela since he came to power in 2005 has been to cause political angst for the United States in its own neighborhood. According to one observer, once Ahmadinejad is gone, the bilateral relationship will likely be reduced to the level of past years that was based largely on their OPEC membership.<sup>155</sup>

Assistant Secretary of State for Western Hemisphere Affairs Tom Shannon has said that one of the concerns about Iran's increasing interest in Latin America is its ties to the radical Lebanon-based Islamic group Hezbollah. According to Shannon, "What worries us is Iran's history of activities in the region and especially its links to Hezbollah and the terrorist attack that took place in Buenos Aires [in 1994]."<sup>156</sup> On June 18, 2008, the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) announced that it was freezing the U.S. assets of two Venezuelans – Ghazi Nasr al Din ( a Venezuelan diplomat serving in Lebanon) and Fawzi Kan'an – for providing financial and other support to Hezbollah. U.S. citizens are also prohibited in engaging in any transactions with the two Venezuelans, including any business with two travel agencies in Caracas owned by Kan'an.<sup>157</sup>

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<sup>155</sup> Farideh Farhi, Public Policy Scholar, Woodrow Wilson Center, comments at conference on "Iran and Latin America: Threat or Axis of Annoyance?" Woodrow Wilson International Center for Scholars, Washington D.C. July 10, 2008.

<sup>156</sup> Andres Oppenheimer, "Beware Iran in Latin America," *Miami Herald*, September 30, 2007.

<sup>157</sup> "Treasury Targets Hizballah in Venezuela," *States News Service*, June 18, 2008.

## Venezuela's Extradition Requests

Venezuela requested the extradition of three of its citizens from the United States in two controversial terrorism cases. In early 2004, the Chávez government requested the extradition of two former Venezuelan National Guard lieutenants, José Antonio Colina and German Rodolfo Varela, charged with the February 2003 bombings of the Spanish Embassy and the Colombian Consulate in Caracas. Both applied for political asylum because they claimed that they would be executed or tortured if returned to Venezuela. They were held from December 2003 until April 2006 by U.S. Immigration and Customs Enforcement (ICE). In February 2005, a U.S. immigration judge denied them asylum because of “serious reasons for believing” that they were involved in the bombings but prohibited the United States from deporting them to Venezuela because of the likelihood of being tortured.<sup>158</sup> The Department of Homeland Security (DHS) asked an immigration appeals court to deport the two Venezuelans, arguing that they would not be tortured if returned home. As evidence, they cite the treatment of a former general arrested in Venezuela for the same case.<sup>159</sup>

In late December 2005, Colina and Varela — on a hunger strike for a month in protest of being held by U.S. immigration — were transferred from Florida to Houston for medical treatment. They ended their 33-day hunger strike in early January 2006. In April 2006, ICE reversed its stance on the deportation case and joined with the attorneys for Colina and Varela in filing a joint motion asking the immigration appeals court to dismiss the case, whereupon they were released. Lawyers for the two former officers maintain that the State Department’s March 2006 human rights report on Venezuela played a role in ICE’s decision to abandon its efforts to deport Colina and Varela.<sup>160</sup> The report cited accusations that a military general imprisoned in Venezuela for alleged involvement in the bombings had been subject to sensory deprivation and psychological torture. The Venezuelan government condemned the release of Colina and Varela, maintaining that the United States had become a “sanctuary for terrorists.”<sup>161</sup>

In another controversial case, Venezuela has requested the extradition of anti-Castro activist Luis Posada Carriles for his alleged role in the 1976 bombing of a Cuban airliner that killed 73 people.<sup>162</sup> In April 2005, Posada’s lawyer announced that Posada had entered the United States illegally from Mexico and would apply for asylum because he has a “well-founded fear of persecution” for his opposition to

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<sup>158</sup> Gerardo Reyes and Alfonso Chardy, “Wanted Chávez Foes Flee to South Florida,” *Miami Herald*, April 5, 2005.

<sup>159</sup> Alfonso Chardy, “Deport Venezuelan Bombing Suspects, U.S. Urges Court,” *Miami Herald*, March 25, 2005.

<sup>160</sup> Alfonso Chardy, “2 Officers Won’t Be Sent Home,” *Miami Herald*, April 12, 2006.

<sup>161</sup> Christopher Toothaker, “Venezuela’s Chávez Says Bush ‘Demolishing’ U.S. Democracy, Threatening Peace,” *Associated Press*, May 24, 2006.

<sup>162</sup> Also see CRS Report RL32730, *Cuba: Issues for the 109<sup>th</sup> Congress*, by Mark P. Sullivan.

Fidel Castro.<sup>163</sup> Posada had been imprisoned in Venezuela for the bombing of the Cuban airliner but reportedly was allowed to “escape” from prison in 1985 after his supporters paid a bribe to the prison warden.<sup>164</sup> He had been acquitted for the bombing but remained in prison pending a prosecutorial appeal. Posada also reportedly admitted, but later denied, involvement in a string of bombings in Havana in 1997, one of which killed an Italian tourist.<sup>165</sup> More recently, Posada was imprisoned for several years in Panama for his involvement in an alleged plot in November 2000 to kill Fidel Castro. He was convicted on weapons charges in the case and sentenced to eight years in prison, but ultimately was pardoned by outgoing President Mireya Moscoso in August 2004.

ICE arrested Posada on May 17, 2005, and subsequently charged him with illegally entering the United States. A DHS press release indicated that ICE does not generally deport people to Cuba or countries believed to be acting on Cuba’s behalf.<sup>166</sup> Venezuela has pledged that it would not hand Posada over to Cuba, but on September 26, 2005, a U.S. immigration judge ruled that Posada could not be deported to Venezuela because he could be tortured.<sup>167</sup> ICE reviewed the case and determined on March 22, 2006, that Posada would not be freed from a federal immigration facility in El Paso, Texas.<sup>168</sup>

In November 2006, however, a U.S. federal judge, who was considering Posada’s plea that he be released, ordered the government to supply evidence, by February 1, 2007, justifying his continued detention. On January 11, 2007, a federal grand jury in Texas indicted Posada on seven counts for lying about how he entered the United States illegally in March 2005, whereupon he was transferred from immigration detention in El Paso to a country jail in New Mexico near the Texas border.

Posada was released from jail in New Mexico on April 19, 2007, and allowed to return to Miami under house arrest to await an upcoming trial on immigration fraud charges, but on May 9, 2007 a federal judge in Texas dismissed the charges. The judge maintained that the U.S. government mistranslated testimony from Posada and manipulated evidence.<sup>169</sup> On June 5, 2007, Justice Department prosecutors filed

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<sup>163</sup> Alfonso Chardy and Nancy San Martin, “Lawyer Expects Posada to Show Soon,” *Miami Herald*, April 14, 2005.

<sup>164</sup> Ann Louise Bardach, “Our Man’s in Miami. Patriot or Terrorist?,” *Washington Post*, April 17, 2005.

<sup>165</sup> Oscar Corral and Alfonso Chardy, “Victim’s Kin Oppose Posada Bid for Asylum,” *Miami Herald*, May 7, 2005.

<sup>166</sup> Department of Homeland Security, Office of Public Affairs, Statement, May 17, 2005.

<sup>167</sup> Alicia Caldwell, “Judge Says Cuban Militant Can’t Be Deported to Venezuela,” *Associated Press*, September 28, 2005.

<sup>168</sup> Oscar Corral, “Cuban Exile Militant Luis Posada Denied Release,” *Miami Herald*, March 22, 2006.

<sup>169</sup> Carol J. Williams, “Pressure Grows to Prosecute Cuban Exile,” *Los Angeles Times*, May (continued...)

a notice of appeal with the 5<sup>th</sup> U.S. Circuit Court of Appeals in New Orleans and on November 6, 2007, federal prosecutors filed a brief requesting that the court reverse the lower court's decision.<sup>170</sup> Both Venezuela and Cuba strongly denounced Posada's release, contending that he is a terrorist, and in mid-March 2008, the two countries raised the issue at a UN Security Council meeting on the UN's anti-terrorism strategy. Venezuela maintains that the State Department has ignored its request to extradite Posada. Another grand jury in New Jersey is reportedly examining Posada's alleged role in the 1997 bombings in Cuba.<sup>171</sup>

On November 15, 2007, the House Subcommittee on International Organizations, Human Rights, and Oversight of the Committee on Foreign Affairs held a hearing focusing on the Posada case.

## Legislative Initiatives

**110<sup>th</sup> Congress.** In the 110<sup>th</sup> Congress, congressional concerns regarding Venezuela focus on the state of democracy and human rights, energy issues, terrorism issues, and the overall status of bilateral relations and U.S. policy.

On May 24, 2007, the Senate approved S.Res. 211 (Lugar) expressing profound concerns regarding freedom of expression and Venezuela's decision not to renew the license of RCTV.

On June 21, 2007, the House approved by voice vote H.Amdt. 358 (Mack) to H.R. 2764, the FY2008 State Department and Foreign Operations appropriations bill, which would have directed \$10 million in international broadcasting operations funding for targeted broadcasting for Venezuela. The House subsequently approved H.R. 2764 on June 22, 2007. The Senate version of the bill, approved September 6, 2007, did not include such a provision. The final enacted measure, the Consolidated Appropriations Act for FY2008 (P.L. 110-161, Division J), does not specify such funding, but the joint explanatory statement on the bill expresses support for restoring shortwave and medium wave transmission to Venezuela. The Administration's FY2008 foreign aid budget request also included \$3 million in Development Assistance (DA) to support to Venezuelan civil society and \$50,000 in International Military Education and Training (IMET). (Ultimately an estimated \$1.5 million in DA and an estimated \$3 million in Economic Support Funds will be provided for support to Venezuelan civil society in FY2008, according to the Administration's *FY2009 Congressional Budget Presentation for Foreign Operations*, while an estimated \$47,000 will be provided for IMET.)

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<sup>169</sup> (...continued)  
10, 2007.

<sup>170</sup> The federal prosecutors' brief is available at [[http://media.miamiherald.com/smedia/2007/11/06/20/Posada\\_5CA\\_07-50737\\_electronic\\_copy.source.prod\\_affiliate.56.pdf](http://media.miamiherald.com/smedia/2007/11/06/20/Posada_5CA_07-50737_electronic_copy.source.prod_affiliate.56.pdf)]

<sup>171</sup> Alfonso Chardy and Jay Weaver, "Posada a Target of New Federal Probes," *Miami Herald*, November 12, 2006, and "Grand Jury Indicts Cuban Exile Militant Luis Posada Carriles," *Miami Herald*, January 12, 2007.

On November 5, 2007, the House approved by voice vote H.Res. 435 (Klein), which “expresses concern over the emerging national security implications of the Iranian regime’s efforts to expand its influence in Latin America.” Among other provisions, the resolution noted Venezuela’s support for Iran in the International Atomic Energy Agency, plans for a \$2 million Iranian-Venezuelan fund for investments in third countries, and the establishment of direct civilian airline flights from Iran to Venezuela.

On July 23, 2008, the House passed H.R. 6545 (Cazayouz) by a vote of 414-0, 2 present, which would require a national intelligence assessment on national and energy security issues. This would include an assessment of “the implications of the potential use of energy resources as leverage against the United States by Venezuela, Iran, or other potential adversaries of the United States as a result of increased energy prices.”

Additional resolutions introduced in the House include H.Con.Res. 50 (Fortuño), introduced January 31, 2007, which would call on the Venezuelan government to uphold the human rights and civil liberties of its people; H.Con.Res. 77 (Weller), introduced March 1, 2007, which would call on the Venezuelan government to respect a free and independent media and to avoid all acts of censorship against the media and free expression; H.Res. 560 (Barton), introduced July 19, 2007, which would express concern about the Venezuelan government taking control of the majority stakes of the operations of six major oil companies and stripping these companies of all operational control of their energy development projects in Venezuela; H.Res. 965 (Issa), introduced February 7, 2008, which, among other provisions, would call upon the Chávez government to take action to deny Venezuelan territory and weapons from being used by terrorist organizations; and H.Res. 1049 (Mack), introduced March 13, 2008, which, among other provisions, urges the Administration to designate Venezuela a state sponsor of terrorism.

Two Senate bills would increase hemispheric cooperation on energy issues: S. 193 (Lugar), the Energy Diplomacy and Security Act of 2007, introduced January 4, 2007, and reported by the Senate Foreign Relations Committee April 12, 2007 (S.Rept. 110-54); and S. 1007 (Lugar), the United States-Brazil Energy Cooperation Pact of 2007, introduced March 28, 2007.

**109<sup>th</sup> Congress.** In the 109<sup>th</sup> Congress, there was legislative action on several initiatives on Venezuela and oversight hearings were held in both houses. The FY2006 Foreign Operations appropriations measure (P.L. 109-102, H.R. 3057, H.Rept. 109-265) appropriated \$2 million in Democracy Funds for the NED for democracy programs in Venezuela and \$2.252 million in funding under the Andean Counterdrug Initiative (ACI), although slightly less was provided because of a 1% across-the-board rescission in the Defense Department appropriations measure (P.L. 109-148) that affected Foreign Operations funding. The Administration also had requested \$500,000 in Economic Support Funds (ESF) for Venezuela, although no specific earmark was provided in the conference report to P.L. 109-102, and the Administration ultimately did not allocate the assistance.

For FY2007, the Administration requested \$1 million in ACI funding, \$1.5 million in ESF for democracy initiatives, and \$45,000 for International Military

Education and Training (IMET). The House-passed version of the FY2007 foreign operations appropriation bill, H.R. 5522, would have provided no ACI funding for Venezuela. The Senate Appropriations Committee report to the bill recommended fully funding the Administration's \$1 million ACI and ESF requests for Venezuela. Final action on FY2007 foreign aid appropriations was not completed by the end of the year, leaving the 110<sup>th</sup> Congress to complete action in 2007.

Two resolutions on Venezuela were also approved in the 109<sup>th</sup> Congress. With regard to counternarcotics cooperation, the House approved H.Con.Res. 400 (Burton), by voice vote on July 26, 2006, which expressed the sense of Congress that Venezuela should actively support strategies for ensuring secure airport facilities that meet international certifications to prevent trafficking of controlled substances, narcotics, and laundered money. The resolution also condemned Venezuela's failures to stem the flow of narcotics through its territory and called for, among other measures, steps to restore cooperation between Venezuela and the DEA. S.Res. 607 (Bunning), approved by unanimous consent on December 6, 2006, condemned President Chávez's anti-American rhetoric during his September 20, 2006, speech before the U.N. General Assembly and "the undemocratic actions of President Chávez."

In other action, the House-passed version of H.R. 2601 (H.Rept. 109-168), the FY2006 and FY2007 Foreign Relations Authorization Act, had a provision (Section 1025) that would have authorized \$9 million in Economic Support Funds for each of FY2006 and FY2007 "to fund activities which support political parties, the rule of law, civil society, an independent media, and otherwise promote democratic, accountable governance in Venezuela." H.R. 2601 also had a provision, in Section 106(5), that would have authorized funds for the "Broadcasting Board of Governors to carry out broadcasting to Venezuela for at least 30 minutes per day of balanced, objective, and comprehensive television news programming, radio news programming, or both." Final action on H.R. 2601 was not completed by the end of the 109<sup>th</sup> Congress.

Other legislative initiatives not completed before the end of the 109<sup>th</sup> Congress included H.Con.Res. 224 (Fortuño), which would have called on the Venezuelan government to uphold human rights and civil liberties; H.Con.Res. 328 (Mack), which would have condemned President Chávez's anti-democratic actions; S. 2435 (Lugar), which would have increased hemispheric cooperation on energy issues, including cooperation among the governments of Brazil, Canada, Mexico, the United States, and Venezuela; H.Res. 1033 (Graves), which would have condemned President Chávez's anti-American rhetoric at the United Nations; and S.Res. 587 (Santorum), which would have condemned the anti-democratic actions and statements of the leaders of Iran, Cuba, and Venezuela and expressed concern about the national security implications of the relationships between those leaders.

Several oversight hearings were held in the 109<sup>th</sup> Congress dealing with Venezuela policy issues. On November 17, 2005, the House International Relations Committee, Subcommittee on the Western Hemisphere, held a hearing on the status of democracy in Venezuela. Earlier in the year, the subcommittee held hearings on March 9 and September 28, 2005, regarding the state of democracy in the Latin America, both of which touched on Venezuela. In 2006, the full House International

Relations Committee held a June 21 hearing on the status of democracy in Latin America that covered Venezuela, while the House Subcommittee on International Terrorism and Nonproliferation held a July 13, 2006, hearing specifically on Venezuela and terrorism issues. In terms of energy security in the Western Hemisphere, the House Subcommittee on the Western Hemisphere held a hearing on March 2, 2006, while the Senate Foreign Relations Committee held a hearing on June 22, 2006.

**108<sup>th</sup> Congress.** In the 108<sup>th</sup> Congress, Members of Congress had expressed concerns about the political situation in Venezuela. The Senate Foreign Relations Committee held hearing in June 2004 on the status of democracy in Venezuela and the August recall referendum.<sup>172</sup> As noted above (U.S. Funding for Democracy Projects), the conference report to the FY2005 Consolidated Appropriations Act (Division B of P.L. 108-447, H.Rept. 108-792) required a comprehensive report on NED's activities in Venezuela since FY2001 and reaffirmed NED's duty to ensure that all sponsored activities adhere to core NED principles.

Also in the 108<sup>th</sup> Congress, two resolutions were introduced in the House, but no action was taken on these measures. H.Res. 716, introduced by Representative Elton Gallegly on July 14, 2004, would, among other provisions, have encouraged Venezuelans to participate in a constitutional, peaceful, democratic, and electoral solution to the political crisis in Venezuela, and appealed to the Venezuelan government and the opposition to support a free, fair, and transparent recall referendum in accordance with the Venezuelan constitution. H.Res. 867, introduced by Representative Tom Lantos on November 20, 2004, would have expressed support for the National Endowment for Democracy in Venezuela. The resolution would have expressed the view that charges against Súmate were politically motivated. As noted above, Súmate is a Venezuelan civic organization involved in voter education and electoral observation that received funding from the National Endowment of Democracy. The resolution also would have welcomed the dropping of charges by the Venezuelan government against Súmate. Earlier in the year, in a July 12, 2004, letter to President Chávez, the House International Relations Committee expressed serious concern about the treatment of the leaders of Súmate.

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<sup>172</sup> Senate Foreign Relations Committee, Subcommittee on Western Hemisphere, Peace Corps, and Narcotics Affairs, "The State of Democracy in Venezuela," Hearing, June 24, 2004.

Figure 1. Map of Venezuela



Source: Map Resources. Adapted by CRS.