



Venezuela: Issues in the 111th Congress

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Summary

Under the populist rule of President Hugo Chávez, first elected in 1998 and reelected to a six-year term in December 2006, Venezuela has undergone enormous political changes, with a new constitution and unicameral legislature, and a new name for the country, the Bolivarian Republic of Venezuela. U.S. officials and human rights organizations have expressed concerns about the deterioration of democratic institutions and threats to freedom of expression under President Chávez, who has survived several attempts to remove him from power. The government benefitted from the rise in world oil prices, which sparked an economic boom and allowed Chávez to increase expenditures on social programs associated with his populist agenda. These programs have helped reduce poverty levels significantly.

After he was reelected, Chávez announced new measures to move the country toward socialism, but his May 2007 closure of a popular Venezuelan television station (RCTV) that was critical of the government sparked protests, and his proposed constitutional amendment package was defeated in a December 2007 national referendum. State and local elections held in November 2008 were a mixed picture of support for the government, with the opposition winning several key contests. In February 2009, Venezuelans approved a controversial constitutional referendum that abolished term limits and allows Chávez to run for re-election in 2012. Since 2009, the government has increased efforts to suppress the political opposition, including elected officials. In January 2010, the government shut down broadcast of the cable station RCTV-Internacional, prompting domestic protests and international concern about freedom of expression.

The United States traditionally has had close relations with Venezuela, the fourth major supplier of foreign oil to the United States, but there has been friction with the Chávez government. U.S. officials have expressed concerns about human rights, Venezuela's military arms purchases, its relations with Cuba and Iran, and its efforts to export its brand of populism to other Latin American countries. Declining cooperation on anti-drug and anti-terrorism efforts has also been a concern. In September 2008, bilateral relations worsened when President Chávez expelled the U.S. Ambassador to Venezuela, and the United States responded in kind. Under the Obama Administration, Venezuela and the United States reached an agreement for the return of respective ambassadors in July 2009. While some observers are hopeful that the return of ambassadors will mark an improvement in relations, others emphasize continued U.S. concerns about the Venezuelan government's treatment of the news media and political opposition and about interference in the affairs of other countries in the region.

In the 111th Congress, House-passed H.R. 2410 includes a provision noting the close relationship between Iran and Venezuela, and requiring a report on the actions of Iran and Hezbollah in the Western Hemisphere, and House-passed H.R. 2194 would amend the Iran Sanctions Act to make gasoline sales to Iran subject to U.S. sanctions. The Senate approved an amendment (S.Amdt. 1536) to the National Defense Authorization Act for FY2010, S. 1390/H.R. 2647, that would have required a report on Venezuelan military and intelligence activities, but the measure was not included in the enacted legislation. Among other initiatives: H.R. 375 would, among its provisions, place restrictions on nuclear cooperation with countries assisting the nuclear programs of Venezuela; H.Res. 174 and H.Con.Res. 124 would express concern about anti-Semitism in Venezuela; and H.Res. 872 would call for the designation of Venezuela as a state sponsor of terrorism. For more information, see CRS Report RS21049, *Latin America: Terrorism Issues*.

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Recent Developments

On February 2, 2010, Director of National Intelligence Dennis Blair testified before the Senate Select Committee on Intelligence that President “Chávez continues to impose an authoritarian populist political model in Venezuela that undermines democratic institutions.” Blair maintained that “Chávez “and his allies are likely to oppose nearly every U.S. policy initiative in the region, including the expansion of free trade, counter drug and counterterrorism cooperation, military training, and security initiatives, and even U.S. assistance programs.” Venezuela’s Ambassador to the United States strongly criticized Blair’s statement, maintaining the assessment was full of politically motivated and cynical accusations against Venezuela. (See “Obama Administration Policy” below.)

On February 2, 2010, Venezuelan officials announced the deportation of suspected Colombian drug trafficker Salomon Camacho Mora to the United States. The officials also announced the deportation of two other drug traffickers to France and Colombia. (See “Counter narcotics Cooperation” below.)

On January 25, 2010, two students were killed during demonstrations between pro- and anti-government supporters. Venezuelan human rights groups called for the government to guarantee the right to peaceful protest.

On January 24, 2010, the Venezuelan government took six cable channels off the air, including RCTV Internacional, which had broadcast programs critical of the government. The government’s action prompted widespread domestic and international criticism, including by the Inter-American Commission on Human Rights. (See “Continued Threats to Freedom of Expression” below.)

On January 8, 2010, President Chávez announced a devaluation of the *bolivar fuerte* and the creation of a two-tiered exchange rate system. The action will likely help shore up the government’s fiscal situation, but could lead to a surge in inflation. (See “Economic Conditions” below).

On December 15, 2009, the House approved H.R. 2194 (Berman), the Iran Refined Petroleum Sanctions Act of 2009 on December 15, 2009, which would amend the Iran Sanctions Act of 1996 to make gasoline sales to Iran subject to U.S. sanctions. In September 2009, Venezuela reportedly agreed to provide Iran with gasoline (reportedly some 20,000 barrels per day) in the case of UN or U.S. sanctions against Iran’s gasoline imports. (See “Deepening Relations with Iran” below.)

On December 10, 2009, a Venezuelan judge released prominent business leader Eligio Cedeño from prison. Cedeño had been held in pretrial detention in 2007, and some human rights activists considered him a political prisoner. After his release, Cedeño traveled to the United States and is awaiting an immigration hearing; Venezuela has asked for his extradition. The judge who released Cedeño, María Lourdes Afiuni, was arrested just hours after his release on allegations of corruption, and remains imprisoned. U.N. human rights experts criticized the judge’s arrest as undermining the rule of law. (See “Human Rights Concerns” below.)

For developments earlier in 2009, see **Appendix B** at the end of this report.

Figure I. Map of Venezuela



Source: Map Resources. Adapted by CRS.

Political Situation

Background: Chávez's Rise to Power and Rule from 1998-2008

Over the past decade, Venezuela has experienced significant political changes under the rule of populist President Hugo Chávez, and for a number of years there has been concern about the deterioration of democratic institutions and threats to freedom of expression in the country.

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 S.A.* (PdVSA), had been wasted.

Although Venezuela had one of the most stable political systems in Latin America from 1958 until 1989, after that period numerous economic and political challenges plagued the country and the power of the two traditional parties began to erode. Former President Carlos Andres Perez, inaugurated to a five-year term in February 1989, initiated an austerity program that fueled riots and street violence in which several hundred people were killed. In 1992, two attempted military coups threatened the Perez presidency, one led by Chávez himself, who at the time was a lieutenant colonel railing against corruption and poverty. Ultimately the legislature dismissed President Perez from office in May 1993 on charges of misusing public funds, although some observers assert that the President's unpopular economic reform program was the real reason for his ouster.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.

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 Andrés Pérez. 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.

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

In the first several years of President Chávez's rule, Venezuela underwent enormous political changes and even received 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, including the elimination of the Senate and establishment of a unicameral National Assembly, and expanded the presidential term of office from five to six years, with the possibility of immediate reelection for a second term. Under the new constitution, voters once again went to the polls in July 2000 for a so-called mega-election, in which the President, national legislators, and state and municipal officials were selected. President Chávez easily won election to a new six-year term, capturing about 60% of the vote while his opponent, fellow former coup leader Francisco Arias, received 38%. Chávez's Patriotic Pole coalition also captured 14 of 23 governorships and a majority of seats in the National Assembly.

Although President Chávez remained widely popular until mid-2001, his standing eroded 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 April 2002, massive opposition protests and pressure by the military led to the ouster of Chávez from power for less than three days. He ultimately was restored to power by the military, however, after an interim president alienated the military and public by taking hardline measures, including the suspension of the constitution. In the aftermath of Chávez's brief ouster from power, the political opposition continued to press for his removal from office, first through a general strike that resulted in an economic downturn in 2002 and 2003, and then through a recall referendum that ultimately was held in August 2004 and which Chávez won by a substantial margin. In 2004, the Chávez government moved to purge and pack the Supreme Court with its own supporters in a move that dealt a blow to judicial independence. The political opposition boycotted legislative elections in December 2005, which led to domination of the National Assembly by Chávez supporters.

The rise in world oil prices beginning in 2004 fueled the rebound of the economy and helped support an array of social programs and services known as "missions" that helped reduce poverty by some 20% by 2007.² In large part because of the economic rebound and attention to social programs, Chávez was re-elected to another six-year term in December 2006 with almost 63% of the vote.

After he was reelected, however, even many Chávez supporters became concerned that the government was becoming too radicalized. Chávez's May 2007 closure of a popular Venezuelan television station that was critical of the government, Radio Caracas Television (RCTV), sparked significant protests and worldwide condemnation. Chávez also proposed a far-reaching constitutional amendment package that would have moved Venezuela toward a new model of development known as "socialism in the 21st century," but this was defeated by a close margin in a December 2007 national referendum. University students took the lead in demonstrations against the closure of RCTV, and also played a major role in defeating the constitutional reform.

² U.N. Economic Commission for Latin America and the Caribbean, *Social Panorama of Latin America, 2008*, Briefing Paper, November 2008, p. 11.

In 2008, President Chávez moved to unite his supporters into a single party—the United Socialist Party of Venezuela (PSUV)—although several parties that had supported Chávez in the past declined to join. The Venezuelan government also continued to move forward with nationalizations in key industries, including food companies, cement companies, and the country’s largest steel maker; these followed the previous nationalization of electricity companies and the country’s largest telecommunications company and the conversion of operating agreements and strategic associations with foreign companies in the oil sector to majority Venezuelan government control.

State and local elections held in November 2008 revealed a mixed picture of support for the government and the opposition. Pro-Chávez candidates won 17 of the 22 governors’ races, while the opposition won governorships in three of the country’s most populous states, Zulia, Miranda and Carabobo, as well as the states of Nueva Esparta and Táchira (see **Figure 1** for a map of Venezuela). At the municipal level, pro-Chávez candidates won over 80% of the more than 300 mayoral races, while the opposition won the balance. Among the opposition’s mayoral successes were races for the metropolitan mayor of Caracas, four out of the five smaller municipalities that make up Caracas (including the poor municipality of Sucre), and the country’s second largest city, Maracaibo.³

Leading up to the November elections, President Chávez’s PSUV held primary elections around the country on June 1, 2008, to select candidates, although the process was criticized for a lack of transparency. The opposition initially had difficulty in agreeing on a single slate of candidates so as not to split the opposition vote, but by the end of September 2008 had agreed on a unified candidate for most governor races.⁴ The opposition includes newer parties such as Justice First (Primero Justicia), Project Venezuela (Proyecto Venezuela), and A New Era (Un Nuevo Tiempo, UNT); leftist parties that defected from the Chavista coalition such as the Movement toward Socialism (Movimiento al Socialismo, MAS) and For Social Democracy (Por la Democracia, Social, Podemos); and the traditional political parties from the past such as AD and COPEI.⁵

³ “Both Sides Celebrate in Venezuela,” *LatinNews Daily*, November 25, 2008; “La oposición venezolana se atribuye un “triumfo indiscutible” electoral,” *Agencia EFE*, November 26, 2008; Tyler Bridges, “Chávez Allies Score Big Wins in Venezuela Elections,” *Miami Herald*, November 24, 2008; Simon Romero, “Venezuelan Opposition Gains in Several Crucial Elections,” *New York Times*, November 24, 2008.

⁴ *Ibid.*

⁵ “Venezuela: Opposition Disarray Hurts Electoral Hopes,” *Oxford Analytica*, July 1, 2008.

One of the major problems for the opposition was that the Venezuelan government's comptroller general disqualified 272 individuals (down from almost 400 originally disqualified) from running for office, purportedly for cases involving the misuse of government funds.⁶ There were several challenges to Venezuela's Supreme Court that the comptroller general's action violated the Constitution, but on August 5, 2008, Venezuela's Supreme Court upheld the disqualifications. The Venezuelan government maintained that the majority of those disqualified were from the ranks of its own supporters,⁷ while the opposition maintained that a large percentage were from the opposition, including several high-profile opposition candidates.⁸ Among those excluded was Leopoldo López, the popular mayor of Chacao, who was seeking to run for mayor of Caracas.

Political Developments in 2009 and 2010

February 15, 2009, Term Limits Referendum

In the aftermath of the state and municipal elections in November 2008, President Chávez announced that he would move ahead with plans to seek changes to the constitution that would lift the two-term limit for the office of the presidency. This would allow him to run for re-election in 2012 and beyond. The National Assembly voted on January 14, 2009, to hold a referendum on the constitutional amendment, expanding it further so that the abolition of term limits would apply to all elected government officials. As a result, the proposed amendment pertained to the President, all state and municipal officials, and deputies to the National Assembly. The referendum was scheduled for February 15, 2009, and various polls indicated that the vote would be close. Ultimately, with a participation rate of 70%, Venezuelans approved the constitutional reform with almost 55% voting for it and 45% voting against it.⁹ President Chávez proclaimed that the vote was a victory for the Bolivarian Revolution, and virtually promised that he would run for re-election in 2012.¹⁰

The amendment was controversial given the defeat of the government's constitutional reform package in December 2007, which had included an amendment that would have removed the presidential two-term limit. Venezuela's opposition maintained that President Chávez's effort to amend the constitution in 2009 was illegal because the constitution (Article 345) prohibits a constitutional reform that was rejected from being presented again to the National Assembly in the same constitutional period. According to this view, since the next National Assembly will not be elected until late 2010 and take office until early 2011, such an amendment should not have been considered until then.

Similar to the campaign against the government's December 2007 constitutional reform package, student groups played a leading role in the opposition to the abolishment of term limits in 2009. During the referendum campaign, Venezuelan security forces used tear gas, plastic bullets, and water cannons to disperse several student protests nationwide, although a massive student

⁶ "Inhabilitaciones a Políticos en Venezuela Se Reducen de 400 a 272," *Agence France-Presse*, July 11, 2008.

⁷ Embassy of the Bolivarian Republic of Venezuela, "Fact Sheet, Myths and Realities of the Disqualifications from Holding Public Office," July 17, 2008.

⁸ Inter-American Commission on Human Rights, Annual Report, 2008.

⁹ See the results on the website of the National Electoral Council (CNE), available at http://www.cne.gov.ve/divulgacion_referendo_enmienda_2009/.

¹⁰ Juan Forero, "Chávez Wins Removal of Term Limits," *Washington Post*, February 16, 2009.

demonstration was allowed to take place in Caracas. Opposition parties again united against the referendum, including the democratic socialist Podemos party that had once supported President Chávez.

During the campaign, President Chávez argued that the constitutional change would only allow him to run again, but would not mean that he would be re-elected or remain in power indefinitely. He maintained that he does not want to be “President for life,” but would like to remain in power until 2019 in order to ensure that his revolutionary project continues.¹¹ Chávez campaigned vigorously for the amendment, and spent hours on state-run television in support of it. The President’s support among many poor Venezuelans, who have benefited from increased social spending and programs, was an important factor in the vote.

One likely reason that President Chávez moved quickly with the referendum was the economic problems facing Venezuela due to the global financial crisis and the fall in the price of oil. With declining government revenue, his government faced the possibility of losing support if the economic situation deteriorated further, especially if the government was forced to cut back on domestic spending. Such a scenario could have made it more difficult for an amendment on term limits to be approved. Moreover, the current National Assembly is almost completely dominated by Chávez supporters because the opposition boycotted the 2005 legislative elections. Assuming that the opposition would participate in the next legislative elections in 2010, the next National Assembly would likely include an invigorated opposition that could have made it more difficult for the government to advance a constitutional amendment to abolish term limits.

Repression of the Opposition

Since 2009, the Chávez government has taken significant actions against opposition leaders holding elected state and local government positions, and has moved to concentrate power of the executive branch over state and local governments. The government has taken substantial power away from opposition governors in five states and key municipalities, including Caracas and Maracaibo. In March 2009, President Chávez ordered the Navy to seize seaports in states with opposition governors, including Maracaibo in the state of Zulia and Puerto Cabello in the state of Carabobo.¹² In April 2009, Manuel Rosales, who had been elected mayor of Maracaibo in November 2008, took refuge in Peru in order to escape a trial on corruption charges that many observers contend is part of a campaign of political persecution against the opposition. Rosales had previously served as governor of Zulia state and ran against Chávez for president in 2006. The elected mayor of metropolitan Caracas, Antonio Ledezma, was stripped of much of his power, with most of his budget and powers transferred to the central government. His role as mayor has been superseded by an official appointed by President Chávez. In protest, Ledezma undertook a six-day hunger strike in July 2009 to call international attention to the government’s actions against elected opposition leaders in Venezuela.

The imprisonment of student leader Julio César Rivas in September 2009 was viewed as a new government tactic aimed at cracking down on student-led protests. Rivas was arrested on September 8 for his role in an August protest against a new education law, and charged with inciting civil war. He was subsequently released from prison on September 28, but still faces

¹¹ “Venezuela Poll Deadlocked,” *LatinNews Daily*, January 29, 2009.

¹² Simon Romero, “Chávez Tells His Navy To Take Over Key Seaports,” *New York Times*, March 16, 2009.

charges and is prohibited from participating in street protests.¹³ The imprisonment of Rivas appears to have emboldened Venezuelan student efforts to call attention to the human rights situation in the country.

Continued Threats to Freedom of Expression

The Chávez government has also continued to threaten independent media. In 2009, the government began targeting the operation of Globovision, a cable television news station that is often critical of the government. In July 2009, the Chávez government announced that administrative proceedings would be opened against 240 radio stations (reportedly more than a third of all stations) to revoke their licenses because they failed to update their registration papers; subsequently 34 stations were shut down and more could be closed. Press rights groups such as the Committee to Protect Journalists maintain that the action was another attempt by the Venezuelan government to expand pro-government media, control the flow of information, and suppress dissent.¹⁴

In January 2010, the Venezuelan government continued its efforts against independent media by abruptly shutting down several cable television stations. On January 24, 2010, six cable channels were taken off the air: Mexican stations American Network, Ritmoson, and Momentum; TV Chile; America TV from Peru; and RCTV-Internacional. The government maintains that the stations violated the Law of Television and Radio Social Responsibility by not complying with a requirement to broadcast government announcements and presidential speeches. (To date, there reportedly have been 2000 such speeches in the 11 years of President Chávez's rule.) International cable stations are not required to comply with this broadcast requirement, but in December 2009, a decree by the National Telecommunications Commission (CONATEL) maintained that cable stations would only be considered international if 70% or more of their programming is foreign. On January 21, 2010, the government announced that 24 international cable stations would have to transmit government messages and addresses or be sanctioned. This led to the closure of the six stations, although several days later four of the stations were allowed to resume broadcasting after submitting documentation to the government regarding their international programming content. America TV and RCTV-Internacional remain off the air, although observers expect that America TV will be allowed to resume broadcasting.

Many observers believe that the government's actions were taken to silence RCTV-Internacional, which has continued to broadcast criticism of the Chávez government. As noted above, in May 2007, the government's closure of RCTV as a general broadcast station in Venezuela prompted domestic protests and widespread international criticism and concerns about freedom of expression in Venezuela. RCTV-Internacional was allowed to continue broadcasting as a cable station.

There has been widespread domestic and international criticism of the Venezuela's recent actions in shutting down the cable stations. OAS Special Rapporteur for Freedom of Expression Catalina Botero and the Inter-American Commission on Human Rights' Commissioner for Venezuelan Affairs Paulo Sérgio Pinheiro expressed their strong opposition to the Venezuelan government's

¹³ Christopher Toothaker, "Venezuela Releases Jailed Student Activist as More Join Hunger Strike Over Prosecutions," *AP Newswire*, September 28, 2009; and Juan Forero, "Politics and Prison in Venezuela; Student Protester's Saga Shines New Light on Chávez's Approach to Dissent," *Washington Post*, October 5, 2009.

¹⁴ Committee to Protect Journalists, *Venezuela Moves to Silence Hundreds of Broadcasters*, July 22, 2009.

action and requested that guarantees of freedom of expression and due process be reestablished. According to the OAS officials, the action has enormous repercussions regarding freedom of expression and noted that channels taken off the air did not have an opportunity to defend themselves in a due process before an impartial authority.¹⁵ Human rights organizations also strongly criticized the Venezuelan government's actions, including Human Rights Watch, the Committee to Protect Journalists, Reporters without Borders, and the Washington Office on Latin America.

The closure of the stations prompted political protests in the country. In the city of Mérida in western Venezuela, two students were killed in clashes between pro- and anti-government supporters on January 25, 2010. Venezuelan human rights groups called for the government to guarantee the right to peaceful protest.¹⁶

Political Outlook

Support for President Chávez has diminished since 2009 for a variety of reasons, such as high crime, inflation, shortages of some food items and other consumer products, and repression of political opponents. An October 2009 survey showed Chávez with 46% support, down from 61% early in the year, and reportedly his popularity has remained below 50% in 2010. Nevertheless, Chávez still remains the most popular figure in the country and it appears there is no other national figure that could challenge him at this juncture.¹⁷ The government has continued to fund social programs known as missions, and this has been a major reason for Chávez's continued support among poor Venezuelans. Nevertheless, some observers maintain that Chávez is losing the ideological battle among Venezuelans, and that his popular support is weakening. Some observers maintain that Chávez enjoys strong support from around 20% of the population and that the various opposition parties have support from another 20%, while in the middle are some 60% of Venezuelans who do not consider themselves Chavistas or members of the opposition. The battle for Venezuela's political future could well be determined by this large group in the middle.

There are several areas of vulnerability for the Chávez government that pose challenges to his support. One is the high level of violent crime in the country, which has made citizen security a top concern among Venezuelans. Caracas reportedly had a rate of 100 homicides for every 100,000 people in 2008, while the country overall had a rate of 49 homicides per 100,000, one of the highest rates in the world.¹⁸ Reported kidnappings have increased over the past decade, from 50 in 1998 to 385 in 2008, but the actual number is thought to be much higher since most go unreported because of concerns that the police collaborate with the kidnappers.¹⁹ In 2009, there

¹⁵ Inter-American Commission on Human Rights, "Commissioner for Venezuelan Affairs and IACHR's Special Rapporteur for Freedom of Expression Reject the Closing of Cable Television Channels in Venezuela," Press Release, R05-10, January 24, 2010.

¹⁶ "Provea exige al Ejecutivo Nacional garantizar el derecho a la vida y a la manifestación pacífica," PROVEA (El Programa Venezolano de Educación Acción en Derechos Humanos), January 27, 2010.

¹⁷ Ian James, "Polls: Chavez's Popularity Slips in Venezuela," *AP Newswire*, October 22, 2009; "Venezuela: Chávez in Combat Mode," *EIU Business Latin America*, February 8, 2010.

¹⁸ "Wave of Weekend Violence Leaves 56 Dead in Caracas," *Agence France Presse*, October 6, 2009. For a discussion of Venezuela's high murder rate, also see Shannon O'Neil, "The Line of Fire, How Venezuela Came to Claim the Region's Highest Murder Rate," *Foreign Policy Passport*, May 2009; and Sara Miller Liana, "Will Venezuela's Murder Rate Hurt Chávez?" *Christian Science Monitor*, December 3, 2008.

¹⁹ Rachel Jones, "Venezuelans Protest Eightfold Rise in Kidnappings, Say Corrupt Police Are Often Involved" *AP Newswire*, July 30, 2009; and Oscar Becerra and Andy Webb-Vidal, "Held to Ransom—Kidnapping Trends in Latin (continued...)"

were reportedly 15,000 homicides in Venezuela, almost double the figure of just over 8,000 killings in 2000.²⁰

Another key challenge to the government is the state of the Venezuelan economy, which is strongly linked to the price of oil. The economy has already contracted this year by almost 3% and some forecasts predict a contraction of almost 4% in 2010.²¹ Moreover, persistent high levels of inflation have eroded purchasing power, while price controls and an overvalued currency have hurt domestic industries and resulted in food shortages. Inflation is expected to increase as a result of the January 2010 devaluation. As the government has moved forward with a state-led development model, the private sector complains that many companies have been expropriated without compensation and without appropriate procedures being followed. They describe the business community as being under siege from the government because of the expropriations, the overregulation of businesses, and deep distortions in economic policy. As noted below, the government is facing a significant electricity crisis that has forced it to implement a rationing system. While the energy crisis is prompted by a severe drought that has depleted hydroelectric power, critics also blame the government for not investing in power generation power in the country.

According to some observers, there is an overwhelming sense of fatigue among those opposed to President Chávez. Despite suffering a setback in December 2007 when voters rejected a package of controversial constitutional changes, the Chávez government has pressed ahead with many of the proposed changes by decree or through the Chávez-dominated legislature. While the political opposition won several key governorships and mayoralties in November 2008, the Chávez government has systematically targeted many of these elected officials through charges of corruption or actions to take their resources and powers. This changing of the rules of the game has left many Venezuelans with a weariness of speaking out against the government and a feeling that the government will press ahead with its agenda despite public opposition.

Some maintain that the government's targeting of the opposition is not the main reason why the political opposition has failed to attract significant popular support. The collapse of the traditional party system in Venezuela in 1998 is still being felt today. Traditional parties like AD and COPEI have not rebounded, and other smaller parties from the past like the MAS and Radical Cause (CAUSAR) are essentially moribund. The newer opposition parties such as Justice First (Primero Justicia) and A New Time (UNT) have been characterized as newer versions of the traditional parties that have not attracted large followings. There is reported to be a crisis of leadership in the parties, with talented people choosing not to go into politics. Currently the opposition does not have major figures that could attract nation-wide support and challenge Chávez.

The opposition parties were reported to have serious internal problems as well, which could make it difficult to challenge President Chávez's United Socialist Party of Venezuela (PSUV) effectively in elections for the National Assembly scheduled for September 26, 2010. Moreover, a new electoral law enacted in August 2009 will reduce the number of seats that can be won by smaller parties and allow the Chávez-dominated National Electoral Council to redraw voting

(...continued)

America," *Jane's Intelligence Review*, May 11, 2009.

²⁰ Ana Maria Matute, "Hubo 15,000 Homicidios en Venezuela Durante 2009," *El Nacional* (Venezuela), January 22, 2010.

²¹ "Venezuela Country Report," *Economist Intelligence Unit (EIU)*, January 2010.

districts, which could make it even more difficult for the opposition to win seats. A key factor for the opposition parties in those elections is whether they will be able to unify and present a viable alternative to the PSUV and Chavismo (President Chávez's leftist ideology). This would entail the parties agreeing on a single slate of candidates in electoral districts. In the past, many opposition parties have been reluctant to stand under one banner because they could lose their legal status as individual parties, but if they manage to unify they could become a significant force in the National Assembly. As of January 2010, reports indicate that the opposition has made little progress in agreeing on consensus candidates.²²

Economic Conditions

Venezuela's major economic sector is petroleum, which traditionally has accounted for 80% of exports and about 25% of gross domestic product.²³ The country is classified by the World Bank as an upper middle income developing country because of its relatively high per capita income of \$9,230 (2008).

Despite the country's oil wealth, economic conditions in the country deteriorated in the 1990s. The percentage of Venezuelans living in poverty (income of less than \$2 a day) increased from 32.2% to 48.5% of the population between 1991 and 2000, while the percentage of the population in extreme poverty (income of less than \$1 a day) increased from 11.8% in 1990 to 23.5% in 2000.²⁴ 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.

From 2004 to 2007, fueled by the windfall in international oil prices, the economy rebounded, with a growth rate over 18% in 2004, about 10% in 2005 and 2006, and 8.2% in 2007.²⁵ Strong economic growth allowed Chávez to move ahead with economic goals that fit into his "Bolivarian revolution." These include the expansion of a state-led development model, land reform, renegotiation of contracts with large foreign investors (especially in the petroleum sector), the restructuring of operations at the state oil company, and diversification of trade and investment partners. The government has nationalized a number of enterprises, including telecommunications, electricity, and food companies, and in 2008 moved to nationalize cement companies, the country's largest steel company, sugar plantations, a dairy products company, and a cattle estate.

Beginning in 2003, the government began implementing an array of social programs and services known as *misiones* or missions. There reportedly have been some 25 missions offering a wide array of services in the fields of education, health, nutrition, the environment, sports, culture, and housing, as well as targeted programs for indigenous rights and services for street children and adolescents.²⁶ The popularity of the missions has been a major factor in President Chávez's

²² "Venezuela: Chávez in Combat Mode," *EIU Business Latin America*, February 8, 2010.

²³ "Venezuela Country Profile, 2009," *EIU*, p. 17.

²⁴ World Bank, "Venezuela Country Brief," August 2004.

²⁵ "Venezuela Country Report," *EIU*, July 2009 and January 2010.

²⁶ For background on some of the missions, see "Fact Sheet: Social Justice in Venezuela," Embassy of the Bolivarian Republic of Venezuela, Washington, DC, July 2008.

political support among the poor. In the field of education, *Misión Robinson* has focused on eliminating illiteracy, while *Misión Ribas* has provided adult Venezuelans who never finished high school the opportunity to obtain a secondary education. In the health field, *Misión Barrio Adentro* (Inside the Neighborhood Mission) consists of free health care clinics in historically marginalized areas throughout the country that are staffed primarily by Cuban medical personnel. A related health mission, *Misión Milagro* (Miracle Mission), provides free eye care clinics and eye surgery. In the area of nutrition, *Misión Mercal* provides food at subsidized prices.

Some observers have praised the missions for constituting an integrated package of poverty-reduction measures that address the various conditions associated with poverty, representing a holistic approach to poverty-reduction. The missions are viewed by some as a potentially more effective alternative to simple cash transfers, which have been the primary basis for poverty-alleviation programs in Latin America. Some critics of the missions, however, maintain that they focus on alleviating the harsh conditions associated with poverty rather than addressing the structural roots of the problem. They maintain that the missions are paternalistic and create a dependency on the state among the poor, without providing solutions to lift people out of poverty permanently.²⁷

As a result of the booming economy and increased social spending, poverty rates in Venezuela have declined, from 48.6% in 2002 to 27.6% in 2008, with extreme poverty or indigence falling from 22.2% to 9.9% over the same period. (Notably, however, extreme poverty increased from 8.5% in 2007 to 9.9% in 2008.)²⁸ In addition, Venezuela's ranking on the United Nations Development Programme's annual human development index improved from 68 (out of 177 countries) in 2002, when it was categorized as having a medium level of human development, to 58 (out of 182 countries) in 2007, when it was categorized as having a high level of human development. During this period, Venezuela's adult literacy rate improved from 93.1% in 2002 to 95.7% in 2007.²⁹

Despite this progress, Venezuela's economy has experienced significant problems over the past several years, such as shortages of basic food staples and high levels of inflation that have eroded purchasing power. In January 2008, the government introduced a new currency, the *bolívar fuerte* (strong bolivar), that eliminated three zeroes from the bolívar and was intended in part to stem high inflation rates, but high inflation continued with an average of about 30% for the year. Shortages of basic staples continued because of price controls that have stifled local production. In response, the government raised price caps on basic food items, and nationalized a large dairy company and a food distribution company that were incorporated into a subsidiary of the Venezuelan oil company, PdVSA. The policies reportedly worked to help ease shortages for some staples but not all.³⁰ Shortages of many basic staples were still being reported in 2009, and there were increasing shortages of water and electricity.³¹

²⁷ Indira A.R. Lakshmanan "Critics Slam Venezuelan Oil Windfall Spending," *Boston Globe*, August 13, 2006; José Orozco, "With 'Misiones,' Chávez Builds Support Among Venezuela's Poor," *WorldPoliticsWatch*, December 10, 2006.

²⁸ U.N. Economic Commission for Latin America and the Caribbean, *Social Panorama of Latin America, 2009, Briefing Paper*, November 2009, p. 11.

²⁹ United Nations Development Programme, *Human Development Report 2004* and *Human Development Report 2009*.

³⁰ "A Funny Way to Beat Inflation—Venezuela's Economy," *The Economist*, June 21, 2008; Tyler Bridges, "Chávez's biggest opponent: what's not on a dinner table," *Miami Herald*, February 4, 2009.

³¹ Tyler Bridges, "Consumers in Venezuela Feeling Economic Squeeze," *Miami Herald*, May 28, 2009; and Phil (continued...)

The global financial crisis and the associated drop in the price of oil also have had significant effects on the Venezuelan economy. Economic growth slowed in 2008 to 4.8%, and contracted by almost 3% in 2009; the forecast for 2010 is for continued contraction of almost 4%. Inflation averaged about 27% in 2009, and the forecast for 2010 is for inflation approaching 31%.³²

In late 2009 and January 2010, the Venezuelan government seized control of 11 small troubled banks and arrested a number of bankers because of corrupt practices. The takeovers do not appear to be ideologically driven, but appear to have resulted from economic mismanagement.³³

In order to maintain public spending, the Chávez government has issued public bonds and has used some of its substantial foreign reserves. As a result, foreign reserves fell from estimated \$42 billion at the end of 2008 to about \$32 billion at the end of 2009, still a significant amount.³⁴

The government also took significant action in January 2010 to shore up its fiscal situation by devaluing Venezuela's currency. On January 8, President Chávez announced a devaluation of the *bolivar fuerte* and the creation of a two-tiered exchange rate system. Previously the currency had been pegged at 2.15 BsF to the U.S. dollar, and the currency was deemed to be significantly overvalued (with a black market rate of about 6 BsF to \$1). Under the new system, a rate of 2.6 BsF to \$1 is available for priority imports such as food, medicine, goods for the public sector, and machinery for strategic industries, while a rate of 4.3 BsF to \$1 is available for all other sectors purchasing U.S. dollars for imports. Two additional rates will operate outside the two-tier system – a rate of 5 BsF to \$1 through the sale of currency exchange bonds by the Venezuelan Central Bank, and a floating black market rate. Many observers maintain that the devaluation will ease the government's fiscal situation by increasing the value of oil revenue and boosting the government's budget. This will allow the government to help sustain or increase public spending in 2010. At the same time, however, the devaluation is expected to lead to a surge in inflation.³⁵

The government is also facing a serious electricity crisis in part because of a severe drought that has diminished hydroelectric power reservoirs. Critics also blame the government for the crisis for not upgrading power generation capacity in the country, and they ridicule the government for turning to Cuba for advice in dealing with the electricity crisis.³⁶

U.S. Policy

The United States traditionally has had close relations with Venezuela, the fourth major supplier of foreign oil to the United States, but there has been significant friction with the Chávez

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Gunson, "Shortages Eroding Chávez's Support," *Miami Herald*, October 29, 2009.

³² "Venezuela Country Report," *EIU*, January 2010.

³³ "Venezuela Finance: More Dominoes Topple," *EIU ViewsWire*, January 20, 2010; and "Venezuela Country Report," *EIU*, July 2009 and January 2010.

³⁴ "Venezuela Country Report," *EIU*, January 2010.

³⁵ "Venezuela Economy: Currency Complexities," *EIU ViewsWire*, February 1, 2010; "Venezuela Economy: Government Bites the Bullet and Devalues," *EIU ViewsWire*, January 10, 2010; and "What Are the Effects of Venezuela's Currency Devaluation?" *Latin America Advisor*, Inter-American Dialogue, January 26, 2010.

³⁶ Christopher Toothaker, "Venezuela's Chávez Turns to Cuban Help with Energy Crisis, Baffling Critics," *AP NewsWire*, February 3, 2010.

government. For several years, U.S. officials have expressed concerns about human rights, Venezuela's military arms purchases (largely from Russia), its relations with Cuba and Iran, its efforts to export its brand of populism to other Latin American countries, and the use of Venezuelan territory by Colombian guerrilla and paramilitary forces. Declining Venezuelan cooperation on antidrug and antiterrorism efforts also has been a U.S. concern. Since 2006, the Department of State has prohibited the sale of defense articles and services to Venezuela because of lack of cooperation on antiterrorism efforts.

Bilateral Relations during the George W. Bush Administration

Tensions in relations turned especially sour in the aftermath of President Chávez's brief ouster from power in April 2002. Venezuela alleged U.S. involvement in the ouster, while U.S. officials repeatedly rejected charges that the United States was involved.

In the aftermath of the coup, U.S. statements and actions of the interim government represented a defining moment that influenced the course of bilateral relations over the next several years. After Chávez's ouster, the United States expressed solidarity with the Venezuelan people and maintained that undemocratic actions committed or encouraged by the Chávez administration had provoked the political crisis.³⁷ Yet at the same time, the leader of the interim government was dismantling the National Assembly, firing the Supreme Court, and suspending the Constitution. The interim government's hardline actions resulted in its loss of support from the Venezuelan military, and paved the way for Chávez's return to power. With Chávez's return, the United States called on him to heed the message sent by the Venezuelan people by correcting the course of his administration and "governing in a fully democratic manner."³⁸ In contrast, many Latin American nations immediately condemned the overthrow of Chávez, labeling it a coup. The failure of the United States to quickly condemn the coup and instead to criticize President Chávez upon his return to power set the stages for continued deterioration in U.S.-Venezuelan relations. Moreover, even after the coup, the widespread perception that the United States supported continued efforts by Venezuela's opposition to remove President Chávez from power contributed to the downward spiral in bilateral relations.

While strong political rhetoric from both U.S. and Venezuelan officials in the 2002 to 2006 period contributed to elevated tensions in U.S. relations, the tenor of U.S. political rhetoric changed in the second half of 2006. When Chávez spoke disparagingly of President Bush at the United Nations in September 2006, U.S. officials refrained from responding to those personal attacks. Likewise, when President Chávez led an anti-American rally in Argentina in March 2007 during President Bush's visit to Brazil and Uruguay, President Bush ignored the taunts and U.S. officials emphasized that they wanted to focus on a positive agenda of U.S. engagement with Latin America.

In the aftermath of Colombia's March 1, 2008, bombing of a Revolutionary Armed Forces of Colombia (FARC) camp in Ecuador that killed the terrorist group's second in command, Colombian forces captured laptops that contained files potentially linking the Venezuelan government with efforts to support the FARC. In an apparent shift in policy, however, on June 8,

³⁷ U.S. Department of State, "Venezuela: Change of Government," Press Statement, April 12, 2002.

³⁸ U.S. Department of State, International Information Program, *Washington File*, "White House Calls on Venezuela's Chávez to Preserve Peace, Democracy," April 14, 2002.

2008, President Chávez publicly urged the FARC to end its armed struggle, and release all hostages.

In 2008, U.S. policy toward Venezuela appeared to be to refrain from getting into any unneeded conflicts or spats with President Chávez, and instead to focus on a positive U.S. agenda for the hemisphere. Assistant Secretary of State for Western Hemisphere Affairs Tom Shannon stated in July 17, 2008, congressional testimony that “we remain committed to a positive relationship with the people of Venezuela and have the patience and the persistence necessary to manage our challenging relationship.” Shannon pointed out in his testimony that Venezuela “for the first time in many years, expressed a willingness to explore improved relations with the United States,” including counter-drug cooperation, and that “we have told Venezuela that we would like to explore this diplomatic opening.”³⁹

By September 2008, however, U.S. relations with Venezuela took a significant turn for the worse when Venezuela expelled U.S. Ambassador Patrick Duddy in solidarity with Bolivian President Evo Morales who had expelled the U.S. Ambassador in La Paz after accusing him of fomenting unrest; the U.S. responded in kind with the expulsion of Venezuelan Ambassador Bernardo Alvarez. Also in September, U.S. officials criticized Venezuela’s efforts against drug trafficking, and President Bush determined, for the fourth year in a row, that Venezuela had failed demonstrably to adhere to its obligations under international narcotics control agreements. In September, U.S. Treasury Department officials froze the assets of two high-ranking Venezuelan government officials and the former interior minister for allegedly helping the FARC with weapons and drug trafficking. In October 2008, the Treasury Department also froze the assets of an Iranian-owned bank based in Caracas linked to an Iranian export bank that allegedly provided or attempted to provide services to Iran’s ministry of defense.

Obama Administration Policy

During the U.S. presidential campaign, Barack Obama maintained that his Administration would use principled bilateral diplomacy to engage with such adversaries in the region as Venezuela under populist President Hugo Chávez.

In response to written questions during her confirmation hearing for Secretary of State before the Senate Foreign Relations Committee in mid-January 2009, Senator Hillary Clinton characterized President Chávez as a “democratically elected leader who does not govern democratically.” She maintained that while the United States should be concerned about Chávez’s actions and posture, “we should not exaggerate the threat he poses.” Clinton asserted that the United States “should have a positive agenda for the hemisphere in response to the fear-mongering propagated by Chávez and [Bolivian President] Evo Morales.” She maintained that the Administration believes that bilateral cooperation with Venezuela on a range of issues (like counterterrorism, counternarcotics, energy, and commerce) would be in the mutual interests of Venezuela and the United States. Clinton maintained that “it remains to be seen whether there is any tangible sign that Venezuela actually wants an improved relationship with the United States.”⁴⁰

³⁹ Testimony of Thomas A. Shannon, Assistant Secretary of State for Western Hemisphere Affairs, hearing on “Venezuela: Looking Ahead,” House Committee on Foreign Affairs, Subcommittee on the Western Hemisphere, July 17, 2008.

⁴⁰ Senate Foreign Relations Committee, Questions for the Record, Senator John Kerry, Nomination of Hillary Rodham Clinton, Department of State, U.S. Secretary of State, January 2009, available at <http://www.foreignpolicy.com/files/> (continued...)

A week before his inauguration, President Obama maintained in an interview that President Chávez “has been a force that has impeded progress in the region,” and expressed concern about reports that Venezuela is assisting the FARC.⁴¹ President Chávez strongly criticized Obama for his comments, but subsequently stated that he would like to restore bilateral relations to the same level as during the Clinton Administration. Chávez suggested that a new period of constructive relations based on respect might be possible, but that it would depend on the attitude of the President and Secretary of State.⁴²

At the fifth Summit of the Americas held in Trinidad and Tobago in mid-April 2009, President Obama met President Chávez along with other hemispheric leaders. Chávez maintained that he would be open to the U.S. Ambassador returning to Caracas. Two months later, on June 25, 2009, the State Department announced that the United States and Venezuela had exchanged diplomatic notes and agreed to return respective ambassadors. This led to U.S. Ambassador to Venezuela Patrick Duddy resuming his post in Caracas, and to the return of Venezuelan Ambassador Bernardo Alvarez to Washington, DC.

The return of respective ambassadors has raised some hopes of an improvement in bilateral relations. In an interview with Globovisión in early July 2009, Secretary of State Clinton maintained that there needs to be a dialogue between the United States and Venezuela on a range of issues, and that there are ways for countries that do not agree on many issues to have a conversation. At the same time, with regard to the political situation in Venezuela, Clinton maintained that she hoped to see over the next months “recognition that you can be a very strong leader and have very strong opinions without trying to take on too much power and trying to silence all your critics.”⁴³

State Department officials have expressed continued concerns about the intimidation of the news media in Venezuela, and steps taken by the government to restrict political participation and debate, and Secretary of State Clinton has raised questions regarding Venezuela’s military purchases.⁴⁴ Moreover, in September 2009, President Obama made a determination pursuant to the annual narcotics certification process that Venezuela had “failed demonstrably” during the last 12 months to adhere to international counternarcotics agreements. This marked the fifth consecutive annual designation of Venezuela in this category.

Director of National Intelligence Dennis Blair testified on February 2, 2010 before the Senate Select Committee on Intelligence on the annual threat assessment of the U.S. intelligence community. According to Blair, President “Chávez continues to impose an authoritarian populist political model in Venezuela that undermines democratic institutions.” Blair maintained that with regard to foreign policy, “Chávez’s regional influence may have peaked, but he is likely to support likeminded political allies and movements in neighboring countries and seek to

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KerryClintonQFRs.pdf.

⁴¹ Nestor Ikeda, “Obama: Chávez “ha impedido” progreso latinoamericano,” *AP Spanish Worldstream*, January 18, 2009; and Juan Forero, “Obama and Chávez Start Sparring Early,” *Washington Post*, January 19, 2009.

⁴² “Venezuelan President Chávez Interviewed on CNN,” *CQ Newsmaker Transcripts*, February 3, 2009.

⁴³ U.S. Department of State, U.S. Secretary of State Hillary Rodham Clinton, “Interview with Leopoldo Castillo of Globovisión,” July 7, 2009.

⁴⁴ U.S. Department of State, Secretary of State Hillary Rodham Clinton, “Remarks with Uruguayan President Tabare Vazquez After Their Meeting,” September 15, 2009.

undermine moderate, pro-US. governments.” Blair maintained that “Chávez “and his allies are likely to oppose nearly every U.S. policy initiative in the region, including the expansion of free trade, counter drug and counterterrorism cooperation, military training, and security initiatives, and even U.S. assistance programs.”⁴⁵

Venezuela’s Ambassador to the United States Bernardo Alvarez strongly criticized DNI Blair’s testimony, maintaining that the assessment was full of politically motivated and cynical accusations against Venezuela. According to Alvarez, “Venezuela is in the process to extending democracy to all of its people,” which includes efforts “to guarantee the welfare of our people and overcome the historical wrongs of poverty and inequality.” Alvarez asserted that there is no “anti-Americanism in the Government of Venezuela,” but that “we reject imperial policies that dictate the kind of development and democracy we should seek.”⁴⁶

U.S. Foreign Aid to Venezuela

Because of Venezuela’s oil wealth and relatively high per capita income level, the United States has traditionally only provided small amounts of foreign assistance to Venezuela. In recent years, assistance has focused on counternarcotics and support for democracy programs. **Table 1** below shows U.S. assistance level to Venezuela since FY2006.

From FY2002-FY2007, Venezuela received small amounts of U.S. assistance under the State Department’s Andean Counterdrug Initiative (ACI) focusing on counternarcotics cooperation and judicial reform support. Since FY2008, no counternarcotics assistance has been requested for Venezuela, although in FY2009, the United States provided \$0.5 million in International Narcotics Control and Law Enforcement (INCLE) assistance.

For a number of years, the United States has provided democracy-related assistance to Venezuela through the U.S. Agency for International Development. In **Table 1**, all funding for the Development Assistance (DA), Economic Support Funds (ESF), and Transition Initiatives (TI) foreign aid accounts are for democracy-related funding; the FY2011 request is for \$5 million in ESF. In addition, the United States has supported democracy assistance in Venezuela through the U.S. government-funded National Endowment for Democracy (NED), but this type of support has not been typically reflected in U.S. foreign assistance funding statistics.

⁴⁵ U.S. Senate Select Committee on Intelligence, “Annual Threat Assessment of the US Intelligence Community,” prepared testimony by Dennis C. Blair, Director of National Intelligence, February 2, 2009, p. 32, available at: <http://intelligence.senate.gov/100202/blair.pdf>

⁴⁶ Embassy of the Bolivarian Republic of the United States, “Venezuelan Ambassador Responds to Intelligence Report,” February 4, 2010, available at: <http://www.embavenez-us.org/news.php?nid=5265>

Table I. U.S. Foreign Aid to Venezuela by Account, FY2006-FY2010

U.S. \$ millions

	FY2006	FY2007	FY2008	FY2009 (estimate)	FY2010 (estimate)	FY2011 (request)
ACI/INCLE	2.229	1.000	0	0.500	0	0
DA	0	0	6.519	0	0	0
ESF	0	1.625	2.976	5.000	6.000	5.000
TI	3.681	3.000	3.649	2.000	NA	NA
Total	5.91	5.625	13.144	7.500	6.000	5.000

Source: U.S. Department of State, FY2010 Congressional Budget Justification for Foreign Operations; U.S. Department of State, Executive Budget Summary, Function 150 & Other International Programs, FY2011; and information provided to CRS by the Department of State.

Notes: ACI=Andean Counterdrug Initiative; DA=Development Assistance; ESF=Economic Support Funds; INCLE = International Narcotics Control and Law Enforcement; TI=Transition Initiatives.

Since 2002, USAID has supported democracy projects in Venezuela through its Office of Transition Initiatives (OTI), with the goals of preserving and strengthening democratic institutions and encouraging the development of a vibrant and independent civil society. According to USAID, more than 500 small-grant and technical assistance activities have been funded by OTI from 2002 through mid-2009. The funding supports projects implemented by five U.S. organizations: Development Alternatives Inc, which focuses on dialogue, public debate, citizen participation and leadership training; the International Republican Institute and the National Democratic Institute, which offer technical assistance for political parties; Freedom House, which provides technical support to human rights groups; and the Pan-American Development Foundation, which provides support to civil society.⁴⁷

NED has funded democracy projects in Venezuela since 1992, but the level of funding has increased under the Chávez government. The FY2006 Foreign Operations appropriations measure (P.L. 109-102) provided \$2 million in Democracy Funds for NED for democracy programs in Venezuela. For FY2007, NED funded 17 projects with over \$800,000 in funding. For FY2008, NED funded 18 Venezuela projects with over \$1 million in total funding.

The Venezuelan government and Chávez supporters have strongly criticized U.S. government funding for democracy projects in Venezuela.⁴⁸ They maintain that NED-funded groups were headed by people involved in the overthrow of Chávez in April 2002 as well as a group, Súmate, involved in the signature collecting process for the 2004 recall referendum campaign. Critics of the USAID and NED democracy programs maintain that they meddle in Venezuelan domestic politics. They argue that the United States should get out of the business of democracy-promotion

⁴⁷ U.S. Agency for International Development, USAID/OTI Venezuela Annual Summary Report, October 2006-September 2007; U.S. Agency for International Development, Congressional Notification, August 20, 2009, CN #154, and USAID, "Transition Initiatives: Venezuela," website available at http://www.usaid.gov/our_work/cross-cutting_programs/transition_initiatives/country/venezuela/index.html.

⁴⁸ For example, see 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.

in Venezuela, maintaining that such activity lends credence to claims by Chávez and others that the U.S. government is pursuing a policy of regime change.⁴⁹

U.S. officials strongly defend U.S. democracy promotion activities in Venezuela, and Congress has continued to fund such activities. In particular, U.S. officials 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."⁵⁰ According to 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." NED asserts that all of the Venezuelan programs that it funds operate on a non-partisan basis.⁵¹ As a result of issues raised regarding NED's programs in Venezuela, in late 2004 Congress reaffirmed NED's duty to ensure that all sponsored activities adhere to core NED principles and required a comprehensive report on NED's activities in Venezuela since FY2001 (Division B of P.L. 108-447, H.Rept. 108-792).

Human Rights Concerns

Human rights organizations and U.S. officials have expressed concerns for several years about the deterioration of democratic institutions and threats to freedom of speech and press in Venezuela under the Chávez government. The State Department's February 2009 human rights report stated that Venezuela's human rights situation continued to be characterized by "politicization of the judiciary," and "official harassment of the media and of the political opposition."⁵²

Nevertheless, according to a 2008 poll by Latinobarómetro, 49% of Venezuelans expressed satisfaction with how democracy in their country was working, a greater percentage than in most Latin American countries and second only to Uruguay. The 2008 figure, however, represented a 10% drop from a similar poll in 2007 that showed that 59% of Venezuelans expressed satisfaction with their democracy.⁵³

Human Rights Watch maintains that the Chávez government dealt a severe blow to judicial independence by packing the Supreme Court with its supporters under a new law that expanded the court from 20 to 32 justices. Since 2004, according to Human Rights Watch, the packed Court has fired hundreds of provisional judges and granted permanent judgeships to about 1,000 others.⁵⁴ The Chávez government enacted a broadcast media law in December 2004 that allows 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 Inter-American Commission on Human Rights (IACHR) and human rights groups such as the Committee to Protect Journalists, Reporters Without Borders, and the Inter-

⁴⁹ Tom Barry, "The New Politics of Political Aid in Venezuela," *Venezuelanalysis.com*, July 25, 2007 (updated and corrected on August 25, 2007).

⁵⁰ "United States Rejects Venezuelan Decision to Try Civic Group," Department of State, *Washington File*, July 8, 2005.

⁵¹ National Endowment for Democracy, "NED Venezuela Programs FAQ," available online at <http://www.ned.org/grants/venezuelaFacts.html>.

⁵² See the full report at <http://www.state.gov/g/drl/rls/hrrpt/2008/wha/119177.htm>.

⁵³ Corporación Latinobarómetro, "Informe Latinobarómetro 2007" and "Informe 2008."

⁵⁴ Human Rights Watch, *World Report 2008*.

American Press Association maintain that these measures have inhibited freedom of expression, with newspapers and broadcasters practicing self-censorship.

In September 2008, Human Rights Watch issued an extensive report examining setbacks in human rights protections and practices under the Chávez government. The report states that under President Chávez, the Venezuelan government has: tolerated, encouraged, and engaged in wide-ranging acts of discrimination against political opponents and critics; undermined freedom of expression through a variety of measures aimed at reshaping media content and control; sought to remake the country's labor movement in ways that violate basic principles of freedom of association; and undermined its own ability to address the country's long-standing human rights problems through its adversarial approach to local rights advocates and civil society organizations. The report makes recommendations for the Venezuelan government to take actions in each of these areas in order to promote a more inclusive democracy.⁵⁵

In response to the release of the Human Rights Watch report, the Venezuelan government expelled two staff members of the human rights organization visiting the country on September 18, 2008, an action that was condemned by numerous human rights groups throughout Latin America.⁵⁶ On September 26, 2008, 41 members of the U.S. House of Representatives wrote to President Chávez expressing their outrage over the expulsion of the Human Rights Watch staff, and urging the President to embrace the recommendations of the report and strengthen the promotion of human rights, democratic institutions, and political pluralism in the country.

In November 2008, the Washington-based Due Process of Law Foundation issued a report criticizing the imprisonment of eight police officials accused of murder in April 2002 during a massive opposition demonstration that led to the temporary ouster of President Chávez. The report alleged violation of the police officials' due process and raised concerns about the independence of the judges in the case.⁵⁷

In the lead-up to the November 23, 2008, state and municipal elections, human rights groups called attention to attacks against media and journalists who were critical of the Chávez government. Venezuelan security forces used force to break up several student protests around the country in the lead up to the February 2009 referendum on abolishing term limits.

As noted above, the Chávez government has taken additional measures since 2009 to stifle political opponents, including elected state and local government officials, other political opponents, media outlets such as Globovisión and RCTV-Internacional that have been critical of the government, and university students (see "Repression of the Opposition" and "Continued Threats to Freedom of Expression" above).

In addition to the elected opposition, the Chávez government has moved to silence other opponents. There are now reportedly more than 40 political prisoners in the country, with another 2,000 people under investigation for what many observes say are trumped up charges.⁵⁸ In April

⁵⁵ Human Rights Watch, "A Decade Under Chávez, Political Intolerance and Lost Opportunities for Advancing Human Rights in Venezuela," September 2008, available at <http://hrw.org/reports/2008/venezuela0908/>.

⁵⁶ Phil Gunson, "Rights Groups Decry Monitors' Ouster," *Miami Herald*, September 20, 2008.

⁵⁷ Phil Gunson, "Rights Group Assails Detention of Police," *Miami Herald*, November 28, 2008; Due Process of Law Foundation, "Dependencia Judicial en Venezuela," Washington, November 2008.

⁵⁸ Juan Forero, "Politics and Prison in Venezuela," *Washington Post*, October 5, 2009.

2009, a former Defense Minister in the Chávez government who subsequently became a strong critic of President Chávez during the 2007 constitutional reform campaign was arrested on charges of corruption and remains imprisoned. The Chávez government also has sought to increase its control of the military by ousting military officers who might be considered disloyal to the government.⁵⁹ Nongovernmental organizations in Venezuela have expressed concern about potential legislation that would tighten control over groups that receive assistance from abroad, and fear that the government will prevent groups critical of the government from receiving outside assistance.⁶⁰

Critics of the government assert that the judiciary and criminal justice system is being used as a political tool against political opponents. This includes the case of prominent business leader Eligio Cedeño who had been imprisoned since 2007 in pretrial detention until a judge released him on December 10, 2009, instead requiring that he report to court every 15-days.⁶¹ Following his release, Cedeño subsequently traveled to the United States and is awaiting an immigration hearing; Venezuela has asked for his extradition. The judge who released Cedeño, María Lourdes Afiuni, was arrested just hours after his release on allegations of corruption, and remains imprisoned. President Chávez has urged that the judge receive the maximum sentence of 30 years. Three U.N. human rights experts criticized the judge's arrest, maintaining that Venezuela's reprisal against the judge created a climate of fear that undermines the rule of law and obstructs justice.⁶²

Anti-Semitism

Over the past several years, there has been a rise in anti-Semitic acts in Venezuela. This has included police raids on a Jewish center in Caracas in 2004 and 2007, and the vandalizing of a synagogue in Caracas in January 2009. The State Department's February 2009 human rights report stated that government institutions and officials and government-affiliated media outlets promoted anti-Semitism through numerous anti-Semitic comments. Incidents of graffiti, intimidation, vandalism, and other physical attacks against Jewish institutions were reported to be frequent.

On February 2, 2009, 16 Members of Congress, including Chairman of the House Foreign Affairs Subcommittee on the Western Hemisphere Eliot Engel spoke out against the January 2009 synagogue attack in a letter to President Chávez. They stated in the letter that they believed that the attack was "a direct result of the dangerous environment of fear and intimidation against the Jewish community which your government has fostered." The Members called on Chávez "to end the bullying and harassment of the Jewish community" and "to extend the community the robust protection it deserves in light of the threats it faces."⁶³

⁵⁹ Simon Romero and Maria Eugenia Diaz, "Chávez Seeks Tighter Grip on Military," *New York Times*, May 30, 2009.

⁶⁰ Tyler Bridges, "Hugo Chávez Tightens Control by Silencing Adversaries," *Miami Herald*, May 8, 2009.

⁶¹ For example, see the following white paper prepared by lawyers defending Eligio Cedeño, "Bolivarian Rule of Lawlessness, The Eligio Cedeño Case: The Erosion of Judicial Autonomy under Hugo Chávez," by Robert Amsterdam, Gonzalo Himiob Santomé, and Antonio Rosich, June 2009, available at http://www.robertamsterdam.com/venezuela/2009/06/new_white_paper_on_venezuelas_political_prisoners.htm.

⁶² U.N. Experts Say Venezuela's Chávez Creating Fear," *Reuters*, December 16, 2009.

⁶³ House Committee on Foreign Affairs, Subcommittee on the Western Hemisphere, "Engel Condemns Attack on Synagogue in Venezuela," February 2, 2009.

According to the State Department's 2009 international religious freedom report, Venezuelan government officials publicly condemned the synagogue attack after Foreign Minister Nicolás Maduro met with leaders of the Confederation of Jewish Associations in Venezuela (CAIV) on February 4, 2009. President Chávez also subsequently phoned the president of CAIV to condemn the attack and promised to guarantee the safety of the Jewish community. Criminal charges have been filed against 11 people for the attack, including several police officers.

Energy Issues

Since Venezuela is a major supplier of foreign oil to the United States, providing almost 11% of U.S. crude oil imports, a key U.S. interest has been ensuring the continued flow of oil exports. Venezuela was the fourth largest foreign supplier of oil to the United States in 2008 (after Canada, Saudi Arabia, and Mexico), exporting almost 1.2 million barrels per day of crude oil and products to the United States.⁶⁴ These exports amounted to almost \$49 billion, accounting for 95% of Venezuela's total exports to the United States.⁶⁵ Some 69% of Venezuela's oil exports are destined for the United States, highlighting the dependency of Venezuela on the U.S. market, and oil exports account for the overwhelming majority of Venezuela's exports to the United States.⁶⁶ Venezuela's state-run oil company, PdVSA, owns CITGO, which operates three crude oil refineries and a network of some 14,000 retail gasoline stations in the United States.

Venezuela's proven oil reserves are estimated to be 99 billion barrels of oil (the second largest in the hemisphere after Canada), while its proven natural gas reserves are estimated to be 176 trillion cubic feet (the second largest in the hemisphere after the United States).⁶⁷ Most of Venezuela's proven natural gas reserves are associated gas linked to its oil production, but in September 2009, the Spanish energy company Repsol YPF announced a major offshore gas find in the Gulf of Venezuela involving gas that reportedly could amount to 7-8 trillion cubic feet.⁶⁸

The Chávez government benefitted from the rise in world oil prices in late 2007 and 2008, which increased government revenues and sparked an economic boom. As a result, Chávez was able to increase government expenditures on anti-poverty and other social programs associated with his populist agenda. In April 2008, the government approved a measure that taxes foreign oil companies 50% when crude oil is \$70 a barrel, and 60% when oil exceeds \$100 a barrel.⁶⁹ The rapid decline in the price of oil since the last quarter of 2008, however, has reduced government revenue.

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

⁶⁴ U.S. Energy Information Administration, "U.S. Imports by Country of Origin," October 29, 2009.

⁶⁵ Department of Commerce statistics, as presented by World Trade Atlas.

⁶⁶ U.S. Energy Information Administration, "Venezuela Energy Profile," October 13, 2009.

⁶⁷ Marilyn Radler, "Oil, Gas Reserves Rise as Oil Output Declines," *Oil & Gas Journal*, December 21, 2009.

⁶⁸ "Repsol YPF Confirms Large Gas Find Off Venezuela," *Oil & Gas Journal*, September 28, 2009.

⁶⁹ "Venezuela Passes Tax on Oil Companies," *New York Times*, April 16, 2008.

based ConocoPhillips, Chevron, and ExxonMobil, Norway's Statoil-Hydro, Britain's BP, and France's Total.

In the conversion to Venezuelan government majority ownership, Chevron and BP maintained their previous investments, Total and Statoil-Hydro reduced their holdings, while ConocoPhillips and ExxonMobil chose to leave the projects.⁷⁰ However, Statoil-Hydro, Total, and Italy's Eni subsequently signed agreements that could result in additional investments in the Orinoco Belt projects.⁷¹ Other state-owned oil companies, such as Iran's Petropars, the China National Petroleum Corporation, Cuba's Cupet, as well as Russian companies such as Gazprom, TNK-BP, and Lukoil have also signed agreements for exploration in the Orinoco region.

According to some critics, majority state ownership in the oil sector has slowed the rate of foreign investment. Production also has reportedly not been able to recover from the firing of some 18,000 PdVSA employees in early 2003 and from continued underinvestment in maintenance and repairs.⁷² The U.S. Energy Information Administration reports that Venezuela's total oil production amounted to 2.6 million barrels per day (mbd) in 2008, with 2.4 million barrels per day in crude oil production.⁷³ The Venezuela government maintains that its oil production level is more than 3 million barrels per day, and maintains that its output figures have been manipulated for political reasons. In 2009, PdVSA hired a UK-based inspection firm to certify its volume of oil exports in an attempt to bolster the country's credibility in its oil data.⁷⁴

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

On numerous occasions, however, Chávez has threatened to stop selling oil to the United States. In February 2006, he asserted that the "U.S. government should know that, if it crosses the line, it will not get Venezuelan oil."⁷⁵ In April 2006, he warned that his government would blow up its oil fields if the United States ever were to attack.⁷⁶ In November 2006 (amid Venezuela's presidential election campaign), President Chávez asserted that Venezuela would "not send one more drop of oil to the U.S." if the United States or its "lackeys" in Venezuela try a "new coup," fail to recognize the elections, or try to overthrow the oil industry. Many observers believe Chávez's threats have been merely part of his rhetoric that is designed to bolster his domestic political support. Venezuela's Ambassador to the United States asserted in July 2006 that oil-cutoff comments by Venezuelan officials, including President Chávez, only reflect what would be Venezuela's response against aggression initiated by the U.S. government.⁷⁷ Once again in

⁷⁰ U.S. Energy Information Administration, "Country Analysis Briefs: Venezuela," January 2009.

⁷¹ Benedict Mander "Venezuela's Oil Belt Reopens to Private Groups," *Financial Times*, March 11, 2008.

⁷² Danna Harman, "Venezuela's Oil Model: Is Production Rising or Falling?," *Christian Science Monitor*, May 31, 2006.

⁷³ U.S. Energy Information Administration, "Venezuela Energy Profile," October 13, 2009.

⁷⁴ Raúl Gallegos, "Venezuela Moves To Bolster Credibility In Oil Output Data," *Dow Jones Newswires*, May 26, 2009.

⁷⁵ "U.S. Warned to Back off or Risk Losing Oil Supply," *Miami Herald*, February 18, 2006; "Chávez Threatens To Cut Oil in Case U.S. 'Crosses Line,'" Open Source Center, Foreign Broadcast Information Service, February 18, 2006.

⁷⁶ "Chávez Says He'll Blow up Oil Fields If U.S. Attacks," *Miami Herald*, April 20, 2006.

⁷⁷ Andy Webb-Vidal, "Venezuela Will Not Cut Off Oil Despite Hostile U.S. Attitude," *Financial Times*, August 1, 2006.

February 2008, President Chávez threatened to stop oil exports to the United States, this time if ExxonMobil was successful in freezing billions in Venezuelan oil assets in a dispute over compensation for its Orinoco oil investments. State Department officials played down the threat, pointing out that Chávez has made the same threat in the past, but has never cut oil.⁷⁸ A week later, on February 17, Chávez said that he would only stop sending oil if the United States attacked Venezuela.⁷⁹

Because of these comments, however, some observers have raised questions about the security of Venezuela as a major supplier of foreign oil. In June 2006, the Government Accountability Office (GAO) issued a report, requested by then-Senate Foreign Relations Committee Chairman Richard Lugar, on the issue of potential Venezuelan oil supply disruption. At the time, the GAO report concluded that a sudden loss of all or most Venezuelan oil from the world market could raise world prices up to \$11 per barrel and decrease U.S. gross domestic product by about \$23 billion.⁸⁰ There are also concerns that Venezuela is looking to develop China as a replacement market, although Venezuelan officials maintain that they are only attempting to diversify Venezuela's oil markets. In 2007, China imported about 80,000 barrels per day of oil from Venezuela.⁸¹

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. Venezuela suspended its cooperation with the U.S. Drug Enforcement Administration in August 2005 because it alleged that DEA agents were spying on Venezuela. U.S. officials maintained that the charges were baseless. From 2005 to 2008, President Bush annually designated Venezuela, pursuant to international drug control certification procedures set forth in the Foreign Relations Authorization Act, FY2003 (P.L. 107-228), as a country that has failed demonstrably to adhere to its obligations under international narcotics agreements. At the same time, the President waived economic sanctions that would have curtailed U.S. assistance for democracy programs in Venezuela. President Obama took the same actions in September 2009, marking the fifth consecutive year for Venezuela's designation as a country not adhering to its anti-drug obligations.⁸²

In mid-2006, the United States and Venezuela were on the verge of signing an anti-drug cooperation agreement that would allow the DEA to continue working with the Venezuelan government, but approval of the agreement has still not taken place.⁸³ In August 2006, Venezuelan officials said that they were reconsidering signing the agreement in response to the announcement by then-Director of National Intelligence John Negroponte of the establishment of a new position of Mission Manager for Cuba and Venezuela. According to the Bush Administration's September 2006 justification for determining that Venezuela had "failed demonstrably" to adhere to counternarcotics obligations, "the role and status of the DEA in

⁷⁸ Benedict Mander, "U.S. Shrugs Off Chávez Threat Over Oil," *Financial Times*, February 12, 2008.

⁷⁹ "Venezuela: Chávez Dials Back Threat to Halt Oil," *Los Angeles Times*, February 18, 2008.

⁸⁰ U.S. Government Accountability Office, "Energy Security: Issues Related to Potential Reductions in Venezuelan Oil Production," GAO-06-668, June 2006.

⁸¹ U.S. Energy Information Administration, "Country Analysis Briefs: Venezuela," January 2009.

⁸² White House, Office of the Press Secretary, "Presidential Determination No. 2009-30," September 15, 2009.

⁸³ "DEA to Continue Working with Venezuela," *Latin American Regional Report, Andean Group*, July 2006; "Venezuela, U.S. to Sign Anti-drug Agreement," *Miami Herald*, June 27, 2006.

Venezuela remains in limbo since the host country refuses to sign a memorandum of understanding authorizing” a DEA presence “even after successfully concluding a lengthy process of negotiation with U.S. officials.”⁸⁴

U.S. officials increased their criticism of Venezuelan antidrug efforts in August and September 2008, maintaining that the country was playing a leading role in drug trafficking in the Western Hemisphere. The White House Office of National Drug Control Policy maintained that the number of drug flights leaving Venezuela increased tenfold from 21 metric tons in 2002 to 220 metric tons in 2007 and that the figure would be higher in 2008.⁸⁵ At the time of President Bush’s fourth consecutive determination in September 2008 that Venezuela had failed demonstrably to adhere to its obligations under international narcotics control agreements, the State Department noted that the flow of drugs bound for the United States and Europe continued to grow, and that Venezuela continued to refuse to renew counternarcotics cooperation agreements with the United States.⁸⁶ Also in September 2008, the Treasury Department froze the assets of two senior Venezuelan intelligence officials—General Hugo Carvajal and General Henry Rangel—and the former interior minister, Ramón Rodríguez Chacín, for allegedly helping the Revolutionary Armed Forces of Colombia (FARC) with drug and weapons trafficking.⁸⁷

Venezuelan officials maintain that their government has been taking significant antidrug measures. In 2008, the government began a program aimed at destroying clandestine airstrips used by Colombian drug traffickers and at tracking drug smuggling planes. By September 2008, Venezuelan officials maintained that they had destroyed more than 200 illegal landing strips.⁸⁸ According to Venezuelan government statistics, Venezuela seized almost 60 metric tons of illicit drugs in 2009 (down from a high of 77.5 metric tons in 2005), with cocaine seizures of almost 28 metric tons accounting for 46% and marijuana seizures of 32 metric tons accounting for almost 54% of seizures.⁸⁹

Venezuelan officials also maintain that Venezuela has cooperated extensively with other countries in combating drug trafficking. They point to cooperation with Colombia, including the return of captured Colombian drug traffickers and a joint eradication program to target coca, poppy, and cannabis cultivation in the common Sierra de Perijá mountain area bordering the two countries. Venezuelan officials also assert that the country is setting up a radar system, purchased from China that when in operation will help it monitor suspected drug flights.

On February 2, 2010, Venezuelan officials announced the deportation of suspected Colombian drug trafficker Salomon Camacho Mora to the United States. The officials also announced the

⁸⁴ U.S. Department of State, “Memorandum of the Secretary of State: Presidential Determination on Major Drug Transit or Major Illicit Drug Producing Countries for Fiscal Year 2007,” Presidential Determination No. 2006-24, White House Press Release, September 15, 2006.

⁸⁵ Costa Ocando and Gerardo Reyes, “Drug Flights Operate Out of Venezuela,” *Miami Herald*, September 14, 2008.

⁸⁶ U.S. Department of State, “Remarks on Release of the Annual Report on the Major Illicit Drug Producing Countries for Fiscal Year 2008,” David T. Johnson, Asst. Secretary of State for International Narcotics and Law Enforcement Affairs, September 16, 2008.

⁸⁷ Phil Gunson, “U.S. Slams Venezuelan Hugo Chávez Top Intelligence Men,” *Miami Herald*, September 13, 2008; *Federal Register*, September 19, 2008, pp. 54453-54454.

⁸⁸ Juan Forero, “Venezuela Steps Up Efforts to Thwart Cocaine Traffic,” *Washington Post*, April 7, 2008; “Venezuela Claims Counterdrug Progress, Disputes U.S. Criticism,” *Open Source Center*, October 1, 2008.

⁸⁹ Republica Bolivariana de Venezuela, Oficina Nacional Antidrogas, Observatorio Venezolano de Drogas, *Estadísticas, Incautaciones y Detenidos por Delito de Drogas en Venezuela*, ONA-OVD-O-IE-51, December 2009.

deportation of two other drug traffickers to France and Colombia. Venezuela has periodically deported drug traffickers directly to the United States and also to Colombia, after which they have been extradited to the United States.

2009 State Department INCSR Report

The Department of State, in its February 2009 *International Narcotics Control Strategy Report* (INCSR), maintained that Venezuela is one of the preferred routes for trafficking illicit narcotics out of Colombia because of the permissive and corrupt environment in Venezuela and because of counternarcotics successes in Colombia. The majority of narcotics transiting Venezuela are destined for the United States, according to the report, but an increasing percentage has started to flow toward western Africa and then toward Europe. Venezuela's corruption problem has been compounded by the transit of drugs, as has the increased level of crime and violence throughout the country. According to the report, the annual flow of narcotics trafficking through Venezuela has increased fivefold since 2002, from 50 metric tons to an estimated 250 metric tons in 2007.

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

Looking ahead, the State Department maintained in the report that the United States remains prepared to renew cooperation with Venezuela to fight the increasing flow of illegal drugs, and pointed to two Venezuelan steps that would be positive: (1) the signing of the outstanding bilateral anti-drug agreement negotiated in 2005 and (2) stemming the rise in drug transshipments from Colombia by working with the United States to make the CIF operational.

July 2009 GAO Report

On July 20, 2009, the U.S. Government Accountability Office (GAO) issued a report on the status of drug trafficking through Venezuela and the status of U.S.-Venezuelan counternarcotics cooperation. According to the report, U.S. and Colombian officials assert that Venezuela has extended a lifeline to Colombian illegally armed groups by providing significant support and safe haven along the border. U.S. officials also contended that a high level of corruption within the Venezuelan government, military, and other law enforcement and security forces contributes to the permissive environment. While the Venezuelan government maintains that counternarcotics cooperation with the United States was not necessary because it has its own programs, Venezuelan officials expressed willingness for greater technical cooperation with the United States if the Venezuelan government would allow it. The report concluded that the lack of

Venezuelan counternarcotics cooperation is a significant impediment to the U.S. capacity to interdict drugs en route to the United States.⁹⁰

Venezuela's Military Purchases

For several years, U.S. officials have expressed concerns about Venezuela's purchases of military equipment. In January 2006, the State Department indicated that the United States had denied licenses—required by the Arms Export Control Act—to transfer U.S. technology for use in 12 military transport planes that Spanish companies had contracted to sell to Venezuela. According to a State Department spokesman, the proposed sale could contribute to de-stabilization in Latin America. Spain initially responded by indicating that it would go ahead with the sale of the airplanes utilizing non-U.S. technology, but in mid-October 2006, Spain's Foreign Minister announced that such an alternative was not economically feasible and the deal was cancelled.⁹¹ Venezuela responded to the U.S. action by labeling it as “imperialist.” The State Department official also indicated that the United States had expressed similar concerns to Brazil about military sales to Venezuela. Venezuela expressed interest in purchasing at least a dozen light-attack aircraft, manufactured by Embraer (Empresa Brasileira de Aeronáutica, SA) that contain U.S. technology.⁹²

In May 2006, the State Department determined (pursuant to Section 40A of the Arms Export Control Act) that Venezuela was not fully cooperating with U.S. antiterrorism efforts, an action that triggered a prohibition on the sale or license of defense articles and services to Venezuela. Since then, the State Department has made the same annual determination each year, most recently in May 2009.

Venezuela is buying significant amounts of military equipment from Russia, more than \$6 billion since 2005. This has included 24 Sukhoi Su-30 fighter jets, helicopters, armored personnel carriers, air defenses missiles, and small arms.⁹³ The Venezuelan government maintains that it is buying the Russian fighter jets because the United States is refusing to sell the country spare parts for its aging fleet of F-16 fighters that it purchased in the 1980s. In September 2008, Russia announced that it would loan \$1 billion to Venezuela for arms purchases and military development.⁹⁴ After visiting Russia in September 2009, President Chávez announced that Russia would grant Venezuela a \$2.2 billion credit line to purchase arms, although it is unclear whether this includes the \$1 billion loan promised in 2008. Chávez also announced that Venezuela would buy 92 tanks and air defense weapons systems from Russia, although some observers have questioned whether Russia will actually follow through with the missile sales.⁹⁵

⁹⁰ U.S. Government Accountability Office, “Drug Control: U.S. Counternarcotics Cooperation with Venezuela Has Declined,” GAO-09-806, July 20, 2009.

⁹¹ Renwick McLean, “U.S. Objections Lead Spain to End Venezuela Deal,” *New York Times*, October 19, 2006.

⁹² U.S. Department of State, Daily Press Briefing, January 13, 2006; Phil Gunson and Pablo Bachelet, “Spain's Planes for Chávez Can't Use U.S. Components,” *Miami Herald*, January 14, 2006; Leslie Crawford and Andy Webb-Vidal, “Spain to Defy U.S. over Military Sale to Venezuela,” *Financial Times*, January 14, 2006.

⁹³ U.S. Senate Select Committee on Intelligence, “Annual Threat Assessment of the US Intelligence Community,” prepared testimony by Dennis C. Blair, Director of National Intelligence, February 2, 2009, p. 33.

⁹⁴ Megan K. Stack, “Venezuela Signs Deals with Russia,” *Los Angeles Times*, September 27, 2008.

⁹⁵ “Russia, Venezuela: Chávez Touts Russia Arms Deals,” *Stratfor*, September 14, 2009.

Over the past several years, several Directors of National Intelligence (DNI) have expressed concerns about Venezuela's military purchases. In January 11, 2007, testimony before the Senate Select Committee on Intelligence, then-DNI John Negroponte expressed concern that President Chávez's military purchases and moves toward developing his own weapons production capability were increasingly worrisome to his neighbors, and could fuel an arms race in the region. In February 5, 2008, testimony before the same committee, then-DNI Michael McConnell again noted growing anxiety among Venezuela's neighbors because of this arms build-up. McConnell also testified at a February 27, 2008, Senate Armed Services Committee hearing that Venezuela's military build-up is probably three to four times what would be needed for external defense. With regard to rifles from Venezuela potentially ending up in the hands of the FARC, DIA Director Maples maintained at the hearing that he had not seen that, and that the likely purpose was "using asymmetric capabilities and tactics and empowering the population in some way, in a home guard sense."

Under the Obama Administration, current DNI Dennis Blair testified before the Senate Select Committee on Intelligence on February 12, 2009, that while the Chávez government's military purchases from Russia have been significant, Venezuela's overall military capabilities remain plagued by logistic, maintenance, and transportation shortfalls.⁹⁶ More recently, on February 2, 2010, Blair again testified before the Senate Select Committee on Intelligence that while Venezuela's military acquisitions from Russia are significant, more than \$6 billion since 2005, "their armed forces lack the training and logistics capacity to use these to their full capacity."⁹⁷

U.S. officials expressed concern in May 2009 that Venezuela's arms purchases were exceeding the country's needs and specifically expressed concern about Venezuela's purchase of shoulder-fired anti-aircraft missiles (SA-24 man-portable missiles) from Russia.⁹⁸ In September 2009, Secretary of State Clinton noted U.S. concern about Venezuela's arms purchases, which she maintained raised questions about a potential arms race in the region. The Secretary urged Venezuela to be transparent in its purchases and clear about the purposes of the purchases. She maintained that Venezuela "should be putting in place procedures and practices to ensure that the weapons that they buy are not diverted to insurgent groups or illegal organizations, like drug trafficking gangs and other criminal cartels."⁹⁹

President Chávez has vowed to continue with his nation's military purchases, asserting that he is acquiring the minimum equipment for Venezuela to defend itself from the United States. Venezuelan Foreign Minister Nicolás Maduro maintains that the purchases are a sovereign decision and that U.S. criticisms have "no political or moral weight."¹⁰⁰

⁹⁶ U.S. Senate Select Committee on Intelligence, "Annual Threat Assessment of the Intelligence Community," prepared testimony by Dennis C. Blair, Director of National Intelligence, February 12, 2009, p. 32.

⁹⁷ U.S. Senate Select Committee on Intelligence, "Annual Threat Assessment of the US Intelligence Community," prepared testimony by Dennis C. Blair, Director of National Intelligence, February 2, 2009, p. 33.

⁹⁸ Juan O. Tamayo, "Missile Buildup Has U.S. on Edge," *Miami Herald*, May 31, 2009.

⁹⁹ U.S. Department of State, Secretary of State Hillary Rodham Clinton, "Remarks with Uruguayan President Tabare Vazquez After Their Meeting," September 15, 2009.

¹⁰⁰ James Suggett, "Venezuela: U.S. Criticisms of Venezuelan Arms Purchases Lack 'Moral Weight,'" *Venezuelanalysis.com*, September 16, 2009.

Venezuela's Activities in Latin America

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

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

In 2004, President Chávez launched a Bolivarian Alternative for the Americas (ALBA) as an alternative to the Free Trade Area of the Americas. ALBA advocates a socially oriented trade block that would include mechanisms for poverty reduction, and cooperation in a range of areas including health, education, culture, investment, and finance. Currently, eight countries in the region have joined ALBA. Venezuela and Cuba were the first countries to launch ALBA in 2004, while Bolivia joined in 2006, and Nicaragua in 2007. In 2008, the Caribbean nation of Dominica joined in January, while Honduras joined in August, but subsequently withdrew in January 2010 under the de facto government of Roberto Micheletti. In June 2009, three additional countries joined—Ecuador, St. Vincent and the Grenadines, and Antigua and Barbuda.

In December 2007, Venezuela and six other South American countries—Argentina, Bolivia, Brazil, Ecuador, Paraguay, and Uruguay—signed the founding act of a new Bank of the South, a Chávez initiative to offer a new source of development financing apart from the World Bank and the International Monetary Fund. In September 2009, the seven countries signed an agreement to provide an initial \$7 billion in capital for the bank, with Argentina, Brazil, and Venezuela each agreeing to provide \$2 billion, Ecuador and Uruguay to deposit \$400 million each, and Bolivia and Paraguay to deposit \$100 million each. No date has been set for the bank's operational start up.¹⁰¹

Since 2005, President Chávez has used so-called "oil diplomacy" to provide oil to Caribbean Basin nations on preferential terms in a program known as PetroCaribe, prompting U.S. concern that Venezuela is using these programs to increase its influence in the region. Under the program, Venezuela initially offered to supply 190,000 barrels per day of oil to the region on preferential terms with 50% of the oil financed over 25 years at an annual interest rate of 1%. At a July 2008 PetroCaribe summit, President Chávez announced that up to 60% of the oil could be financed while oil prices remained over \$100 a barrel, and this would rise to 70% financed if oil prices rise to over \$150 a barrel. Most Caribbean nations are members, with the exception of Barbados and

¹⁰¹ "Venezuela's Chávez, Six Others OK 'Bank of the South,'" *Dow Jones News Service*, September 27, 2009.

Trinidad and Tobago. Cuba, a major beneficiary, receives over 90,000 barrels per day (bpd) of oil under the program. In Central America, Nicaragua and Honduras joined PetroCaribe in 2007 and Guatemala joined in July 2008. PetroCaribe also has the goal of putting in place a regional supply, refining, and transportation and storage network, and establishing a development fund for those countries participating in the program.

In addition to these preferential oil arrangements, Venezuela is investing in energy sectors in several Latin American countries. Chávez has pledged to invest \$1.5 billion in Bolivia's gas industry. Ecuador and Venezuela have signed agreements for joint development in oil, gas, refining, and petrochemical sectors. In 2005, PdVSA signed an agreement to build an oil refinery in northeastern Brazil. Construction on the 200,000 bpd refinery began in September 2007, and is to be supplied with oil from both Brazil and Venezuela when it begins operations in 2010. Colombia and Venezuela signed an agreement in July 2006 for a gas pipeline project initially to supply gas to Venezuela from northern Colombia, and then reverse the flow once Venezuela developed its own natural gas reserves. The pipeline went online in early 2008, although in September 2009, Colombia reduced its gas exports to Venezuela because of an increase in its own natural gas needs as a result of drought conditions. In Cuba, PdVSA helped refurbish an oil refinery in Cienfuegos, and has signed an exploration and production agreement with Cupet, Cuba's state-oil company.¹⁰²

The potential use of Venezuela's windfall oil profits abroad to influence activities in other Latin American countries was highlighted in December 2007 when three Venezuelans—Franklin Duran, Moises Maionica, and Carlos Kauffmann—and one Uruguayan national were arrested and charged in U.S. federal court in Miami with acting and conspiring to act as agents of the Venezuelan government without prior notification to the U.S. Attorney General. (A fifth foreign national wanted in the case, Antonio José Canchica Gomez, reportedly a Venezuelan intelligence official, remains at large.) All four defendants were alleged to have conspired in a scheme to conceal the source and destination and the role of the Venezuelan government in the attempted delivery of \$800,000 to Argentina by a U.S. businessman, Guido Alejandro Antonini Wilson. The funds were alleged to be destined for the presidential campaign of Argentine President Cristina Fernández de Kirchner. High-level Venezuelan officials also were alleged to be involved in the matter, including from the Office of the Vice President and the Intelligence and Preventative Services Directorate (DISIP).¹⁰³ Ultimately three of the four defendants facing trial—Maionica, Kauffmann, and Wanseele—pled guilty, while Duran was tried and convicted in early November 2008 and later sentenced to four years in prison.

¹⁰² "Venezuela: Oil Revenues Boost International Influence," *Oxford Analytica*, July 19, 2006.

¹⁰³ United States District Court, Southern District of Florida, Case No. 1:07-cr-20999-JAL, Document 24, December 20, 2007.

Terrorism Issues

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

Colombian Terrorist Groups¹⁰⁴

There has been considerable concern in recent years regarding the question of whether Colombian guerrilla groups might be receiving support from Venezuela. The State Department's April 2009 *Country Reports on Terrorism* maintained that while Venezuelan President Hugo Chávez's ideological sympathy for two Colombian guerrilla groups—the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN)—had limited Venezuelan cooperation with Colombia in combating terrorism, President Chávez publicly changed course in June 2008 and called on the FARC to release all hostages unconditionally, declaring that armed struggle is "out of place" in modern Latin America. In July 2008, the Venezuelan military detained a senior FARC official and handed him over to Colombian authorities. Nevertheless, as stated earlier in September 2008, the Treasury Department froze the assets of two senior Venezuelan intelligence officials—General Hugo Carvajal and General Henry Rangel—and the former interior minister, Ramón Rodríguez Chacín, for allegedly helping the FARC with weapons and drug trafficking.¹⁰⁵

Information on captured computer files from Colombia's March 2008 raid of a FARC camp in Ecuador had raised questions about potential support of the FARC by the Chávez government. Venezuelan officials have dismissed the data as having been fabricated even though Interpol verified in May 2008 that the files had not been tampered with since they were seized. On June 6, 2008, two Venezuelan nationals (one a national guard sergeant) and two Colombians were arrested in eastern Colombia for gun-running. The four were captured with some 40,000 rounds of ammunition allegedly destined for the FARC. In light of the captured FARC documents, some observers, including some Members of Congress, had called on the Bush Administration in 2008 to designate Venezuela as a state sponsor of terrorism pursuant to Section 6(j) of the Export Administration Act (EAA) of 1979 (P.L. 96-72). Other countries currently on the state sponsors of terrorism list include Cuba, Iran, Sudan, and Syria. The Bush Administration began an initial

¹⁰⁴ For additional information, see CRS Report RL32250, *Colombia: Issues for Congress*, by June S. Beittel.

¹⁰⁵ Phil Gunson, op. cit., September 13, 2008; *Federal Register*, September 19, 2008, pp. 54453-54454.

inquiry into designating Venezuela as a state sponsor in March 2008, but did not make such a designation.

In the April 2009 terrorism report, the State Department stated that the FARC, ELN, and remnants of the rightist paramilitary United Self-Defense Forces of Colombia (AUC) often crossed into Venezuelan territory to rest and regroup as well as to extort protection money and kidnap Venezuelans in order to finance their operations. According to the report, the Venezuelan government did not systematically police its country's border with Colombia to prevent the movement of armed groups or to interdict the flow of narcotics. Some limited amounts of weapons and ammunition from official Venezuelan stocks and facilities were reported to have ended up in the hands of Colombian terrorist groups.

Venezuela's relations with Colombia deteriorated in 2009 amid new allegations that some Venezuelan officials continued to assist the FARC in helping them arrange weapons deals and obtain identity cards.¹⁰⁶ Relations have also deteriorated because of Venezuelan opposition to Colombia's agreement with the United States for the use of seven military facilities in the country. In late July 2009, the government of Sweden requested an explanation from Venezuela of how the Colombian FARC had obtained Swedish-made anti-tank rocket launchers that had been sold to Venezuela in the 1980s. In October 2008, three of the launchers were reportedly recovered from a FARC arms cache.¹⁰⁷ President Chávez asserted that the missiles were stolen in a robbery in 1995, and that Colombia made the claims to divert attention from the plan to open seven of its military bases to the United States.¹⁰⁸ In late October and early November 2009, Venezuelan-Colombian tensions intensified after several incidents: the kidnapping and murder of ten members of an amateur Colombian soccer team in the Venezuelan border state of Táchira; Venezuela's arrest of two Colombian nationals for allegedly spying in Venezuela; and the killing of two members of Venezuela's National Guard at a roadside checkpoint in Táchira state near the border. On November 8, 2009, a comment by President Chávez during his weekly television ordering the Venezuelan armed forces to prepare for war led Colombia to say that it would resort to the OAS and the UN Security Council. Chávez subsequently clarified that his remarks were intended to increase Venezuela's preparedness against the threat from the use of seven Colombian bases by the U.S. military.¹⁰⁹

Deepening Relations with Iran

There has been increasing concern in recent years about Iran's growing interest in Latin America, particularly its relations with Venezuela under President Chávez. Venezuela's relations with Iran have been longstanding because they were both founding members of OPEC in 1960. Under the government of President Mohammed Khatami (1997-2005), Iran made efforts to increase its trade with Latin America, particularly Brazil, and there were also efforts to increase cooperation with Venezuela.

Not until President Mahmoud Ahmadinejad's rule began in 2005, however, did Iran aggressively work to increase its diplomatic and economic linkages with Latin American countries. A major

¹⁰⁶ Simon Romero, "Evidence Shows Venezuelan Aid to Rebel Group," *New York Times*, August 3, 2009.

¹⁰⁷ "Rebels Obtained Arms Sold to Venezuela, Colombia Says," *New York Times*, July 28, 2009.

¹⁰⁸ "Venezuelan Arms in FARC Hands Were Stolen: Chávez," *Agence France Presse*, August 5, 2009.

¹⁰⁹ "Venezuela-Colombia: A 'Call to War' with Consequences for Chávez," *Latin America Weekly Report*, November 12, 2009.

rationale for this increased focus on Latin America appears to be Iran's efforts to overcome its international isolation. For some observers, a key reason for Ahmadinejad's increased interest in the region, especially with countries such as Venezuela, has been to develop leverage against the United States in its own neighborhood, rather than any real economic interest in Latin America.¹¹⁰

Iranian President Ahmadinejad has visited Caracas on several occasions since 2006, and President Chávez has visited Iran several times, most recently in September 2009. The personal relationship between the two leaders has driven the strengthening of bilateral ties. Venezuela also has played a key role in the development of Iran's expanding relations in Latin America. Director of National Intelligence (DNI) Dennis Blair maintained in February 2009 congressional testimony that Venezuela "is serving as a bridge to help Iran build relations with other Latin American countries."¹¹¹

In February 2008 testimony before the Senate Select Intelligence Committee, then-DNI Michael McConnell maintained that most cooperation between Iran and Venezuela has been on the economic and energy fronts, but that military cooperation is growing, and the two nations have discussed cooperation on nuclear energy.¹¹² The two nations have signed a variety of agreements in agriculture, petrochemicals, oil exploration in the Orinoco region of Venezuela, and the manufacturing of automobiles, bicycles, and tractors. During an April 2009 trip to Tehran, Chávez and Ahmadinejad inaugurated a new development bank for economic projects in both countries, with each country reportedly providing \$100 million in initial capital.¹¹³ Weekly flights between the two countries began in 2007; the State Department has expressed concern about these flights in its annual terrorism report, maintaining that the flights, which connect Iran and Syria with Caracas, are only subject to cursory immigration and customs controls.

In September 2009, Venezuela and Iran signed three energy sector memorandums of understanding during President Hugo Chávez's visit to Tehran. As reported in the press, the first of these agreements would provide for Venezuela's state-owned oil company, *Petroleos de Venezuela S.A.* (PdVSA), to acquire a 10% stake in Iran's South Pars gas project valued at some \$760 million. The second agreement would provide for Iran's state oil company, Petropars, to invest \$760 million in developing two oil fields in Venezuela. Under the third agreement, in the case of UN or U.S. sanctions against Iran's gasoline imports, Venezuela would supply Iran with gasoline (reportedly some 20,000 barrels per day) with the money earned from the gasoline sales to be deposited to a fund that would be set up by Iran to finance Venezuelan purchases of Iranian machinery and technology.¹¹⁴

While such gasoline sales to Iran would not currently subject PdVSA to U.S. sanctions under the Iran Sanctions Act (ISA), House-passed H.R. 2194 the Iran Refined Petroleum Sanctions Act, approved in December 2009, would amend the ISA to make such sales sanctionable.¹¹⁵ A number

¹¹⁰ Farideh Farhi, "Iran in Latin America: Threat or Axis of Annoyance?" paper presented at conference of the Woodrow Wilson International Center for Scholars, Washington, DC, July 10, 2008.

¹¹¹ Dennis C. Blair, Director of National Intelligence, "Annual Threat Assessment of the Intelligence Community for the Senate Select Committee on Intelligence," February 12, 2009.

¹¹² J. Michael McConnell, Director of National Intelligence, "Annual Threat Assessment of the Director of National Intelligence for the Senate Select Committee on Intelligence," February 5, 2008, p. 36.

¹¹³ Parisa Hafezi, "Iran and Venezuela Open Joint Bank to Boost Ties," *Reuters News*, April 3, 2009.

¹¹⁴ "Venezuela Pledges to Help Iran with Investment, Gasoline Supplies," *The Oil Daily*, September 10, 2009.

¹¹⁵ For further information on the ISA and other U.S. sanctions on Iran, see CRS Report RS20871, *Iran Sanctions*, by Kenneth Katzman.

of observers, however, have raised questions about whether Venezuela would have the ability to provide gasoline to Iran since it needs to import gasoline to help meet its own domestic demand. Venezuela reportedly has been facing significant refining problems because of mismanagement and a drop in foreign investment.¹¹⁶ Moreover, while Venezuela potentially could use a third-party gasoline supplier close to the Persian Gulf to purchase and resell the gasoline to Iran, finding a third party could prove difficult if U.S. sanctions are imposed against suppliers of gasoline.¹¹⁷

Venezuelan comments about support for Iran's nuclear program and about potential Iranian support for the development of nuclear energy in Venezuela have raised concerns among U.S. officials and other observers. President Chávez repeatedly has expressed support for Iran's development of nuclear energy for peaceful purposes, including most recently during a September 2009 visit to Iran.¹¹⁸ President Chávez also announced during the visit that Venezuela is working on a preliminary plan for the construction of a "nuclear village" in Venezuela with Iranian assistance so that "the Venezuelan people can count in the future on this marvelous resource for peaceful purposes."¹¹⁹ The transfer of Iranian nuclear technology from Iran would be a violation of U.N. Security Council Resolutions—1737 (2006), 1747 (2007), and 1803 (2008)—that imposed restrictions on Iran's nuclear technology transfers.

In late September 2009, comments by Venezuelan officials offered conflicting information about Iran's support for Venezuela's search for uranium deposits. Venezuelan Minister of Basic Industry and Mining Rodolfo Sanz said that Iran was assisting Venezuela in detecting uranium reserves in the west and southwest of Venezuela.¹²⁰ Subsequently, however, Venezuela's Minister of Science, Technology, and Intermediary Industry Jesse Chacon denied that Iran was helping Venezuela seek uranium, while Venezuela's Minister of Energy Rafael Ramirez maintained that Venezuela has yet to develop a plan to explore or exploit its uranium deposits.¹²¹

To date, the United States has imposed sanctions on two companies in Venezuela because of connections to Iran's proliferation activities. In August 2008, the State Department imposed sanctions on the Venezuelan Military Industries Company (CAVIM) pursuant to the Iran, North Korea, and Syria Nonproliferation Act (P.L. 109-353) for allegedly violating a ban on technology that could assist Iran in the development of weapons systems.¹²² The sanctions prohibit any U.S. government procurement or assistance to the company. In October 2008, the U.S. Treasury Department imposed sanctions on an Iranian-owned bank based in Caracas, the Banco Internacional de Desarrollo, C.A., under Executive Order 13382 that allows the President to block the assets of proliferators of weapons of mass destruction and their supporters. The bank is linked to the Export Development Bank of Iran (EDBI), which the Treasury Department asserts has

¹¹⁶ "Iran Sanctions (Special Series), Part 3, Preparing for the Worst," *Stratfor*, September 25, 2009; "Venezuelan Oil Expert Questions Viability of Chávez Energy Accords," *BBC Monitoring Americas*, September 14, 2009.

¹¹⁷ "Iran, Venezuela: Testing the Mettle of an Alliance," *Stratfor*, September 9, 2009.

¹¹⁸ "Visiting Chávez Backs Iran Nuclear Programme," *Tehran Press TV Online*, September 5, 2009.

¹¹⁹ "Iran Will Not Back Down on Nuclear Energy: Hugo Chávez" *Agence France Presse*, September 4, 2009.

¹²⁰ See the following press reports: "Iran Helps Venezuela Find Uranium Deposits," *BBC Monitoring Caucasus*, September 26, 2009; and "Iran Helps Venezuela Find Uranium Deposits," *Tehran Press TV Online*, September 26, 2009.

¹²¹ "Venezuela Denies Iran is Helping It," *New York Times*, September 27, 2009; and Fabian Cambero, "Interview: Venezuela Says No Plans Yet on Exploring Uranium," *Reuters*, September 27, 2009.

¹²² Although the sanction became effective in August 2008, it was not published in the *Federal Register* until October 2008. See *Federal Register*, pp. 63226-63227, October 23, 2008.

provided or attempted to provide services to Iran's Ministry of Defense and Armed Forces Logistics.¹²³

Another reason for U.S. concerns about Iran's deepening relations with Venezuela is Iran's ties to the radical Lebanon-based Islamic group Hezbollah (Party of God), which is reported to have been linked to the 1994 bombing of a Jewish cultural center in Buenos Aires. On June 18, 2008, the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) announced that it was freezing the U.S. assets of two Venezuelans—Ghazi Nasr al Din (a Venezuelan diplomat serving in Lebanon) and Fawzi Kan'an—for providing financial and other support to Hezbollah. U.S. citizens are also prohibited in engaging in any transactions with the two Venezuelans, including any business with two travel agencies in Caracas owned by Kan'an.¹²⁴

In the 111th Congress in June 2009, the House approved a provision in the Foreign Relations Authorization Act for FY2010 and FY2011, H.R. 2410 (section 1011), that would require a report within 90 days after enactment of the act on Iran's and Hezbollah's actions in the Western Hemisphere. The provision cites the State Department's 2008 terrorism report that noted the passengers on the weekly flights connecting Tehran and Damascus with Caracas were reportedly subject to only cursory immigration and customs controls in Caracas. The provision also states that Iran has sought to strengthen ties with several Western Hemisphere countries in order to undermine U.S. foreign policy. In addition, as noted above, the House approved H.R. 2194 (Berman), the Iran Refined Petroleum Sanctions Act of 2009 on December 15, 2009, which would amend the Iran Sanctions Act of 1996 to make gasoline sales to Iran subject to U.S. sanctions.

Venezuela's Extradition Request for Luis Posada Carriles

Venezuela has requested the extradition of anti-Castro Cuban activist Luis Posada Carriles for his alleged role in the 1976 bombing of a Cuban airliner that killed 73 people.¹²⁵ 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.¹²⁶ 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.¹²⁷ He had been acquitted but remained in prison pending a prosecutorial appeal. Posada also reportedly admitted, but later denied, involvement in a string of bombings in Havana in 1997, one of which killed an Italian tourist.¹²⁸ 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.

¹²³ U.S. Department of the Treasury, Press Release, "Export Development Bank of Iran Designated as a Proliferator," October 22, 2008.

¹²⁴ "Treasury Targets Hizballah in Venezuela," *States News Service*, June 18, 2008.

¹²⁵ Also see CRS Report RL32730, *Cuba: Issues for the 109th Congress*, by Mark P. Sullivan.

¹²⁶ Alfonso Chardy and Nancy San Martin, "Lawyer Expects Posada to Show Soon," *Miami Herald*, April 14, 2005.

¹²⁷ Ann Louise Bardach, "Our Man's in Miami. Patriot or Terrorist?" *Washington Post*, April 17, 2005.

¹²⁸ Oscar Corral and Alfonso Chardy, "Victim's Kin Oppose Posada Bid for Asylum," *Miami Herald*, May 7, 2005.

U.S. Immigration and Customs Enforcement (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.¹²⁹ Venezuela has pledged that it would not hand Posada over to Cuba, but on September 26, 2005, a U.S. immigration judge ruled that Posada could not be deported to Venezuela because he could be tortured.¹³⁰ ICE reviewed the case and determined on March 22, 2006, that Posada would not be freed from a federal immigration facility in El Paso, Texas.¹³¹

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

Posada was released from jail in New Mexico on April 19, 2007, and allowed to return to Miami under house arrest to await an upcoming trial on immigration fraud charges, but on May 9, 2007, a federal judge in Texas dismissed the charges. The judge maintained that the U.S. government mistranslated testimony from Posada and manipulated evidence.¹³² On June 5, 2007, Justice Department prosecutors filed a notice of appeal with the 5th U.S. Circuit Court of Appeals in New Orleans and on November 6, 2007, federal prosecutors filed a brief requesting that the court reverse the lower court's decision.¹³³ Both Venezuela and Cuba strongly denounced Posada's release, contending that he is a terrorist, and in mid-March 2008, the two countries raised the issue at a UN Security Council meeting on the UN's anti-terrorism strategy. Venezuela maintains that the State Department has ignored its request to extradite Posada.

In a new turn of events, Posada was again indicted by a federal grand jury in Texas on April 8, 2009. In the 10-count indictment, Posada was accused, among other things, of lying during immigration proceedings regarding his involvement in bombings in Havana in 1997. Originally, a federal trial was set to begin in August 2009 but was rescheduled until February 2010 in order to give him time to prepare his defense. Press reports maintain that Posada is also being investigated by a grand jury in New Jersey for his role in the 1997 bombings in Cuba.¹³⁴

¹²⁹ Department of Homeland Security, Office of Public Affairs, Statement, May 17, 2005.

¹³⁰ Alicia Caldwell, "Judge Says Cuban Militant Can't Be Deported to Venezuela," *Associated Press*, September 28, 2005.

¹³¹ Oscar Corral, "Cuban Exile Militant Luis Posada Denied Release," *Miami Herald*, March 22, 2006.

¹³² Carol J. Williams, "Pressure Grows to Prosecute Cuban Exile," *Los Angeles Times*, May 10, 2007.

¹³³ The federal prosecutors' brief is available at http://media.miamiherald.com/smedia/2007/11/06/20/Posada_5CA_07-50737_electronic_copy.source.prod_affiliate.56.pdf.

¹³⁴ Alfonso Chardy and Jay Weaver, "Posada a Target of New Federal Probes," *Miami Herald*, November 12, 2006, and "Grand Jury Indicts Cuban Exile Militant Luis Posada Carriles," *Miami Herald*, January 12, 2007; Jay Weaver, "U.S. Probes Haunt 80-year Old Anti-Castro Cuban," *Houston Chronicle*, March 2, 2008; Jay Weaver, "Posada Gets More Time for Perjury Defense," *Miami Herald*, June 16, 2009.

Legislative Initiatives in the 111th Congress

Several initiatives have been considered or introduced in the 111th Congress regarding Venezuela and proliferation, terrorism, and human rights concerns.

Considered Measures

On December 15, 2009, the House approved H.R. 2194 (Berman), the Iran Refined Petroleum Sanctions Act of 2009, which would amend the Iran Sanctions Act of 1996 to make gasoline sales to Iran subject to U.S. sanctions.

On July 22, 2009, the Senate approved S.Amdt. 1536 (Martinez) to the Senate version of the National Defense Authorization Act for FY2010, S. 1390, that would have required the Director of National Intelligence to provide a report within 180 days on issues relating to Venezuelan military and intelligence activities. The Senate subsequently approved S. 1390 on July 23, 2009, and then approved the language of S. 1390 as an amendment to H.R. 2647, the House legislative vehicle for the defense authorization measure. The House bill did not include a similar Venezuela report requirement, and the October 7, 2009, conference report to the measure did not include the Senate provision (H.Rept. 111-288).

On June 10, 2009, the House approved its version of the Foreign Relations Authorization Act for FY2010 and FY2011, H.R. 2410, with a provision in Section 1011 that requires a report within 90 days after enactment of the act on Iran's and Hezbollah's actions in the Western Hemisphere. The provision cites the State Department's 2008 terrorism report noting passengers on the weekly flights connecting Tehran and Damascus with Caracas were reportedly subject to only cursory immigration and customs controls in Caracas. The provision also notes that Iran has sought to strengthen ties with several Western Hemisphere countries in order to undermine U.S. foreign policy.

Other Introduced Measures

H.R. 375 (Ros-Lehtinen), introduced January 9, 2009, as the Western Hemisphere Counterterrorism and Nonproliferation Act of 2009, would, among its provisions, place restrictions on nuclear cooperation with countries assisting the nuclear programs of Venezuela or Cuba (section 209). The bill would also authorize the President to impose foreign aid and export controls on countries that the President determines is engaged in military cooperation or nonmarket-based trade with a state sponsor of terrorism, is carrying out policies that threaten U.S. national security interests, or is not fully cooperating with U.S. counterterrorism or nonproliferation efforts (section 106). It would also amend annual international drug control certification procedures to include progress in adhering to obligations under international counterterrorism agreements and the implementation of effective counterterrorism measures (section 104).

H.R. 2475 (Ros-Lehtinen), the Foreign Relations Authorization and Reform Act for FY2010 and FY2011 introduced on May 19, 2009, includes a provision (section 728) identical to that in H.R. 375 described above that would place restrictions on nuclear cooperation with countries assisting the nuclear programs of Venezuela or Cuba.

Before Venezuela's February 2009 constitutional referendum was held, H.Res. 161 (Mack) was introduced on February 11. The resolution would have expressed the sense of the House regarding the need for free, democratic, transparent, and fair elections in Venezuela without threats or intimidation.

Two introduced resolutions would express concern about anti-Semitism in Venezuela. H.Res. 174 (Hastings), introduced February 13, 2009, would acknowledge "the growing threat of anti-Semitism throughout South America, namely in Venezuela, Bolivia, and Argentina." H.Con.Res. 124 (Mack), introduced May 12, 2009, would express the support of Congress for the Jewish community in Venezuela. Among its provisions, the resolution would condemn anti-Semitic acts in Venezuela and urge the government of Venezuela to take verifiable steps to ensure the safety of the Jewish community in the country. The resolution also would express grave concern regarding the increased collaboration between Iran, Hezbollah, and the Venezuelan government, and the ramifications of such collaboration on the Jewish community in Venezuela.

H.Res. 872 (Mack), introduced October 27, 2009, condemns the Venezuelan government "for its state-sponsored support of international terrorist groups;" calls on the Secretary of State to designate Venezuela as a state sponsor of terrorism; and urges increased and sustained cooperation on counterterrorism initiatives between the government of the United States and allies in Latin America.

Appendix A. Links to U.S. Government Reports

Background Note, Venezuela

Date: July 2009

Full Text: <http://www.state.gov/r/pa/ei/bgn/35766.htm>

Congressional Budget Justification for Foreign Operations FY2010, Book II (p. 659)

Date: May 28, 2009

Full Text: <http://www.state.gov/f/releases/iab/fy2010cbj/pdf/index.htm>

Country Reports on Human Rights Practices 2008, Venezuela

Date: February 25, 2009

Full Text: <http://www.state.gov/g/drl/rls/hrrpt/2008/wha/119177.htm>

Country Reports on Terrorism 2008 (Western Hemisphere Overview)

Date: April 30, 2009

Full Text: <http://www.state.gov/s/ct/rls/crt/2008/122435.htm>

International Religious Freedom Report 2009, Venezuela

Date: October 26, 2009

Full Text: <http://www.state.gov/g/drl/rls/irf/2009/127408.htm>

International Narcotics Control Strategy Report 2009, Vol. I (Venezuela, pp. 618-622)

Date: February 27, 2009

Full Text: <http://www.state.gov/p/inl/rls/nrcrpt/2009/vol1/index.htm>

International Narcotics Control Strategy Report 2009, Vol. II (Venezuela, pp. 535-538)

Date: February 27, 2009

Full Text: <http://www.state.gov/p/inl/rls/nrcrpt/2009/vol2/index.htm>

National Trade Estimate Report on Foreign Trade Barriers 2009, Venezuela

Date: March 2009

Full Text: http://ustraderep.gov/assets/Document_Library/Reports_Publications/2009/; go to "2009_National_Trade_Estimate_Report_on_Foreign_Trade_Barriers/"; then go to "asset_upload_file940_15513.pdf"

Trafficking in Persons Report 2009 (Venezuela, pp. 298-299)

Date: June 16, 2009

Full Text: <http://www.state.gov/g/tip/rls/tiprpt/2009/index.htm>

Appendix B. Key Developments in 2009

On October 27, 2009, the House Subcommittee on the Western Hemisphere held a hearing on “Iran in the Western Hemisphere” that focused extensively on Venezuela’s deepening relations with Iran.

On September 15, 2009, President Obama made a determination pursuant to the annual narcotics certification process that Venezuela had “failed demonstrably” during the last 12 months to adhere to international counternarcotics agreements. This marked the fifth consecutive annual designation of Venezuela in this category. At the same time, President Obama waived economic sanctions that would have cut U.S. funding for democracy programs in Venezuela.

On July 27, 2009, the government of Sweden asked for an explanation from Venezuela of how the Revolutionary Armed Forces of Colombia (FARC) obtained Swedish-made anti-tank rocket launchers that had been sold to Venezuela in the 1980s. President Chávez asserted that the missiles were stolen in a robbery in 1995, and that Colombia made the claims to divert attention from the plan to open seven of its military bases to the United States.

On July 22, 2009, the Senate approved an amendment to the Senate version of the National Defense Authorization Act for FY2010, S. 1390/H.R. 2647 that would have required the Director of National Intelligence to provide a report within 180 days on issues relating to Venezuelan military and intelligence activities. The House version of the bill did not include a similar provision, and it was stripped from the conference report on the measure (H.Rept. 111-288 filed October 7, 2009).

On July 20, 2009, the U.S. Government Accountability Office issued a report on the status of drug trafficking through Venezuela and the status of U.S.-Venezuelan counternarcotics cooperation. The report concluded that the lack of Venezuelan counternarcotics cooperation is a significant impediment to the U.S. capacity to interdict drugs en route to the United States. According to the report, U.S. and Colombian officials assert that Venezuela has extended a lifeline to illegally armed Colombian groups by providing significant support and safe haven along the border.

On June 25, 2009, the State Department announced that the United States and Venezuela agreed to return respective ambassadors. This led to U.S. Ambassador to Venezuela Patrick Duddy resuming his post in Caracas, and to the return of Venezuelan Ambassador Bernardo Alvarez to Washington.

On February 15, 2009, Venezuelans voted in a national referendum to approve a constitutional amendment abolishing term limits for elected local, state, and national officials, including President. The amendment was approved with almost 55% voting for it and 45% voting against it. President Chávez proclaimed that the vote was a victory for the Bolivarian Revolution, and virtually promised that he would run for re-election in 2012.

On January 30, 2009, an unidentified group of assailants vandalized a synagogue in Caracas. President Chávez and other Venezuelan officials strongly condemned the attack. Subsequently, on February 2, 2009, 16 Members of Congress spoke out against the attack in a letter to President Chávez. The Members called on Chávez “to end the bullying and harassment of the Jewish community” and “to extend the community the robust protection it deserves in light of the threats it faces.”

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