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Venezuela: Political Conditions and U.S. Policy

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Summary

An oil-exporting South American nation with a population of about 25 million, Venezuela has been wracked by several years of political turmoil under the populist rule of President Hugo Chávez who was first elected in 1998. Under Chávez, Venezuela has undergone enormous political changes, with a new constitution in place, a new unicameral legislature, and even a new name for the country, the Bolivarian Republic of Venezuela. Chávez was re-elected President with a new six-year term in July 2000 under the new constitution. Although Chávez remained widely popular until mid-2001, his popularity 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 April 2002, massive opposition protests and pressure by the military led to the ouster of Chávez from power for a brief period. The military ultimately restored him to power, but political opposition to Chávez's rule continued. From early December 2002 until early February 2003, the opposition orchestrated a general strike that severely curtailed Venezuela's oil exports, but was unsuccessful in getting President Chávez to agree to new elections. After months of negotiations facilitated by the OAS and the Carter Center, the Chávez government and the political opposition signed an agreement in May 2003 that set forth mechanisms to resolve the political crisis. This led to an August 15, 2004 presidential recall referendum that Chávez won convincingly by a margin of 59.3% to 40.7%.

Chávez's rule was further strengthened when his allies won a majority of gubernatorial and municipal posts in elections held in October 2004. The country's next presidential elections are set for late 2006, and there is a strong chance that Chávez could win another six-year term. The Chávez government has benefitted from the rise in world oil prices, which has increased government revenues, and sparked an economic growth rate of 16% for 2004. Some observers are concerned that Chávez will use his political strength to push toward authoritarian rule.

The United States traditionally has had close relations with Venezuela, but there has been friction in relations with the Chávez government. The Bush Administration expressed strong support for the work of the OAS in resolving the crisis, welcomed the May 2003 political accord, and supported its implementation. After the recall referendum, the Administration congratulated the Venezuelan people for their commitment to democracy and commended the work of the OAS and Carter Center. At the same time, U.S. officials stressed the importance of reconciliation on the part of the government and the opposition in order to resolve their political differences peacefully. A dilemma for U.S. policymakers has been how to press the Chávez government to adhere to democratic principles without taking sides in Venezuela's polarized political conflict. Since Venezuela is a major supplier of foreign oil to the United States, a key U.S. interest has been ensuring the continued flow of oil exports at a reasonable and stable price. Despite friction in U.S.-Venezuelan relations and despite past threats by President Chávez to stop selling oil to the United States, Venezuela has remained a steady supplier of oil to the United States.

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

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 in 1982, 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.

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.¹ 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 19th 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 re-election 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 term will expire in January 2007. Chávez's Patriotic Pole coalition also captured 14 of 23 governorships and a majority of seats in the National Assembly.

From the outset, critics have raised concerns about Chávez and his government. They fear that he is moving toward authoritarian rule and point to his domination of most government institutions. Some argue that Chávez has replaced the country's multiparty democracy with a political system that revolves around himself, in essence a cult of personality; others point to Chávez's open admiration of Fidel Castro and close relations with Cuba as a disturbing sign. Other observers express concern about the increased role of the military in the government, with Chávez appointing 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 believe that he is trying to politicize the educational system by making changes to school curriculums. They fear 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.²

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

² 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.

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.

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 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.³

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.⁴

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.

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 re-election, 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

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

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

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.⁵ 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.⁶ 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.⁷ 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%.⁸ 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.⁹

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.¹⁰ 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.¹¹ The Carter Center and the OAS conducted a second audit of the vote on August 19-21 and concluded that the vote results announced by the CNE reflect the will of the Venezuelan people.¹²

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

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

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

⁷ “A Poll of Polls,” *Miami Herald*, August 11, 2004.

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

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

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

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

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

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.”¹³

There are various factors that 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.

Political Conditions

Even before the recall referendum, some analysts maintained that the vote would not necessarily resolve Venezuela’s political conflict, which has been fueled by high levels of political polarization between supporters and opponents of President Chávez. According to this view, dialogue, inclusion, and the advancement of national reconciliation will be the keys needed to alleviate political conflict in the country, regardless of the referendum’s outcome.¹⁴ In the aftermath of Chávez’s victory in the recall referendum, many observers maintain that efforts toward political reconciliation — by both the government and the opposition — will be the key to returning political stability to the country.

Chávez’s rule was further strengthened when his allies won a majority of gubernatorial and municipal posts in elections held in late October 2004. The country’s next presidential elections are set for late 2006, and there is a strong chance that Chávez could win another six-year term. The Chávez government has benefitted from the rise in world oil prices, which has increased government revenues, and sparked an economic boon. As a result, Chávez has been able to increase government expenditures on anti-poverty and other social programs associated with the populist agenda of President Chávez’s Bolivarian revolution.

Economic Conditions

Venezuela’s major economic sector is petroleum, which accounts for one-third of its gross domestic product and 80% of exports. While the country is classified by the World Bank as an upper middle income developing country because of its relatively high per capita income of \$4,080 (2002), economic conditions in the country have deteriorated over the past decade. The percentage of Venezuelans

¹³ 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.

¹⁴ For example, see Marifeli Pérez-Stable, “Venezuela: Only Dialogue Can Restore Shattered Trust,” *Miami Herald*, June 10, 2004.

living in poverty (income of less than \$2 a day) increased from 12.2% to 23.8% of the population between 1991 and 2000.¹⁵

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 9.4% in 2003.

The economy rebounded in 2004, however, with a growth rate of 16% fueled by the windfall in international oil prices. The forecast for 2005 is for a growth rate of 5%.¹⁶

U.S. Policy Issues and Concerns

Although the United States has traditionally had close relations with Venezuela, characterized by an important trade and investment relationship and cooperation in combating the production and transit of illegal narcotics, there has been friction and tension in relations with the Chávez government. In the aftermath of the September 11 terrorist attacks, U.S. officials became far less tolerant of President Chávez's anti-American rhetoric.

After Chávez's brief ouster in April 2002, the United States expressed solidarity with the Venezuelan people, commended the Venezuelan military for refusing to fire on peaceful demonstrators, and maintained that undemocratic actions committed or encouraged by the Chávez administration provoked the political crisis.¹⁷ With Chávez's return to power, the United States called on President Chávez to heed the message sent by the Venezuelan people by correcting the course of his administration and "governing in a fully democratic manner."¹⁸ In contrast, many Latin American nations condemned the overthrow of Chávez, labeling it a coup. Venezuelan allegations of U.S. involvement in the attempted overthrow of President Chávez have contributed to strained relations. U.S. officials have repeatedly rejected the charges that the United States was involved.¹⁹ In the aftermath of Chávez's temporary ouster, the Department of State's Office of the Inspector General undertook a review of U.S.

¹⁵ World Bank, "Venezuela Country Brief," August 2004.

¹⁶ Economist Intelligence Unit, "Venezuela Country Report," December 2004.

¹⁷ U.S. Dept. of State, "Venezuela: Change of Government," Press Statement, Apr. 12, 2002.

¹⁸ U.S. Dept. of State, International Information Programs, "White House Calls on Venezuela's Chávez to Preserve Peace, Democracy," *Washington File*, Apr. 14, 2002.

¹⁹ U.S. Dept. of State, International Information Programs, *Washington File*, "U.S. Again Rejects Charges of Meddling in Venezuelan Affairs," April 19, 2004.

policy toward Venezuela and concluded that the Department of State had not played any role in President Chávez's overthrow.²⁰

Since 2002, the Bush Administration has expressed strong support for the work of the OAS to bring about a resolution to the crisis. With U.S. support, the OAS approved a resolution on December 16, 2002, that rejected any attempt at a coup or interruption of the constitutional democratic order in Venezuela, fully supported the work of the Secretary General in facilitating dialogue, and urged the Venezuelan government and the Democratic Coordinator "to use good faith negotiations to bring about a constitutional, democratic, peaceful, and electoral solution..." Beginning in January 2003, the United States joined with five other nations — Brazil, Chile, Mexico, Spain, and Portugal, in establishing a group known as the "Friends of Venezuela" — to lend support to the OAS Secretary General's efforts. U.S. officials welcomed the May 2003 accord ultimately signed, and maintained that the United States would continue to work to facilitate a peaceful, constitutional, democratic, and electoral solution to Venezuela's political impasse.

Comments by Venezuelan and some U.S. officials at times exacerbated tensions in the bilateral relationship. In the lead-up to the "repair" period held in late May 2004, Assistant Secretary of State for Western Hemisphere Affairs Roger Noriega maintained that it was already clear that "the requisite number of people supported the [recall] petition."²¹ Venezuelan Vice President Jose Vicente Rangel strongly criticized Noriega's statement as prejudging the outcome of the "repair" period. President Chávez, who has often used anti-American rhetoric to shore up his domestic support, maintains that President Bush will be his greatest rival in the recall referendum, and that the United States would "govern" in Venezuela if the opposition wins the recall referendum and subsequent election.²²

After the recall referendum, the Administration congratulated the Venezuelan people for their commitment to democracy and commended the work of the OAS and Carter Center. At the same time, U.S. officials stressed the importance of reconciliation on the part of the government and the opposition in order to resolve their political differences peacefully. (Also see "Policy Approaches" below.)

U.S. Funding for Democracy Projects

The United States provides funding for democracy projects in Venezuela through the National Endowment for Democracy (NED) (funded by the Commerce, Justice, and State appropriations measure) and through Economic Support Funds for democracy-related projects (funded through the Foreign Operations appropriations

²⁰ U.S. Department of State and the Broadcasting Board of Governors, Office of Inspector General, "A Review of U.S. Policy Toward Venezuela November 2001 — April 2002," Report Number 02-OIG-003, July 2002.

²¹ David R. Sands, "U.S. Casts Wary Eye on Venezuela Vote; Action Promised if Vote is Rigged," *Washington Times*, May 26, 2004.

²² Alice M. Chacon, "Venezuelan President Says His Greatest Rival is George W. Bush," *Associated Press*, June 12, 2004.

measure). The NED has been funding democracy projects for Venezuela since 1992, but has increased its funding over the past several years under the Chávez government. In FY2003, NED funded 15 democracy projects for Venezuela with \$1.05 million. In previous years, the NED's funding for Venezuela projects amounted to \$1.1 million in FY2002, \$877,000 in FY2001, \$258,000 in FY2000, and \$1.1 million in FY1999.

ESF assistance for democracy-related projects in Venezuela amounted to \$470,000 in FY2003 and an estimated \$1.497 million in FY2004 (including \$1 million in reprogrammed funds to support political reconciliation). For FY2005, the Administration requested \$500,000 in ESF assistance, but the assistance will not be made available unless Venezuela signs a so-called Article 98 agreement that would exempt Americans from International Criminal Court Prosecution. Foreign operations appropriations legislation for FY2005 (Division D of P.L. 108-447) banned ESF assistance to countries that had not signed such agreements, with some exceptions.²³

The Venezuelan government and some other critics have criticized NED's funding of opposition groups.²⁴ 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 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.

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. Assistant Secretary of State for Western Hemisphere Affairs Roger Noriega maintained that "the Venezuelan government's efforts against Súmate are intended to intimidate and dissuade participation in the referendum process."²⁵

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

²³ See CRS Report RL32311, *Appropriations for FY2005: Foreign Operations, Export Financing, and Related Programs*, by Larry Nowels.

²⁴ 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.

²⁵ U.S. Department of State, International Information Programs, "U.S. Official Outlines Challenges Facing Venezuela," *Washington File*, June 24, 2004.

process and to encourage citizens to participate.”²⁶ 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.²⁷

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) requires 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 2003, after Saudi Arabia, Canada, and Mexico), a key U.S. interest has been ensuring the continued flow of oil exports at a reasonable and stable price. 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. Venezuelan officials maintain that national production currently amounts to about 3.2 billion barrels per day but critics and independent analysts assert that the figure is about 2.6 billion barrels per day.²⁸ PdVSA announced in December 2004 that outside auditors would be appointed to verify the country’s oil production.²⁹

Despite the friction in U.S.-Venezuelan relations and Venezuela’s opposition to 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. At various junctures, however, Chávez has threatened to stop selling oil to the United States; in April 2004, he threatened to do so if the United States did not stop “intervening in Venezuela’s domestic affairs.”³⁰ Many observers believe that Chávez’s threats have been merely part of his rhetoric that is designed to divert attention from the country’s political crisis.

²⁶ National Endowment for Democracy, “NED Venezuela Programs FAQ,” available at [<http://www.ned.org/grants/venezuelaFacts.html>].

²⁷ Telephone conversation with NED official July 15, 2004; also see Andres Oppenheimer, U.S. Group’s Funds Aid Democracy, *Miami Herald*, July 15, 2004.

²⁸ “Venezuela’s state-run oil company changes eight of its eleven board members,” *Associated Press*, January 13, 2005.

²⁹ “Venezuela Industry: Oil and Gas Update,” *EIU ViewsWire*, December 16, 2004.

³⁰ “Chávez Threatens to Halt Oil to U.S.,” *Miami Herald*, April 19, 2004.

Some observers, however, have raised questions about the security of Venezuela as a major supplier of foreign oil for the United States. There are also concerns that Venezuela is looking to supplant China as a replacement market, although Venezuelan officials maintain that they are only attempting to diversify Venezuela's oil markets. Senate Foreign Relations Committee Chairman Richard Lugar has asked the Government Accountability Office (GAO) to study the issue of potential Venezuelan oil supply disruption.³¹

Human Rights Concerns

U.S. officials and international human rights organizations have expressed concerns about the deterioration of democratic institutions and threats to freedom of speech and press in Venezuela under the Chávez government.

The Inter-American Commission on Human Rights (IACHR) issued a report in March 2004 expressing concerns about the growing concentration of power in the executive branch of government, the tendency to militarize public administration, attacks and intimidation against human rights activists and organizations, and the government's tendency to confront and disparage the political opposition and its constant attacks on journalists and the media. While Venezuela has vigorous print and electronic media, the IACHR report maintained that draft legislation (ultimately enacted in December 2004) on what the Chávez government called "social responsibility" in radio and television could severely constrain the full exercise of freedom of expression.

Other groups such as the Committee for the Protection of Journalists and Reporters Without Borders have expressed concerns about President Chávez's condemnation of Venezuela's private press and attacks against journalists during street protests. Human Rights Watch issued a public letter to President Chávez documenting the use of torture and excessive force against protestors that occurred in late February and early March. Amnesty International issued a report in May 2004 criticizing the Venezuelan security forces' excessive use of force and the ill-treatment and torture of detainees.

In the aftermath of Chávez's victory in the August 2004 recall referendum, some observers are concerned that Chávez will use his political strength to push toward authoritarian rule. Human Rights Watch asserted in mid-December 2004 that the Chávez government has dealt a severe blow to judicial independence by packing the Supreme court under a new law that expands the court from 20 to 32 justices. It maintains that President Chávez and his supporters are rigging the judicial system in order to assert political control over the court.³² Critics of Chávez also fear that a new media law enacted in early December will permit the government to censor news

³¹ Andy Webb-Vidal, "U.S. to look into Venezuela oil supply reliance," *Financial Times*, January 14, 2005.

³² "Venezuela: Chávez Allies Pack Supreme Court," Human Rights Watch, December 14, 2004.

reports of protests or government crackdowns.³³ Other observers assert that freedom of the press and assembly thrive in Venezuela and doubt that the Chávez government would censor the press. They also maintain that allegations of threats to Venezuelan judicial independence are grossly exaggerated.³⁴

Counternarcotics

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. Cocaine seizures by the Venezuelan government increased significantly from 15 metric tons in 2002 to over 32 metric tons in 2003.

Despite the friction in U.S.-Venezuelan relations, cooperation between the two countries at the law enforcement agency level continues to be excellent, according to the State Department's 2003 *International Narcotics Control Strategy Report*. Venezuela has received small amounts of U.S. assistance under the Administration's Andean Counterdrug Initiative: \$5 million in FY2002; \$2.075 million in FY2003; an estimated \$5 million in FY2004; and a request of \$3 million for FY2005. ACI programs in Venezuela focus on counternarcotics cooperation and judicial reform support. (For further information, see CRS Report RL32337, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2005 Assistance*, by Connie Veillette.)

Concerns About Venezuela's Involvement in Latin America

There have been long-held suspicions that Chávez has supported leftist Colombian guerrillas, although Chávez denies such support. In the 108th Congress, the conference report (H.Rept. 108-401) on the FY2004 Consolidated Appropriations Act, H.R. 2673 (P.L. 108-199), requested the Secretary of State to provide (within 90 days of enactment and in a classified form if necessary) "a description of the extent to which, if any, the Government of Venezuela has supported or assisted groups designated as terrorist organizations in Colombia."³⁵ In addition, the FY2005 Ronald W. Reagan National Defense Authorization Act (P.L. 108-375), enacted into law October 28, 2004, requires a report within 60 days from the Secretary of State regarding any relationships between foreign governments or organizations and terrorist groups in Colombia (Section 1021).

The State Department's April 2004 *Patterns of Global Terrorism* report maintains that the Revolutionary Armed Forces of Colombia (FARC) and the Colombian National Liberation Army (ELN) often cross into neighboring Venezuela, regarding it as a safehaven, and that weapons and ammunition continue flowing from Venezuelan suppliers to these guerrilla groups. The report also maintained, however,

³³ Juan Forero, "Venezuela Chief Signs Pres Law Some See as Aimed at His Critics," *New York Times*, December 9, 2004.

³⁴ Mark Weisbrot, "U.S. Criticism of Chávez Unfounded," *Miami Herald*, December 20, 2004.

³⁵ No such report has been submitted, according to the Department of State.

that “it is unclear to what extent the Government of Venezuela approves of or condones material support to Colombian terrorists and at what level.”

Press reports in 2004 asserted that the lack of aggressive Venezuelan border patrols since Chávez took office has led to increased Colombian guerrilla movements.³⁶ In addition to Colombia, there have been concerns about President Chávez’s close relationship with Cuba’s Fidel Castro, and allegations that he has financed leftist groups in Ecuador and Bolivia; Chávez has denied such allegations.³⁷

Policy Approaches

A dilemma for U.S. policymakers has been how to press the Chávez government to adhere to democratic principles without appearing to interfere in Venezuelan domestic affairs or taking sides in the country’s polarized political conflict. The appearance of U.S. interference in Venezuela could result in increased popular support for the Chávez government, which has attempted to portray the opposition as supported by the U.S. government and to portray the United States as Venezuela’s main adversary. As noted above, for the most part, the Bush Administration has worked through the OAS and the Carter Center to bring about a resolution to the crisis. At the same time, U.S. officials have not refrained from criticizing the Chávez government on various occasions for its anti-democratic actions.

There are other schools of thought about the appropriate U.S. policy toward Venezuela. Some maintain that the United States should work to normalize relations with the Chávez government and ensure that no U.S. funding goes to any groups headed by individuals who participated in the April 2002 temporary ouster of President Chávez or to any partisan groups.³⁸

Another longer-term policy approach advocated by some is that the United States should work to address the circumstances that led to the rise to power of Chávez. This policy approach pertains not just to Venezuela, but to other countries in Latin America struggling with high levels of unemployment, crime, and political corruption.³⁹

Some observers maintain that U.S. relations with Venezuela already have begun to improve in the aftermath of the recall referendum. They point to U.S. support for

³⁶ Alfonso Chardy, “Fear of Violence Spreads Across Border; Reduced Patrols by Venezuelan Soldiers Along the Border with Colombia Have Led to Increased Kidnappings, Murders, and Incursions by Leftist Colombian Guerrillas,” *Miami Herald*, June 15, 2004.

³⁷ Phil Gunson, “Chávez’s ‘Revolution’ Seen as Different From Castro’s,” *Miami Herald*, June 13, 2004.

³⁸ 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.

³⁹ Testimony of Miguel Diaz, Center for Strategic and International Studies, at a hearing of the Senate Foreign Relations Committee on the “The State of Democracy in Venezuela,” June 24, 2004.

an August 26, 2004, OAS resolution that expressed satisfaction with the conduct of the referendum, a move which appeared to undercut opposition allegations of fraud. Some observers maintain that the importance of U.S. oil imports from Venezuela will prevent the United States from taking a more aggressive approach toward President Chávez.⁴⁰

In the 108th 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.⁴¹ 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.

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.

⁴⁰ Andy Webb-Vidal, "Oil Helps Thaw the Atmosphere as U.S. Comes to Terms with Chávez," *Financial Times*, August 26, 2004.

⁴¹ 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. (K.Yancey 7/15/04)