

CRS Report for Congress

Received through the CRS Web

Venezuela: Political Conditions and U.S. Policy

Updated January 17, 2006

Mark P. Sullivan
Specialist in Latin American Affairs
Foreign Affairs, Defense, and Trade Division

Venezuela: Political Conditions and U.S. Policy

Summary

Under the populist rule of President Hugo Chávez, first elected in 1998, Venezuela has undergone enormous political changes, with a new constitution, a new unicameral legislature, and even a new name for the country, the Bolivarian Republic of Venezuela. Although Chávez remained widely popular until mid-2001, his popularity eroded considerably after that, amid concerns that he was imposing a leftist agenda. In April 2002, massive opposition protests led to the ouster of Chávez from power for a brief period, but the military restored him to power after an interim government resorted to such hardline measures as dismantling the National Assembly and suspending the Constitution. After months of negotiations, the Chávez government and the political opposition signed an agreement in May 2003 that ultimately led to an August 2004 presidential recall referendum. Chávez survived the vote by a margin of 59% to 41%. In December 2005 legislative elections, pro-Chávez parties won all 167 seats in the National Assembly after opposition parties pulled out of the race just days before the vote. The country's next presidential elections are set for the end of 2006, and there is a strong chance that Chávez could win another six-year term. The government has benefitted from the rise in world oil prices, which has sparked an economic boom. As a result, Chávez has been able to increase government expenditures on anti-poverty and other social programs associated with the populist agenda of his Bolivarian revolution.

The United States traditionally has had close relations with Venezuela, but there has been friction in relations with the Chávez government. In 2005, relations deteriorated markedly, with Venezuela's cancellation of a bilateral military exchange program in April and its suspension of cooperation with the Drug Enforcement Administration in August. On September 15, 2005, President Bush designated Venezuela 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. 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 the fourth major supplier of foreign oil to the United States, a key U.S. interest has been ensuring the continued flow of oil exports.

In the first session of the 109th Congress, the FY2006 Foreign Operations appropriations measure (P.L. 109-102, H.Rept. 109-265) provided \$2 million in FY2006 for democracy programs in Venezuela, and \$2.252 million in assistance under the Andean Counterdrug Initiative. In the second session, Congress will likely continue to focus on concern about the status of democracy in Venezuela and President Chávez's support for leftist movements and governments in the region. Pending legislation includes the House-passed version of H.R. 2601, which would authorize \$9 million for each of FY2006 and FY2007 for democracy programs in Venezuela and authorize funds for U.S.-government broadcasting to Venezuela; H.Con.Res. 224 (Fortuño), which calls on the Venezuelan government to uphold the human rights and civil liberties of the people of Venezuela; and H.Con.Res. 328 (Mack), which condemns President Chávez's "anti-democratic actions" and expresses strong U.S. support for democratic forces in Venezuela.

Contents

Recent Developments 1

Political Situation 1

 Background 1

 Chávez’s Brief Ouster in April 2002 3

 Continued Opposition and Strike in 2002 and 2003 3

 August 2004 Presidential Recall Referendum 4

 Background Leading to the Referendum 4

 Referendum Results 5

 December 2005 Legislative Elections 6

 Opposition Boycott 6

 Election Results 7

 International Observers 7

 Political Significance 8

 Political Outlook 9

 Human Rights Concerns 9

 Economic Conditions 11

U.S. Policy 12

 Background and Overview 12

 Tensions Increase in 2005 13

 Policy Approaches 15

 U.S. Funding for Democracy Projects 16

 Oil Issues 18

 Counternarcotics Cooperation 19

 Venezuela’s Designation as Country that Has Failed
 Demonstrably in Counter-narcotics Efforts 20

 Concerns about Venezuela’s Military Purchases 21

 Concerns About Venezuela’s Involvement in Latin America 21

 Venezuela’s Extradition Requests 23

 Legislative Initiatives 24

 108th Congress 24

 109th Congress 25

List of Figures

Figure 1. Map of Venezuela 26

Venezuela: Political Conditions and U.S. Policy

Recent Developments

On January 13, 2006, the State Department indicated that the United States had denied licenses to transfer U.S. technology for use in planes (10 military transport planes and 2 maritime patrol aircraft) that Spanish companies had contracted to sell to Venezuela.

In legislative elections held on December 4, 2005, pro-Chávez parties won all 167 seats in the National Assembly after opposition parties pulled out of the race just days before the vote. International observers lamented the withdrawal of the opposition but also raised questions and had criticisms regarding the conduct of the elections.

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

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.

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.

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 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

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

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

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,

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

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

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

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

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 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

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*, Aug. 11, 2004.

⁸ "Chávez on Course for Victory," *Latinnews Daily*, Aug. 9, 2004.

⁹ Steven Dudley, "Chávez Recall Vote Confounds Pollsters," *Miami Herald*, Aug. 11, 2004.

¹⁰ "CNE Emitió Resultados Oficiales Del Referendo Revocatorio Presidencial," Consejo Nacional Electoral, Aug. 26, 2004.

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 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

Carious 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

Opposition Boycott. 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

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

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

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 Aug. 26, 2004.

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 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.¹⁴

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.¹⁵

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

¹⁴ Phil Gunson, "Vote Boycott Sparks Test of Wills," *Miami Herald*, Dec. 3, 2005.

¹⁵ "Court Rebuffs AD Bid to Change Electoral Rules," *Latin American Weekly Report*, Nov. 1, 2005.

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, and noted with surprise the opposition's withdrawal just four days before the election.¹⁶

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.¹⁷

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. Chávez supporters have indicated that they would like to amend the constitution to end limits on presidential re-election. Currently, Chávez is only eligible to run for one more six-year term in December 2006.

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."¹⁸ 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.

¹⁶ EU Election Observation Mission to Venezuela, Parliamentary Elections 2005," Preliminary Statement," Dec. 6, 2005.

¹⁷ "Preliminary OAS Observations on the Legislative Elections in Venezuela," Press Release, Dec. 6, 2005.

¹⁸ Juan Forero, "Chavez's Grip Tightens as Rivals Boycott Vote," *New York Times*, Dec. 5, 2005.

Political Outlook

Even before the August 2004 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.¹⁹ In the aftermath of Chávez's victory in the recall referendum, many observers maintained that efforts toward political reconciliation — by both the government and the opposition — will be the key to returning political stability to the country. International observers for the December 2005 legislative elections also concluded that the elections did not contribute toward reducing political conflict or polarization and maintained that a new democratic consensus was needed.

The country's next presidential elections are set for the end of 2006, and there is a strong chance that Chávez could win another six-year term. The government has benefitted from the rise in world oil prices, which has increased government revenues, and sparked an economic boom, with a growth rate of almost 18% in 2004 and 9% in 2005.²⁰ As a result, Chávez has been able to increase government expenditures on anti-poverty and other social programs associated with the populist agenda of his Bolivarian revolution. Although some polls have shown President Chávez maintaining popularity over 70%, others maintain that support for him has begun to erode, with his popularity dipping below 50%.²¹ Even if Chávez's popularity has waned, this does not necessarily translate into support for the political opposition, which remains weak and fragmented in the aftermath of the August 2004 recall referendum.

Human Rights Concerns

U.S. officials and 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. At the same time, however, a majority of Venezuelans (almost 60%) have expressed satisfaction with how democracy in their country is working, according to a 2005 poll by Latinobarómetro, a far greater percentage than in most Latin American countries.²²

The Inter-American Commission on Human Rights (IACHR) issued a report last year expressing concerns about the Chávez government's tendency to militarize public administration. The Commission expressed extreme concern about reports of "undue

¹⁹ For example, see Marifeli Pérez-Stable, "Venezuela: Only Dialogue Can Restore Shattered Trust," *Miami Herald*, June 10, 2004.

²⁰ "Country Report, Venezuela," Economist Intelligence Unit, Jan. 2006.

²¹ "Chavez Popularity Sags in Venezuelan Polls," Voice of America News, Sept. 21, 2005; Foreign Broadcast Information Service. Highlights: Venezuela Political Press, Oct. 24, 2005, "Poll: Almost 77% of Venezuelans Approve of Chavez's Performance," (*Ultimas Noticias*, Oct. 23, 2005).

²² "Ten-Year Rut, The Latinobarómetro Poll," *The Economist*, Oct. 29, 2005.

influence of the armed forces in the country's political affairs" and "excessive involvement by the armed forces in political decision-making."²³ According to the State Department's February 2005 human rights report on Venezuela, "the military has played an increasingly larger role in civilian life," with active and retired military officers holding high-ranking government positions. Under President Chávez, the military has also become involved in numerous public service and development projects. This coincides with Chávez's view of the "military as an instrument of social transformation," part of his so-called Bolivarian revolution.²⁴

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. 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, human rights groups, and other observers have expressed concerns that these measures have restricted freedom of expression, with newspaper and broadcasters practicing self-censorship.²⁵ The government has also reportedly used the tax code to intimidate media critics.²⁶ Other observers, however, assert that freedom of the press and assembly thrive in Venezuela, and that allegations of threats to Venezuelan judicial independence are grossly exaggerated.²⁷ As some human rights groups have noted, even before the Chávez government took office, Venezuela's Supreme Court was highly politicized and undermined by chronic corruption.²⁸

The IACHR has also expressed concerns about acts of violence and persecution against human rights activists. In recent testimony before the Commission, members of several Venezuelan human rights organizations asserted that the government has labeled members of human rights groups as traitors and coup plotters. One example is Carlos Ayala, a former president of the IACHR, who has been charged with supporting the April 2002 coup against Chávez even though he had opposed the coup

²³ Inter-American Commission on Human Rights, "Report on the Situation of Human Rights in Venezuela," December 29, 2003 (original in Spanish); released in Mar. 2004.

²⁴ Michael Shifter, "Chávez Should Not Steer U.S. Policy," *Financial Times*, Apr. 7, 2005.

²⁵ Inter-American Commission on Human Rights, "IACHR Reports on Human Rights Situation at the Conclusion of its Session," Press Release, Oct. 28, 2005; Danna Harman, "Latin Strongman Rebels Against U.S.-Centric News," *Christian Science Monitor*, May 13, 2005

²⁶ Foreign Broadcast Information Service, "Analysis: Venezuela: Government Using Laws to Harass Media Critics," Nov. 4, 2005.

²⁷ Mark Weisbrot, "Chavez is Admired in Latin America," *Augusta Chronicle*, June 20, 2005; "U.S. Criticism of Chávez Unfounded," *Miami Herald*, Dec. 20, 2004.

²⁸ "Freedom in the World 2005, Country Reports," Freedom House, p. 700.

attempt. The charges were filed after Ayala initiated human rights cases against the government.²⁹

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 conspiring against the government and could face up to 16 years in prison. *Súmate* asserts that there are more than 200 political prisoners in Venezuela today, and that there is targeted political retribution and discrimination against those who signed a petition in favor of having the 2004 presidential recall referendum.³⁰

Finally, there has been increasing concern about the Venezuelan government's expropriations of large land holdings and private companies that observers see as a violation of property rights and due legal process. In late August, the government expropriated *Empresas Polar*, the country's largest food and beer company, for reportedly underutilizing its land and capital. In early September 2005, the government seized a tomato processing plant belonging to H.J. Heinz, a U.S. company. The Venezuelan government reportedly is reviewing some 700 large land holdings and companies to see if they are underutilized, as part of a campaign to turn them into productive enterprises for poor farmers and workers.³¹

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 \$4,020 (2004), economic conditions in the country have deteriorated over the past decade. 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 2000.³²

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.

²⁹ "Venezuela's Conscience," *Washington Post*, Oct. 30, 2005.

³⁰ House International Relations Committee, Subcommittee on the Western Hemisphere, Hearing on Democracy in Venezuela, Statement of Ana Julia Jatar, *Súmate*, Nov. 17, 2005.

³¹ Jens Gould, "Chávez Now Aims for Corporate-Owned Land," *Christian Science Monitor*, Nov. 1, 2005.

³² World Bank, "Venezuela Country Brief," Aug. 2004.

Since 2004, the economy has rebounded, with a growth rate over of almost 18% in 2004 and a growth rate of 9% in 2005 fueled by the windfall in international oil prices. A growth rate over 6% is forecast in 2006.³³ Given this positive outlook, the Chávez government is expected 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. As noted above, the government is using the windfall in oil profits to boost social spending and programs to fight poverty.

U.S. Policy

Background and Overview

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.³⁴ 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.”³⁵ 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.³⁶ In the aftermath of Chávez’s temporary ouster, the Department of State’s Office of the Inspector General undertook a review of U.S. policy toward Venezuela and concluded that the Department of State had not played any role in President Chávez’s overthrow.³⁷

³³ Economist Intelligence Unit, “Venezuela Country Report,” Jan. 2006.

³⁴ U.S. Dept. of State, “Venezuela: Change of Government,” Press Statement, Apr. 12, 2002.

³⁵ U.S. Dept. of State, International Information Programs, “White House Calls on Venezuela’s Chávez to Preserve Peace, Democracy,” *Washington File*, Apr. 14, 2002.

³⁶ U.S. Dept. of State, International Information Programs, *Washington File*, “U.S. Again Rejects Charges of Meddling in Venezuelan Affairs,” Apr. 19, 2004.

³⁷ 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.

The Bush Administration 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.”³⁸ 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.³⁹

After the August 2004 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.

Tensions Increase in 2005. In 2005, however, Administration officials voiced increasing concern about President Chávez, 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.”⁴⁰ Secretary

³⁸ David R. Sands, “U.S. Casts Wary Eye on Venezuela Vote; Action Promised if Vote is Rigged,” *Washington Times*, May 26, 2004.

³⁹ Alice M. Chacon, “Venezuelan President Says His Greatest Rival is George W. Bush,” *Associated Press*, June 12, 2004.

⁴⁰ 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, Mar. 9, 2005; Hearing on “Keeping Democracy on Track: Hotspots in Latin America,” Testimony of Charles A.

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.⁴¹ 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 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 couple of months.⁴²

While traveling in South America in August 2005, 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."⁴³ Some Members of Congress, such as Senator Arlen Specter, reportedly called for the Secretary to tone down his rhetoric.⁴⁴ 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.)

⁴⁰ (...continued)

Shapiro, Principal Deputy Assistant Secretary of State, Sept. 28, 2005.

⁴¹ Todd Benson, "Rumsfeld in Brazil, Criticizes Venezuela on Assault Rifles," *New York Times*, Mar. 24, 2005.

⁴² Lauren Monsen, "United States Hopes for Improved Cooperation," Washington File, U.S. Department of State, Aug. 19, 2005.

⁴³ Josh White, "Rumsfeld in Latin America, Voices Democracy Concerns," *Washington Post*, Aug. 17, 2005.

⁴⁴ Holly Yeager, "Senator Takes Rumsfeld to Task Over Chavez Criticism," *Financial Times*, Aug. 20, 2005.

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.”⁴⁵ (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 civic space for increasingly at-risk groups.”⁴⁶ Reflecting an escalation of the Venezuelan President’s harsh rhetoric, Chávez responded to Shannon’s comments by calling President Bush a “crazy, genocidal killer.”⁴⁷

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.”⁴⁸ (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.⁴⁹)

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. In the lead up to the recall referendum, the Chávez government portrayed the opposition as supported by the U.S. government and the United States as Venezuela’s main adversary. As noted above, for the most part, the Bush Administration worked through the OAS and the Carter Center from 2002-2004 to help resolve the country’s political crisis. At the same time, U.S. officials have not refrained from criticizing the Chávez government on various occasions for its anti-democratic actions.

⁴⁵ U.S. Department of State, Daily Press Briefing, Aug. 23, 2005.

⁴⁶ House International Relations Committee, Subcommittee on the Western Hemisphere, Hearing on Democracy in Venezuela, Statement by Asst. Sec. of State Thomas A. Shannon, Nov. 17, 2005.

⁴⁷ “Venezuela: Chávez Responds to Shannon’s Criticism,” *Latinnews Daily*, Nov. 18, 2005.

⁴⁸ U.S. Department of State, Daily Press Briefing, Dec. 5, 2005.

⁴⁹ “State Department Holds Fire on Election Result,” *Latinnews Daily*, Dec. 6, 2005.

According to press reports, the Administration was involved in a major reassessment of policy toward Venezuela in the spring of 2005, with the policy review resulting in a two-prong strategy to increase support to civil groups in Venezuela and to convince other countries that Chávez should be viewed as a troublesome meddler in other countries' affairs.⁵⁰ Some observers, however, have expressed concerns that a more aggressive approach could create further estrangement and tension in the bilateral relationship.

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 attempt to work cooperatively on issues of mutual concern, such as drug trafficking. Some also maintain that United States should ensure that no U.S. funding goes to any groups headed by individuals who participated in the April 2002 ouster of President Chávez or to any partisan groups.⁵¹

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.⁵²

U.S. Funding for Democracy Projects

The United States has provided funding for democracy projects in Venezuela through the National Endowment for Democracy (NED) since 1992, but the level of funding has increased over the past several years under the Chávez government. In the FY2006 Foreign Operations appropriations measure (P.L. 109-102), Congress provided \$2 million in Democracy Funds for NED for democracy programs in Venezuela. In FY2005, NED provided \$902,000 for 16 democracy projects in Venezuela. Prior to that, NED funded 13 democracy projects with about \$874,000 in FY2004, and funded 15 democracy projects with \$1.05 million in FY2003.

In addition to the NED funding, the United States has provided Economic Support Funds (ESF) for democracy-related projects in Venezuela. For FY2006, the Administration requested \$500,000 in ESF for such projects, although no money was earmarked for this in the FY2006 Foreign Operations measure. In FY2005, an estimated \$496,000 in ESF was provided, while an estimated \$1.497 million (including \$1 million in reprogrammed funds to support political reconciliation) was provided in FY2004, and \$470,000 in FY2003.

⁵⁰ Pablo Bachelet, "U.S. Tries Everything, But Can't Slow Chávez," *Miami Herald*, Sept. 7, 2005; Pablo Bachelet, "U.S. Exploring Taming Chávez," *Miami Herald*, Mar. 18, 2005; Juan Forero "U.S. Considers Toughening Stance Toward Venezuela," *New York Times*, Apr. 26, 2005.

⁵¹ 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.

⁵² 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.

In other legislative action in the 109th Congress, the House-passed version of the FY2006 and FY2007 Foreign Relations Authorization Act, H.R. 2601 (H.Rept. 109-168), would authorize \$9 million in Economic Support Funds for each of FY2006 and FY2007 to fund support for a variety of activities in support of democratic and accountable governance in Venezuela.

The Venezuelan government and some other critics have criticized NED's funding of opposition groups.⁵³ 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. 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."⁵⁴

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."⁵⁵ 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.⁵⁶ In early September 2005, the board of the NED approved

⁵³ 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.

⁵⁴ "United States Rejects Venezuelan Decision to Try Civic Group," Department of State, Washington File, July 8, 2005.

⁵⁵ National Endowment for Democracy, "NED Venezuela Programs FAQ," available online at [<http://www.ned.org/grants/venezuelaFacts.html>].

⁵⁶ Telephone conversation with NED official July 15, 2004; also see Andres Oppenheimer, U.S. Group's Funds Aid Democracy, *Miami Herald*, July 15, 2004.

a new \$107,000 grant to Súmate for a program to train thousands of people on their electoral rights.⁵⁷

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 2004, after Canada, Mexico, and Saudi Arabia), a key U.S. interest has been ensuring the continued flow of oil exports. Oil exports account for the overwhelming majority of Venezuela's exports to the United States. In 2004, Venezuela's total exports destined for the United States amounted to \$24.0 billion, with oil products accounting for \$22.5 billion, or 90% of the total. 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 3.3 billion barrels per day but independent analysts assert that the figure is about 2.6 billion barrels per day.⁵⁸

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."⁵⁹ 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.

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.⁶⁰

⁵⁷ Pablo Bachelet, "Citizens Group to Get U.S. Funds," *Miami Herald*, Sept. 13, 2005.

⁵⁸ Economist Intelligence Unit, "Country Report: Venezuela," Dec. 2005.

⁵⁹ "Chávez Threatens to Halt Oil to U.S.," *Miami Herald*, Apr. 19, 2004.

⁶⁰ Andy Webb-Vidal, "U.S. to look into Venezuela oil supply reliance," *Financial Times*, Jan. 14, 2005.

By the end of 2005, the Venezuelan government had completed the conversion of 32 foreign operating agreements with foreign oil companies to joint ventures, with the Venezuelan government now holding a majority share of between 60-70% in the ventures. Majority state ownership of the oil units fulfills a policy goal of the Chávez government to assert greater control over the country's oil reserves but could dampen future foreign investment in the oil sector.⁶¹

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. According to the Department of State, in its March 2005 *International Narcotics Control Strategy Report* (INCSR), cocaine seizures by the Venezuelan government amounted to 17.8 metric tons (mt) in 2002, 19.5 mt in 2003, and 19.1 mt during the first six months of 2004. Previously, the March 2004 INCSR reported that Venezuela's cocaine seizures in 2003 had amounted to 32 metric tons in 2003, but the State Department subsequently revised the figure downward to 19.5 mt in large part because the previous figure had included a large seizure in international waters by the Spanish navy, with cooperation from the Venezuelan Coast Guard. Nevertheless, the March 2005 INCSR asserted that cocaine seizures during the first six months of 2004 equaled the total amount seized in 2003 in large part because of two multi-ton seizures made by Venezuelan task forces that worked closely with U.S. law enforcement.

The Venezuelan government maintains that its cocaine seizures in 2004 amounted to 19.6 mt and amounted to 18.7 mt in the first eight months of 2005. U.S. officials reportedly maintain that Venezuela's figures are exaggerated because they include four tons seized aboard Venezuelan ships by French and Dutch authorities in the Caribbean.⁶²

Despite the friction in U.S.-Venezuelan relations, cooperation between the two countries at the law enforcement agency level led to significant cocaine seizures in 2004, according to the State Department's March 2005 INCSR. The report asserted that Venezuela carried out some 400 cocaine and heroin seizures in the first half of 2004 and that several important cocaine and heroin trafficking organizations were effectively attacked in 2004, including several important extraditions. Nevertheless, the Department of State maintained in the report that Venezuela needs to make substantial efforts in five areas: passing an Organized Crime Law; making effective efforts to combat corruption; cracking down on document fraud; enforcing court-ordered wiretaps; and conducting opium poppy and coca eradication operations at least annually. 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; \$5 million in FY2004; almost \$3 million for FY2005; and \$2.252 million in FY2006 (P.L. 109-102). ACI programs in Venezuela focus on counternarcotics cooperation and judicial reform support. (For further information, see

⁶¹ Andy Webb-Vidal, "Venezuela Takes Control of Private Oilfields," *Financial Times*, Jan. 3, 2006.

⁶² Steven Dudley and Pablo Bachelet, "Venezuela No Longer U.S. Ally in Drug War," *Miami Herald*, Sept. 16, 2005.

CRS Report RL32337, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2005 Assistance*, by Connie Veillette.)

Venezuela's Designation as Country that Has Failed Demonstrably in Counter-narcotics Efforts. As noted above, Venezuela suspended its cooperation with the U.S. Drug Enforcement Administration (DEA) in early August 2005 because it alleged that DEA agents were spying on Venezuela. U.S. officials maintained that the charges were baseless. Senator Specter met with President Chávez and Venezuelan ministers in mid-August 2005 to discuss cooperation on drug interdiction.

On September 15, 2005, President Bush 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. Small amounts of U.S. counter-narcotics assistance to Venezuela under the Andean Counter-drug Initiative will also continue. (For background on the law, see CRS Report RL32038, *Drug Certification/Designation Procedures for Illicit Narcotics Producing and Transit Countries*, by K. Larry Storrs.)

According to the State Department's justification for Venezuela's designation, some 150 metric tons of cocaine and increasing quantities of heroin move through its territory annually. The justification noted that despite Venezuela's increase in drug seizures over the past four years, Venezuela has not addressed the increasing use of Venezuelan territory to transport drugs to the United States. According to the State Department, the overall picture is one of decreasing Venezuelan focus on counternarcotics initiatives and reduced cooperation with the United States. It noted that President Chávez suspended cooperation with the DEA and that many of Venezuela's most effective high-level officials in law enforcement and national drug policy were removed from their posts in 2005.

Venezuelan officials maintain that the decision to designate Venezuela was purely political because of the overall state of U.S.-Venezuelan relations. They assert that Venezuela has made considerable counter-narcotics efforts that were lauded in the State Department's March 2005 *International Narcotics Control Strategy Report*.⁶³

During November 17, 2005 testimony before the House International Relations Committee's Western Hemisphere Subcommittee, Assistant Secretary of State Thomas Shannon indicated that the United States was in discussions with the Venezuelan government in order to get anti-drug cooperation back on track.

⁶³ Ian James, "Venezuela Says U.S. Move to Call Country Uncooperative on Drugs is Pure Politics," *Associated Press*, Sept. 16, 2005.

Concerns about Venezuela's Military Purchases

As noted above, the Bush Administration has expressed concerns about Venezuela's purchases of military equipment. These have included agreements to purchase 15 helicopters (with potentially another 18) and 100,000 assault rifles from Russia and 12 aircraft (10 transport planes and 2 maritime patrol aircraft) and several coastal and ocean patrol boats from Spain.

On January 13, 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 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 responded by indicating that it would go ahead with the sale of the airplanes, but with non-U.S. technology. 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 is interested in purchasing at least a dozen light-attack aircraft, manufactured by Embraer, that contain U.S. technology.⁶⁴

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. The State Department's April 2005 *Country Reports on Terrorism* maintains that Colombia's three terrorist groups — the leftist Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN), and the rightist United Self-Defense Forces of Colombia (AUC) — often cross into sparsely populated Venezuelan border areas, regarding it as a safe area to rest, secure logistical supplies, and transship arms and drugs. They also commit kidnapping and extortion for profit in Venezuelan territory. The report maintained, however, that “it is unclear to what extent and at what level the Venezuelan Government approves of or condones material support to Colombian terrorists.” Nevertheless, the State Department asserted in the report that President Chávez's ideological affinity with the FARC and ELN limited antiterrorism cooperation with Colombia.

U.S. officials also have expressed concerns about President Chávez's close relationship with Cuba's Fidel Castro, but Chávez defends his relationship with Cuba. Venezuela supplies oil to Cuba on a concessionary basis, which in 2005 reportedly increased from 53,000 to 90,000 barrels per day. In return, Venezuela has received support from thousands of Cuban health care workers and sports instructors in the country. During an April 2005 trip to Cuba, Presidents Chávez and Castro announced commercial deals worth over \$400 million, including a joint shipyard to build small navy ships and a joint housing construction company.

⁶⁴ U.S. Department of State, Daily Press Briefing, Jan. 13, 2006; Phil Gunson and Pablo Bachelet, “Spain's Planes for Chávez Can't Use U.S. Components,” *Miami Herald*, Jan. 14, 2006; Leslie Crawford and Andy Webb-Vidal, “Spain to Defy U.S. over Military Sale to Venezuela,” *Financial Times*, Jan. 14, 2006.

President Chávez's popularity has grown throughout Latin America, in part because of his strong stance toward the United States and also because of his so-called "oil diplomacy." He has 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. At the June 2005 OAS meeting held in Florida, Latin American governments refrained from supporting a U.S. proposal that would have established a permanent committee to monitor democracy in the region. They viewed it as an attempt to monitor Venezuela through the OAS. During the Fourth Summit of the Americas held in November 2005 in Argentina, President Chávez, while participating in a counter-summit, denounced the FTAA and strongly criticized the Bush Administration. Chávez is also funding a new 24-hour hemispheric television network, TV of the South (Televisora del Sur or Telesur) that began broadcasts in July 2005. Some observers fear that the network will spread Chávez's populist and anti-U.S. rhetoric throughout the hemisphere.

Venezuela is offering oil to Caribbean nations on preferential terms in a new program known as PetroCaribe, and there has been some U.S. concern that the program could increase Venezuela's influence in the Caribbean region. Since 1980, Caribbean nations have benefitted from preferential oil imports from Venezuela and Mexico under the San Jose Pact, and since 2001, Venezuela has provided additional support for Caribbean oil imports under the Caracas Energy Accord. PetroCaribe, however, would go further with 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. Under the program, Venezuela announced that it would supply 190,000 barrels per day of oil to the region, with countries paying market prices for 50% of the oil within 90 days, and the balance paid over 25 years at an annual rate of 2%. When the price of crude oil is over \$50 a barrel, as it is now, the interest rate is cut to 1%.⁶⁵ Venezuela is moving ahead with additional preferential oil agreements in the Andean region (known as PetroAndina) and with other South American countries (PetroSur).⁶⁶

There also are U.S. concerns about that President Chávez is exporting his brand of populism to other Latin America countries, especially the Andean nations of Ecuador, Bolivia, and Peru. He strongly supports Bolivia's president-elect Evo Morales and offered \$30 million in assistance for development projects and assistance to help Bolivia re-write its constitution and implement radical reforms to the economy. Chávez has also openly supported the presidential candidacy of Ollanta Humala in Peru, a nationalist former army colonel who had led a failed uprising against former President Fujimori in 2000.

Despite Chávez's advances throughout the region, there has been friction at times with various countries and leaders. A diplomatic row in November 2005 with Mexican President Vicente Fox led to the two countries recalling their ambassadors. President Chávez had referred to Fox as a "puppy" of the United States, while Fox

⁶⁵ "Venezuela: Caribbean Will Receive 190,000 bpd," *Latinnews Daily*, Sept. 8, 2005.

⁶⁶ Steven Dudley, "Chávez Oil Diplomacy Attracting New Friends," *Miami Herald*, Nov. 17, 2005.

accused Chávez of intolerance at the recent Summit of the Americas in Argentina.⁶⁷ In early January 2006, Peru withdrew its ambassador from Venezuela and accused Chávez of meddling in Peru's internal affairs because of his meeting with populist presidential candidate Ollanta Humala.

Venezuela's Extradition Requests

Venezuela has 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 have been held since December 2003 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.⁶⁸ The Department of Homeland Security (DHS) has 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.⁶⁹ 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 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.⁷⁰ 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 Fidel Castro.⁷¹ 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.⁷² 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,

⁶⁷ Phil Gunson, "Venezuela, Mexico Rift Widens in War of Words," *Miami Herald*, Nov. 15, 2005.

⁶⁸ Gerardo Reyes and Alfonso Chardy, "Wanted Chavez Foes Flee to South Florida," *Miami Herald*, Apr. 5, 2005.

⁶⁹ Alfonso Chardy, "Deport Venezuelan Bombing Suspects, U.S. Urges Court," *Miami Herald*, Mar. 25, 2005.

⁷⁰ Also see CRS Report RL32730, *Cuba: Issues for the 109th Congress*, by Mark P. Sullivan.

⁷¹ Alfonso Chardy and Nancy San Martin, "Lawyer Expects Posada to Show Soon," *Miami Herald*, Apr. 14, 2005.

⁷² Ann Louise Bardach, "Our Man's in Miami. Patriot or Terrorist?," *Washington Post*, Apr. 17, 2005.

one of which killed an Italian tourist.⁷³ 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.⁷⁴ 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 cannot be deported to Venezuela because he could be tortured.⁷⁵ ICE will reportedly decide by January 24, 2006, whether Posada may be freed from an immigration facility in El Paso, Texas, and allowed to stay in the United States.⁷⁶

Legislative Initiatives

108th Congress. 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.⁷⁷ 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 108th 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

⁷³ Oscar Corral and Alfonso Chardy, "Victim's Kin Oppose Posada Bid for Asylum," *Miami Herald*, May 7, 2005.

⁷⁴ Department of Homeland Security, Office of Public Affairs, Statement, May 17, 2005.

⁷⁵ Alicia Caldwell, "Judge Says Cuban Militant Can't Be Deported to Venezuela," *Associated Press*, Sept. 28, 2005.

⁷⁶ Oscar Corral, "Ruling on Whether Posada Can Remain in U.S. Is Only Weeks Away," *Miami Herald*, Jan. 7, 2006.

⁷⁷ Senate Foreign Relations Committee, Subcommittee on Western Hemisphere, Peace Corps, and Narcotics Affairs, "The State of Democracy in Venezuela," Hearing, June 24, 2004.

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.

109th Congress. In the 109th Congress, there has been legislative action on several initiatives on Venezuela and oversight hearings have been held in the house. The FY2006 Foreign Operations appropriations measure (P.L. 109-102, H.R. 3057, H.Rept. 109-265) provides \$2 million in Democracy Funds for the NED for democracy programs in Venezuela and \$2.252 million in funding under the Andean Counterdrug Initiative. The Administration also requested \$500,000 in Economic Support Funds for Venezuela, although no specific earmark was provided in the conference report.

In other action, the House-passed version of H.R. 2601 (H.Rept. 109-168), the FY2006 and FY2007 Foreign Relations Authorization Act, has a provision (Section 1025), authorizing \$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 has a provision, in Section 106(5), authorizing 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.”

With regard to the human rights situation in Venezuela, H.Con.Res. 224 (Fortuño), introduced July 28, 2005, calls on the Venezuelan government to uphold the human rights and civil liberties of the people of Venezuela. H.Con.Res. 324 (Mack), introduced December 18, 2005, condemns “the anti-democratic actions of Venezuelan President Hugo Chávez “and expresses the sense of Congress that the United States should strongly support aspirations of the democratic forces in Venezuela.”

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.

Figure 1. Map of Venezuela



Source: Map Resources. Adapted by CRS. (K.Yancey 7/15/04)