



# Venezuela: Issues for Congress

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March 11, 2011

**Congressional Research Service**

7-5700

[www.crs.gov](http://www.crs.gov)

R40938

## Summary

The United States traditionally has had close relations with Venezuela, a major supplier of foreign oil, but there has been friction in relations for almost a decade under the government of populist President Hugo Chávez. 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 were hopeful that the return of ambassadors would mark an improvement in relations, this has not been the case. In December 2010, Venezuela revoked its agreement for the appointment of Larry Palmer, nominated to be U.S. Ambassador to Venezuela. The United States responded by revoking the diplomatic visa of Venezuelan Ambassador Bernardo Alavrez.

Under the rule of President 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. Human rights organizations have expressed concerns about the deterioration of democratic institutions and threats to freedom of expression under President Chávez. 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, but the Venezuelan economy has been hit hard by the global financial crisis and economic downturn.

Venezuelans approved a constitutional referendum in February 2009 that abolished term limits, allowing Chávez to run for reelection in 2012. Since 2009, the government has increased efforts to suppress the political opposition, including elected municipal and state officials. In January 2010, the government shut down the cable station RCTV-Internacional, prompting domestic protests and international concern about freedom of expression. In legislative elections held in September 2010, opposition parties won 67 out of 165 seats in the National Assembly, denying President Chávez's ruling party a supermajority and providing the opposition with a voice in government. In December 2010, however, Venezuela's outgoing National Assembly approved a law granting President Chávez far-reaching decree powers for 18 months that undermined the authority of the new Assembly that was inaugurated in January 2011.

As in past years, there were concerns in the 111<sup>th</sup> Congress regarding the state of Venezuela's democracy and human rights situation and its deepening relations with Iran. On July 1, 2010, President Obama signed into law the Comprehensive Iran Sanctions, Accountability, and Disinvestment Act of 2010 ( CISADA, P.L. 111-195), which includes a provision making gasoline sales to Iran subject to U.S. sanctions. In 2009, Venezuela had promised to supply some gasoline to Iran in the case of U.S. sanctions. U.S. officials are examining whether Venezuela is in violation of the sanctions legislation. Several other bills and resolution were introduced in the 111<sup>th</sup> Congress with provisions regarding Venezuela and proliferation, terrorism, and human rights concerns, but none of these were acted upon. The 112<sup>th</sup> Congress may continue to pay close attention to these issues.

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## Recent Developments

On March 1, 2011, the State Department issued its 2011 *International Narcotics Control Strategy Report*, which maintained that Venezuela was one of the preferred trafficking routes for the transit of cocaine out of South America because of a porous border with Colombia, a weak judicial system, inconsistent international counternarcotics cooperation, and a generally permissive and corrupt environment. (See “State Department 2011 INCSR Report” below.)

On February 22, 2011, more than 80 students ended a 23-day hunger strike after the government agreed to review cases of some 27 alleged political prisoners. (See “Human Rights Concerns” below.)

On February 2, 2011, Judge María Lourdes Afiuni was released from prison and placed under house arrest. The judge has been held since December 2009 after she had ordered the release of a prominent businessman. Human rights groups have called for the corruption changes against her to be dropped completely, and view her imprisonment as creating a climate of fear that undermines the rule of law. (See “Human Rights Concerns” below.)

On December 20, 2010, the Venezuelan government revoked its agreement for the appointment of Larry Palmer, nominated to be U.S. Ambassador to Venezuela. The United States responded by revoking the diplomatic visa of Venezuelan Ambassador Bernardo Alvarez. ( See “Obama Administration Policy” below.)

On December 17, 2010, Venezuela’s outgoing National Assembly approved an enabling law granting President Chávez far-reaching decree powers for 18 months. (See “December 2010 Actions by Outgoing National Assembly” below.)

On November 16, 2010, Colombian President Juan Manuel Santos said that his government would extradite a Venezuelan businessman and alleged narcotics trafficker, Walid Makled, to Venezuela. While the United States also wanted Makled extradited to the United States on drug trafficking charges, the Administration maintained that it respected Colombia’s extradition processes. (See “Extradition of Walid Makled from Colombia” below.)

On September 26, 2010, Venezuela held elections for its 165-member unicameral National Assembly, in which pro-Chávez supporters won 98 seats while opposition parties won 67 seats. Even though the ruling party won a majority of seats, the result was viewed as a significant defeat for President Chávez because it denied his government the three-fifths and two-thirds majorities needed for a variety of actions to ensure the enactment of the government’s agenda. (See “September 2010 Legislative Elections” below.)

On September 15, 2010, President Obama issued the sixth annual determination that Venezuela had “failed demonstrably” to meet its obligations under international counternarcotics measures. The justification accompanying the determination maintained that Venezuela has not responded to U.S. government offers to work in a consistent, rigorous, and effective way towards greater cooperation on counternarcotics. (See “September 2010 Presidential Determination” below.)

On August 30, 2010, hunger striker Franklin Brito died. He had been protesting the seizure of a portion of his farm in 2004. (See “Human Rights Concerns” below.)

For developments earlier in 2009-2010, 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

For more than a 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), which 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.<sup>1</sup> The election of elder statesman and former President Rafael Caldera as president in December 1993 brought a measure of political stability to the country, but the Caldera government soon faced a severe banking crisis that cost the government more than \$10 billion. While the macro-economy began to improve in 1997, a rapid decline in the price of oil brought about a deep recession beginning in 1998.

#### 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.

<sup>1</sup> 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 19<sup>th</sup> century South American liberator Simon Bolivar, whom Chávez often invokes. In 1999, Venezuelans went to the polls on three occasions—to establish a constituent assembly that would draft a new constitution, to elect the membership of the 165-member constituent assembly, and to approve the new constitution—and each time delivered victory to President Chávez. The new document revamped political institutions, 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.<sup>2</sup> In large part because of the economic rebound and attention to social programs, Chávez was reelected 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 21<sup>st</sup> 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.

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<sup>2</sup> 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.<sup>3</sup>

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.<sup>4</sup> 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 COPEL.<sup>5</sup>

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.<sup>6</sup> 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,<sup>7</sup> while the opposition maintained that a large percentage were from the opposition, including several high-profile opposition candidates.<sup>8</sup> Among those excluded was Leopoldo López, the popular mayor of Chacao, who was seeking to run for mayor of Caracas.

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<sup>3</sup> “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.

<sup>4</sup> *Ibid.*

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

<sup>6</sup> “Inhabilitaciones a Políticos en Venezuela Se Reducen de 400 a 272,” *Agence France-Presse*, July 11, 2008.

<sup>7</sup> Embassy of the Bolivarian Republic of Venezuela to the United States, “Fact Sheet, Myths and Realities of the Disqualifications from Holding Public Office,” July 17, 2008.

<sup>8</sup> Inter-American Commission on Human Rights, Annual Report, 2008.

## 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 reelection 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.<sup>9</sup> President Chávez proclaimed that the vote was a victory for the Bolivarian Revolution, and virtually promised that he would run for reelection in 2012.<sup>10</sup>

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 would 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 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 reelected 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.<sup>11</sup> 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.

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<sup>9</sup> See the results on the website of the National Electoral Council (CNE), available at [http://www.cne.gov.ve/divulgacion\\_referendo\\_enmienda\\_2009/](http://www.cne.gov.ve/divulgacion_referendo_enmienda_2009/).

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

<sup>11</sup> "Venezuela Poll Deadlocked," *LatinNews Daily*, January 29, 2009.

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 National Assembly at the time 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 and Continued Threats to Freedom of Expression**

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.<sup>12</sup> 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.

As noted above, President Chávez's May 2007 closure of RCTV sparked significant protests and worldwide condemnation. The Venezuelan government maintained that it did not renew RCTV's broadcast license because of the station's actions in support of the August 2002 coup that temporarily removed Chávez from power. The 2007 closure shut down RCTV's general broadcast station that was available nationwide, but allowed RCTV to operate with a more limited audience as a subscription-based cable station known as RCTV-Internacional.

In January 2010, however, the Venezuelan government took RCTV-Internacional off the air (along with five other stations that were subsequently allowed to resume broadcasting). Many observers believe that the government's actions were taken to silence RCTV-Internacional, which had continued to broadcast criticism of the Chávez government. 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 (which have been numerous under 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. This ultimately led to the government taking RCTV-Internacional and the other five stations off the air on January 24.

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<sup>12</sup> Simon Romero, "Chávez Tells His Navy To Take Over Key Seaports," *New York Times*, March 16, 2009.

There was widespread Venezuelan domestic and international criticism of the government's shutdown of 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 and requested that guarantees of freedom of expression and due process be reestablished.<sup>13</sup> Human rights organizations, including Human Rights Watch, the Committee to Protect Journalists, Reporters without Borders, and the Washington Office on Latin America, also strongly criticized Venezuela's action. In late May 2010, the Inter-American Press Association called for the restoration of the general broadcast RCTV on the third anniversary of its shutdown, maintaining that the public needs access to information from all sources as it prepares for upcoming legislative elections.

In 2009, the Venezuelan government also began targeting the operation of Globovisión, a cable news station that has often been critical of the government, and has used administrative and criminal investigations against the television station. In March 2010, the president of Globovisión, Guillermo Zuloaga, was arrested for making remarks deemed offensive to President Chávez at a meeting in Aruba of the Inter-American Press Association. After strong domestic and international criticism, Zuloaga was released, but in June 2010, he fled the country after another arrest warrant charged him with hoarding cars in an effort to capitalize on future price increases at his car dealership. In a new tactic in July 2010, the Chávez government claimed a minority stake in Globovisión because the shares belonged to one of the owners of a bank with financial problems that the government had taken in June. President Chávez maintained that the government's minority stake in the company allows it to name a company board member.

With regard to radio broadcasting, the Chávez government announced in mid-2009 that it would open administrative proceedings 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. 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.<sup>14</sup>

In terms of print media, there is a wide variety of privately owned newspapers in Venezuela that often take a strong editorial stand against the Venezuelan government. Nevertheless, according to some observers, there has been an increase of self-censorship since privately owned newspapers are strongly dependent on government advertising and owners do not want to jeopardize their companies. Press rights groups criticized the prosecution of a journalist in June 2010 for reporting on a case of nepotism in local government. Press rights groups also criticized a Venezuelan court's decision in August 2010 to ban print media from publishing images of violence in the lead-up to legislative elections scheduled for September 26. They characterized the ban as an attempt to censor news coverage of crime and violence before the elections.

In January 2009, Orel Sambrano, the director of a political weekly magazine, was murdered after covering several drug trafficking cases. A former police officer was convicted for the murder in May 2010, while in August 2010, a member of a powerful Venezuelan business family, Walid Makled Garcia, the presumed instigator of the murder, was arrested in Colombia. Makled is

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<sup>13</sup> 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.

<sup>14</sup> Committee to Protect Journalists, "Venezuela Moves to Silence Hundreds of Broadcasters," July 22, 2009.

wanted in the United States on drug trafficking charges, but on November 16, 2010, Colombian President Juan Manuel Santos announced that Makled would be extradited to Venezuela. (Also see “Extradition of Walid Makled from Colombia” below.)

## September 2010 Legislative Elections

In Venezuela’s September 26, 2010, elections for the 165-member National Assembly, pro-Chávez supporters won 98 seats while opposition parties won 67 seats. For the government, President Chávez’s United Socialist Party of Venezuela (PSUV) won 94 seats, while other government supporters included one seat for the Communist Party of Venezuela (PCV) and three indigenous representatives. For the opposition, 10 parties of the opposition coalition known as the Democratic Unity Platform (MUD) won 65 seats, while the leftist Homeland for All (PPT) won 2 seats.<sup>15</sup> Nationwide participation in the elections was high, with 66.45% participation (compared to almost 75% participation in the 2006 presidential race).<sup>16</sup>

Even though the ruling party won a majority of seats, the result was viewed as a significant defeat for President Chávez because it denied his government the three-fifths majority (99 seats) needed to enact enabling laws that grant the president decree powers. It also denied the government with the two-thirds majority (110 seats) needed for a variety of actions to ensure the enactment of the government’s agenda, such as introducing or amending organic laws, approving constitutional reforms, and making certain government appointments. The combined opposition (MUD and PPT) also narrowly won the popular vote, capturing 51% of the vote compared to 49% for the ruling PSUV and its ally, the PCV. Nevertheless, the government was able to maintain a majority of seats because rural districts (where the government has strong support) elect a disproportionate number of legislators.<sup>17</sup>

In the lead-up to the elections, many observers had expected that the President Chávez’s PSUV would retain a majority, but that the opposition coalition would gain substantial representation. The ruling party benefitted from the government’s decision last year to redraw electoral districts. The PSUV also benefitted from significant resources, a nation-wide organization and electoral machine, and effective use of social network websites. The PSUV’s campaign was dubbed Operation Demolition in light of President Chávez’s call “to demolish the opposition.” Despite the PSUV’s advantages, the legislative elections were held at a difficult time for the Chávez government and the opposition benefited from this. President Chávez’s popularity had declined to less than 40% and there were considerable public concerns about the difficult economic situation and high rate of violent crime facing the country.

The Venezuelan government did not allow observers from the Organization of American States (OAS), the Carter Center, or other international groups with election monitoring experience, although it did permit each electoral coalition to invite 30 witnesses from abroad for the elections. Four domestic Venezuelan nongovernmental organizations, however, were involved in monitoring the elections, with a total of almost 2,500 observers. Election-day voting appeared to have been conducted peacefully with isolated minor problems.

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<sup>15</sup> “Venezuela Country Report,” *Economist Intelligence Unit (EIU)* November 2010.

<sup>16</sup> “Poder Electoral Emitió Primer Boletín Oficial de Elecciones Parlamentarias,” Consejo Nacional Electoral, September 27, 2010.

<sup>17</sup> “Venezuela Country Report,” *EIU*, November 2010.

## December 2010 Actions by Outgoing National Assembly

In December 2010, Venezuela's outgoing National Assembly approved several laws that have been criticized by human rights organizations and others as threats to free speech, civil society, and democratic governance. The laws were approved ahead of the inauguration of Venezuela's new National Assembly in early January 2011, in which opposition deputies have enough representation to deny the government the two-thirds and three-fifths needed for certain actions.

Most significantly, the outgoing Assembly approved an "enabling law" that provided President Chávez with far-reaching decree powers for 18 months. Assistant Secretary of State for Western Hemisphere Affairs Arturo Valenzuela described the Assembly's action as "undermining the authority of the new assembly and thereby circumscribing popular will."<sup>18</sup> The Washington Office on Latin America (WOLA) also maintained that the law "constitutes an illegitimate infringement on the new National Assembly's authority, subverting the will of the electorate."<sup>19</sup>

Other measures approved by the Assembly include changes to broadcast media laws that, according to Human Rights Watch, introduce sweeping restrictions on Internet traffic, reinforce existing restrictions on radio and television content, and allow the government to terminate broadcasting licenses on arbitrary grounds.<sup>20</sup>

Another measure, the Law of the Defense of Political Sovereignty and National Self-Determination, imposes restrictions on Venezuelan human rights groups from receiving international support (also see "Human Rights Concerns" below). The law could have ramifications for U.S. government and other donors' assistance to Venezuelan civil society groups.

## Political Outlook

The results of the September 2010 legislative elections could be an indication that President Chávez will face a tough reelection bid in 2012. The results were significant for the opposition not only because they denied President Chávez a two-thirds and three-fifths majority, but because the opposition will now have a voice in the National Assembly. Over the past five years, the opposition essentially had forfeited any role in the political system because they had boycotted the 2005 legislative elections. For many observers, the election results changed political dynamics in Venezuela, and showed that President Chávez is vulnerable at the polls. Nevertheless, while the opposition now has a voice in the legislature, it is unclear how united the multi-party opposition will be, or how effective it will be in presenting itself as a viable political alternative that is appealing to the Venezuelan electorate. The 10-party MUD includes a wide range of parties on the political spectrum. It is also unclear who in the opposition, if anyone, will emerge as the voice of a united opposition.

In the aftermath of the legislative elections, some analysts cautioned that President Chávez could seek to bypass the Assembly. As noted above, this in essence occurred in December 2010 when

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<sup>18</sup> U.S. Department of State, Testimony of Arturo Valenzuela, Assistant Secretary of State for Western Hemisphere Affairs, before the House Foreign Affairs Committee, Subcommittee on the Western Hemisphere, February 15, 2011, available at: <http://www.state.gov/p/wha/rls/rm/2011/156598.htm>

<sup>19</sup> "Severe Setbacks to Democratic Governance and Human Rights Guarantees in Venezuela," Washington Office on Latin America, January 19, 2011.

<sup>20</sup> "Venezuela: Legislative Assault on Free Speech, Civil Society," Human Rights Watch, December 22, 2011.

the outgoing Chávez-dominated National Assembly curtailed the power of the incoming Assembly by approving an enabling law that allows President Chávez to rule by decree in many areas over the next 18 months, until mid-2012. Such a measure requires a three-fifths vote of the Assembly, which the president would have been unlikely to receive with the current Assembly inaugurated in January 2011.

Looking ahead to the next presidential election scheduled for December 2012, some analysts maintain that Chávez remains the favorite to win while others caution that it is still too early to make predictions.<sup>21</sup> While support for President Chávez diminished in 2009 and 2010 for a variety of reasons—such as high crime, inflation, shortages of some food items and other consumer products, and repression of political opponents—his popularity reportedly has risen to about 50% in February 2011, more than any other political figure in the country.<sup>22</sup> Opposition parties reportedly plan to hold a unified primary for a single presidential candidate, but a date has not yet been set, and at this juncture no single candidate stands out.

There are several areas of vulnerability for President Chávez that could 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. According to the Venezuelan-based nongovernmental organization Venezuelan Violence Observatory (*Observatorio Venezolano de Violencia*), there were some 17,600 homicides in Venezuela in 2010, resulting in a murder rate of 57 per 100,000 inhabitants.<sup>23</sup> (In previous years, the OVV reported 16,047 murders in 2009, 14,589 in 2008 and 5,974 in 1999.<sup>24</sup>) The Venezuelan government had not published official murder rates since 2005, but in response to some claims that the murder rate was 75 per 100,000, the government released official murder statistics in February 2011 showing that the murder rate in 2010 was 48 per 100,000.<sup>25</sup>

Another key challenge to the government is the state of the Venezuelan economy, which is strongly linked to the price of oil. The economy contracted in 2009 by 3.3% and an estimated 1.4% in 2010.<sup>26</sup> Moreover, persistent high levels of inflation have eroded purchasing power, while price controls and an overvalued currency have hurt domestic industries and resulted in shortages. 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. While current forecasts are for the economy to remain stagnant this year and only modest growth in 2012, the recent rise in oil prices could change that scenario and provide a revenue boost for the government.

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<sup>21</sup> “Venezuela Country Report,” *EIU*, March 2011, p. 5 and p. 12; and “Revolution by Numbers,” *Latin American Andean Group Report*, February 2011.

<sup>22</sup> *Ibid.*; and “Venezuela Pollster Says Chávez’s High Popularity Down to Emotion,” *BBC Monitoring Americas*, February 24, 2011.

<sup>23</sup> Robert Munks, “NGO Releases 2010 Murder Statistics in Venezuela,” *IHS Global Insight Daily Analysis*, December 31, 2010.

<sup>24</sup> “Venezuela: Getting a Handle on Violent Crime,” *Latin American Weekly Report*, June 10, 2010; Simon Romero, “More Killings in Venezuela Than Iraq,” *New York Times*, August 23, 2010.

<sup>25</sup> Diego Moya Ocampos, “Venezuelan Government Releases Official Murder Statistics,” *IHS Global Insight Daily Analysis*, February 9, 2011.

<sup>26</sup> “Venezuela Country Report,” *EIU*, March 2011.

## Economic Conditions

With an estimated 211 billion barrels of proven oil reserves (the largest in the hemisphere, up from previously reported 99 billion in proven reserves), Venezuela's major economic sector is petroleum, which accounts for 90% of exports, more than 30% of its gross domestic product, and half of the government's fiscal income.<sup>27</sup> 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).

## Background

Despite Venezuela's oil wealth, economic conditions in the country deteriorated in the 1990s. The percentage of Venezuelans living in poverty (income of less than \$2 a day) increased from 32.2% to 48.5% of the population between 1991 and 2000, while the percentage of the population in extreme poverty (income of less than \$1 a day) increased from 11.8% in 1990 to 23.5% in 2000.<sup>28</sup>

In 2002-2003, the country's political instability and polarization between the government of populist President Hugo Chávez and the political opposition contributed to a poor investment climate, capital flight, and declines in gross domestic product (GDP). A national strike orchestrated by the political 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.<sup>29</sup>

As a major oil producer, Venezuela benefitted from the rise in world oil prices that began in 2004. Fueled by the windfall from oil price increases, the Venezuelan economy grew by over 18% in 2004, about 10% in 2005 and 2006, 8.2% in 2007, and 4.8% in 2008.<sup>30</sup> The economic boom allowed President Chávez to move ahead with economic goals that fit into his "Bolivarian revolution." These included the expansion of a state-led development model, renegotiation of contracts with large foreign investors (especially in the petroleum sector) for majority government control, and the restructuring of operations at the state oil company, *Petroleos de Venezuela S.A.* (PdVSA). The government also has nationalized numerous enterprises, including telecommunications, electricity, and steel companies, as well as cement, coffee, sugar, flour, and milk production facilities.

The economic boom also allowed President Chávez to increase expenditures on social programs associated with his populist agenda. The government began implementing an array of social programs and services known as *misiones* or missions. There 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.<sup>31</sup>

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<sup>27</sup> World Bank, "Venezuela Country Brief," May 10, 2010; and "Worldwide Look at Reserves and Production," *Oil & Gas Journal*, December 6, 2010.

<sup>28</sup> World Bank, "Venezuela: Interim Country Assistance Strategy," November 18, 2002, Report No. 25125-VE.

<sup>29</sup> "Venezuela Country Data," *Economist Intelligence Unit (EIU)*, accessed August 12, 2010.

<sup>30</sup> "Venezuela Country Report," *EIU*, July 2009 and November 2010.

<sup>31</sup> 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.



As a result of the booming economy and increased social spending, poverty rates in Venezuela 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.<sup>32</sup> 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.<sup>33</sup>

## Current Situation

The global financial crisis and associated drop in the price of oil had significant negative effects on the Venezuelan economy, which contracted 3.3% in 2009 and declined an estimated 1.4% in 2010 (see **Figure 2**). This makes Venezuela the only country in South America, and one of the few in the region, to continue to decline economically in 2010. Moreover, some economists forecast flat economic growth of just 0.8% for Venezuela in 2011.<sup>34</sup> While Venezuela's per capita income increased annually from 2004 through 2008, it declined 4.9% in 2009, according to the U.N. Economic Commission for Latin America and the Caribbean (ECLAC), and was estimated to fall by 3.2% in 2010 because of the contraction of the economy.<sup>35</sup>

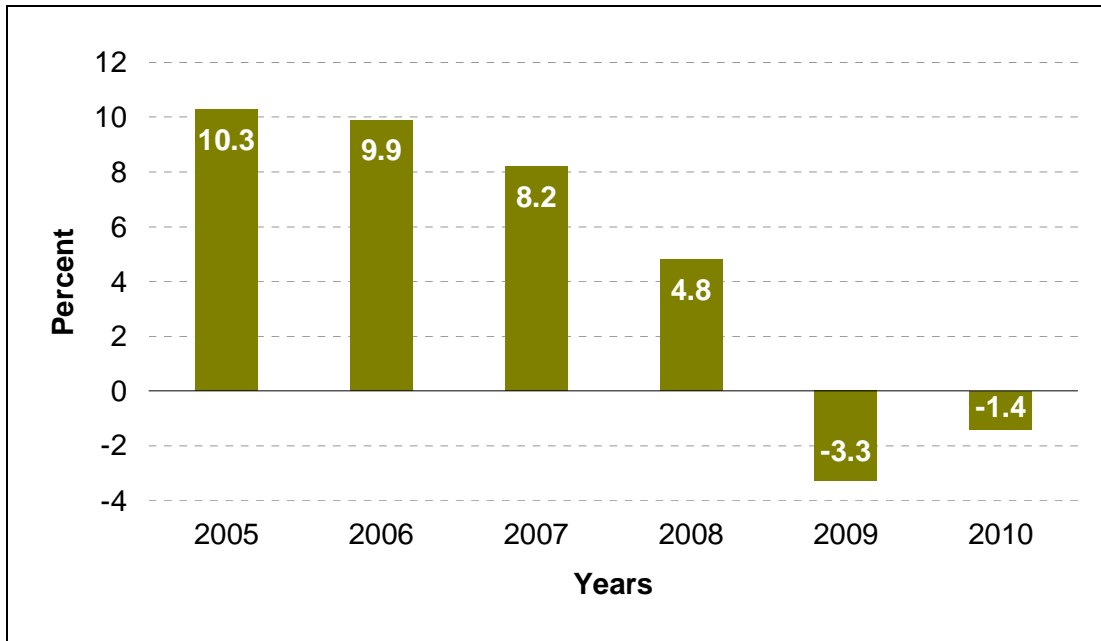
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<sup>32</sup> U.N. Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America, 2010, Briefing Paper*, November 2010, p. 13.

<sup>33</sup> United Nations Development Programme, *Human Development Report 2004* and *Human Development Report 2009*.

<sup>34</sup> "Venezuela Country Report," *EIU*, March 2011; and ECLAC, *Economic Survey of Latin America and the Caribbean*, July 2010.

<sup>35</sup> ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean 2010*, December 2010.

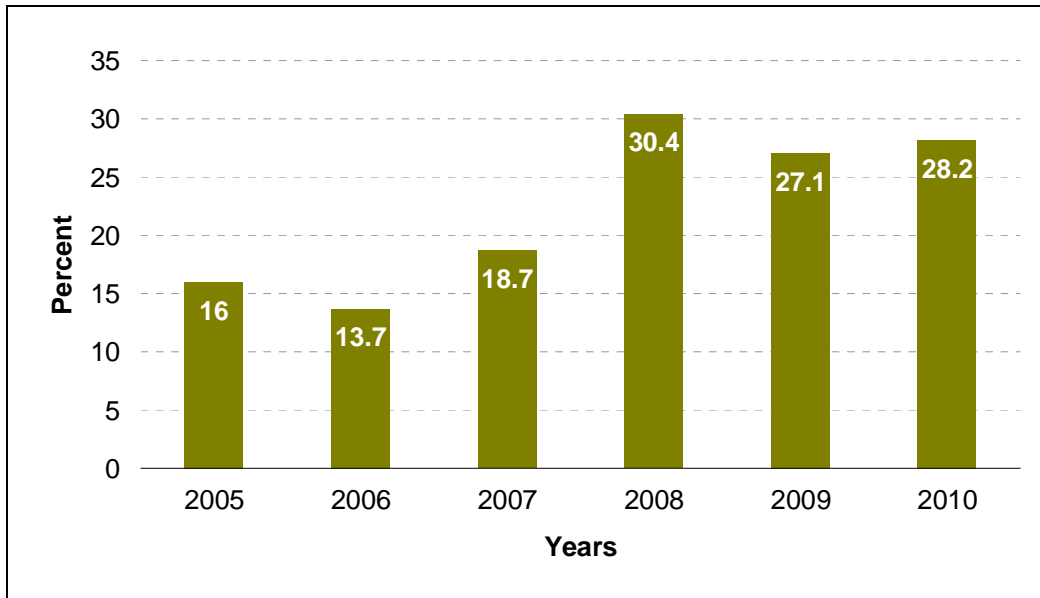
**Figure 2. Venezuela: GDP Growth (%), 2005-2010**

Source: "Venezuela Country Report," *EIU*, March 2011.

High levels of inflation, averaging 30% in 2008, 27% in 2009, and 28% in 2010, have also eroded purchasing power. The forecast for 2011 is for an average inflation rate over 31% for the year (see **Figure 3**).<sup>36</sup> For several years, Venezuela has had the highest rate of inflation in the region.

In addition to inflation, there have been periodic shortages of basic food staples because of price controls that have stifled local production. The government's response to shortages has been to nationalize some domestic agricultural producers or distributors. The government has threatened to nationalize *Polar*, the country's largest food manufacturing company, but has not done so to date.

<sup>36</sup> Venezuela Country Report, *EIU*, March 2011.

**Figure 3. Venezuela: Consumer Inflation (average %), 2005-2010**

Source: "Venezuela Country Report," *EIU*, March 2011.

Venezuela's private sector describes the business community as being under siege from the government because some companies have been nationalized without compensation and without appropriate legal procedures being followed. Despite President Chávez's strong rhetoric against capitalism and the nationalization of a number of companies, some observers maintain that the private sector still dominates Venezuela's economy and that it is unlikely that the government would have the capability to take over and run a majority of the economy.<sup>37</sup> In June 2010, Venezuelan authorities discovered 30,000 tons of rotten food at a government warehouse that was supposed to be delivered to state-run supermarkets known as *Mercal*. The scandal prompted widespread criticism of the government, and raised questions about its strategy of taking over more economic activities.

During the first half of 2010, Venezuela instituted electricity rationing nationwide because of a drought that had reduced the country's hydroelectric capacity and threatened collapse of the nation's electric grid. The early onset of the rainy season in May 2010 eased pressure on the system and the government suspended rationing in June. A heavy rainy season in 2010 alleviated concerns about widespread electricity outages in the current dry season (October 2010-April 2011).<sup>38</sup>

In January 2010, the Venezuelan government took action to shore up its fiscal situation by devaluing Venezuela's currency, the *bolivar fuerte*, which increased the value of its oil earnings and boosted government revenues. The government shifted the official exchange rate from *Bolivares Fuertes* (BsF) 2.15/U.S. \$1 to BsF2.6/U.S.\$1 for essential imports such as food, medicine, and for public-sector projects and strategic sectors, and established a second fixed exchange rate of BsF4.3/U.S.\$1 for other imports. The increased revenue enabled the government

<sup>37</sup> Ian James, "What Socialism? Private Sector Still Dominates Venezuelan Economy Despite Chávez Crusade," *AP Newswire*, July 18, 2010.

<sup>38</sup> "Venezuela Country Report," *EIU*, February 2011.

to continue spending ahead of the September 2010 legislative elections, but also increased inflationary pressure.

In January 2011, the government unified the two fixed foreign exchange rates by eliminating the BsF2.6/U.S.\$1 rate for essential imports in favor of a rate of BsF4.3/U.S.\$1 for all imports. According to some analysts, the government's move appears to be an effort to reduce the complexity of the multiple exchange-rate system, but the action has raised concerns about an increase in inflation. The government still retains an exchange rate of BsF5.4/U.S.\$1 for bond swaps operated by the Central Bank, while the illegal black market rate is estimated at between BsF8.8/U.S.\$1 to BsF9.6/U.S.\$1, a reflection of the continued overvaluation of Venezuela's currency.<sup>39</sup>

**Table I. Venezuela's Trade Balance, 2003-2009**

U.S. \$ millions

	2003	2004	2005	2006	2007	2008	2009	2010 (est.)
Exports	27,230	39,668	55,647	65,578	69,010	95,138	57,595	66,623
Imports	10,483	17,021	24,195	33,583	46,031	49,482	38,442	39,311
Trade Balance	16,747	22,647	31,452	31,995	22,979	45,656	19,153	27,312

**Source:** Statistics for 2003-2009 are drawn from International Monetary Fund, International Financial Statistics, June 2010; statistics from "Venezuela Country Report," *EIU*, March 2011.

As noted above, Venezuela still remains highly dependent on oil, which accounts for some 90% of its exports. Because of its substantial oil exports, the country generally runs a positive trade balance. The country's trade surplus began to grow significantly as oil prices began to increase in 2004. Venezuela's trade surplus grew from \$16.7 billion in 2003 to a high of \$45.7 billion in 2008. The decline in the price of oil beginning in 2009 reduced the country's exports by about 40%, from \$95 billion in 2008 to almost \$58 billion in 2009. During the same period, imports declined at a slower rate so that the trade surplus declined to \$19 billion in 2009. For 2010, analysts estimate a trade surplus of about \$27 billion, fueled by oil price increase. (See **Table 1.**)

In terms of export markets, Venezuela's oil-based economy is highly dependent on the United States and has been for many years. The country is a major supplier of foreign oil to the United States, providing almost 11% of crude oil imports.<sup>40</sup> In 2008, the United States was the destination of 51% of Venezuela's total exports. This differed little from 10 years earlier in 1998, when about 49% of Venezuela's exports were destined for the United States. In contrast, the percentage of Venezuela's imports that come from the United States has declined somewhat over time, although the United States still remains the single largest country of origin for Venezuelan imports. In 2008, about 28% of Venezuela's imports were from the United States, while 10 years earlier, the United States was the origin of about 40% of Venezuela's imports.<sup>41</sup>

<sup>39</sup> "Venezuela Country Report," *EIU*, February 2011; and "Venezuela Finance: Operating in the Shadows," *EIU*, February 11, 2011.

<sup>40</sup> U.S. Energy Information Administration, "Petroleum: U.S. Imports by Country of Origin," July 29, 2010.

<sup>41</sup> Calculations were made utilizing trade statistics drawn from the International Monetary Fund's *Direction of Trade Statistics*, Yearbooks for 2004 and 2009.

## U.S. Policy

The United States traditionally has had close relations with Venezuela, a major supplier of foreign oil to the United States, but there has been significant friction with the Chávez 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.<sup>42</sup> 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."<sup>43</sup> 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.

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<sup>42</sup> U.S. Department of State, "Venezuela: Change of Government," Press Statement, April 12, 2002.

<sup>43</sup> U.S. Department of State, International Information Program, *Washington File*, "White House Calls on Venezuela's Chávez to Preserve Peace, Democracy," April 14, 2002.

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, 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."<sup>44</sup>

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

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<sup>44</sup> Testimony of Thomas A. Shannon, Assistant Secretary of State for Western Hemisphere Affairs, hearing on "Venezuela: Looking Ahead," House Committee on Foreign Affairs, Subcommittee on the Western Hemisphere, July 17, 2008.

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.”<sup>45</sup>

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.<sup>46</sup> 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.<sup>47</sup>

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 raised some hopes of an improvement in bilateral relations, but there has been no overall improvement. 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.”<sup>48</sup>

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.<sup>49</sup>

Then-Director of National Intelligence (DNI) 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

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<sup>45</sup> 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/KerryClintonQFRs.pdf>.

<sup>46</sup> 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.

<sup>47</sup> “Venezuelan President Chávez Interviewed on CNN,” *CQ Newsmaker Transcripts*, February 3, 2009.

<sup>48</sup> U.S. Department of State, U.S. Secretary of State Hillary Rodham Clinton, “Interview with Leopoldo Castillo of Globovisión,” July 7, 2009.

<sup>49</sup> U.S. Department of State, Secretary of State Hillary Rodham Clinton, “Remarks with Uruguayan President Tabarez Vazquez After Their Meeting,” September 15, 2009.

seek to 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.”<sup>50</sup>

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.”<sup>51</sup>

In May 2010, the Department of State determined for the fifth consecutive year that Venezuela was not cooperating fully with U.S. antiterrorism efforts.<sup>52</sup> This determination was made pursuant to Section 40A of the Arms Export Control Act (P.L. 90-629) and allowed for the continuation of the U.S. arms embargo on Venezuela imposed in 2006. In its August 2010 *Country Reports on Terrorism* (covering 2009), the State Department maintained that Venezuela’s cooperation with the United States was reduced to an “absolute minimum” in mid-2009 after the United States and Colombia signed a defense cooperation agreement.

In early August 2010, President Chávez criticized comments by U.S. Ambassador-designate to Venezuela Larry Palmer for his responses to questions for record for his nomination before the Senate Foreign Relations Committee that touched on Cuba’s influence in the Venezuelan military and ties between members of the Venezuelan government and the FARC.<sup>53</sup> The Venezuelan government maintained that it would not accept Palmer as U.S. Ambassador in Caracas, and on December 20, 2010, officially revoked its agreement for the appointment of Palmer as Ambassador. The State Department responded on December 27, 2010, by revoking the diplomatic visa of Ambassador Bernardo Alvarez. The full Senate did not act on Palmer’s nomination by the end of the 111<sup>th</sup> Congress, so the nomination was sent back to the President in December 2010.

In September 2010, as part of the annual narcotics certification process, President Obama again determined that Venezuela had “failed demonstrably” to meet its obligations under international counternarcotics measures. This marked the sixth consecutive annual designation of Venezuela in this category. In its 2011 *International Narcotics Control Strategy Report*, issued in March, the State Department contended that Venezuela was one of the preferred trafficking routes for the transit of cocaine out of South America because of a porous border with Colombia, a weak judicial system, inconsistent international counternarcotics cooperation, and a generally permissive and corrupt environment. (For more see “Counternarcotics Cooperation” below).

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<sup>50</sup> 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>.

<sup>51</sup> Embassy of the Bolivarian Republic of Venezuela to the United States, “Venezuelan Ambassador Responds to Intelligence Report,” February 4, 2010, available at <http://www.embavenez-us.org/news.php?nid=5265>.

<sup>52</sup> Department of State, “Determination and Certification Under Section 40a of the Arms Export Control Act,” 75 *Federal Register* 28848, May 24, 2010.

<sup>53</sup> See the full text of the questions for the record submitted by Senator Richard G. Lugar, Senate Foreign Relations Committee, July 27, 2010, available at: <http://lugar.senate.gov/issues/foreign/lac/venezuela/pdf/LugarPalmerQFR.pdf>.



In February 2011 congressional testimony, Assistant Secretary of State Arturo Valenzuela criticized the December 2010 action of Venezuela's outgoing National Assembly for its approval of a law that delegated legislative authority to the executive for 18 months. Valenzuela maintained that the action undermined the authority of the incoming National Assembly and circumscribed its popular will. He maintained that the action "violates the doctrine of the separation of powers and therefore contravenes the Inter-American Democratic Charter."<sup>54</sup>

## 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 2** 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 2**, all funding for the Development Assistance (DA), Economic Support Funds (ESF), and Transition Initiatives (TI) foreign aid accounts are for democracy-related funding. For each of FY2011 and FY2012, the Administration requested \$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.

**Table 2. U.S. Foreign Aid to Venezuela by Account, FY2006-FY2010**

U.S. \$ millions

	FY2007	FY2008	FY2009	FY2010	FY2011 (request)	FY2012 (request)
ACI/INCLE	1.000	0.000	0.500	0.000	0.000	0.000
DA	0.000	6.519	0.000	0.000	0.000	0.000
ESF	1.625	2.976	5.000	6.000	5.000	5.000
TI	3.000	3.649	2.450	1.208	0.000	0.000
<b>Total</b>	<b>5.625</b>	<b>13.144</b>	<b>7.950</b>	<b>7.208</b>	<b>5.000</b>	<b>5.000</b>

**Source:** U.S. Department of State, FY2010, FY2011, and FY2012 Congressional Budget Justification for Foreign Operations.

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

<sup>54</sup> U.S. Department of State, Testimony of Arturo Valenzuela, Assistant Secretary of State for Western Hemisphere Affairs, before the House Foreign Affairs Committee, Subcommittee on the Western Hemisphere, February 15, 2011, available at: <http://www.state.gov/p/wha/rls/rm/2011/156598.htm>

From 2002 through December 2010, USAID supported democracy projects in Venezuela through its Office of Transition Initiatives (OTI) to provide assistance to monitor democratic stability and strengthen the country's democratic institutions. According to USAID, more than 600 small-grant and technical assistance activities were funded by OTI from 2002 through 2010. The objectives of the assistance, according to USAID, have been to enhance access to objective information and peaceful debate on key issues, and to promote citizen participation and democratic leadership.<sup>55</sup> At the end of December 2010, USAID's support for such activities for Venezuela was transferred from OTI to USAID's Latin America and Caribbean Bureau.

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. In subsequent years, NED's funding amount to over \$800,000 in FY2007 for 17 projects; over \$1 million in FY2008 for 18 projects; and \$1.4 million in FY2009 for 14 projects.<sup>56</sup>

The Venezuelan government and Chávez supporters have strongly criticized U.S. government funding for democracy projects in Venezuela.<sup>57</sup> 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 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.<sup>58</sup>

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 criticized the Venezuelan government's efforts to intimidate the leaders of *Súmate* by charging them with conspiring against the government. The State Department asserts that the charges are without merit, and constitute an attempt "to intimidate members of civil society for exercising their democratic rights."<sup>59</sup> 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.<sup>60</sup> 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).

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<sup>55</sup> U.S. Agency for International Development, USAID/OTI Venezuela Annual Summary Report, October 2009-September 2010.

<sup>56</sup> See NED's website for a description of Venezuelan projects in FY2009, available at <http://www.ned.org/where-we-work/latin-america-and-caribbean/venezuela>.

<sup>57</sup> 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.

<sup>58</sup> Tom Barry, "The New Politics of Political Aid in Venezuela," *Venezuelanalysis.com*, July 25, 2007 (updated and corrected on August 25, 2007).

<sup>59</sup> "United States Rejects Venezuelan Decision to Try Civic Group," Department of State, *Washington File*, July 8, 2005.

<sup>60</sup> National Endowment for Democracy, "NED Venezuela Programs FAQ," available online at <http://www.ned.org/grants/venezuelaFacts.html>.

In December 2010, Venezuela's outgoing National Assembly approved a measure that could make it difficult for the U.S. government or other foreign donors to assist civil society groups in Venezuela. The legislation prohibits civil society organizations involved in defending political rights or monitoring the performance of government bodies from receiving international funds and would impose stiff fines on those that do. As discussed below, human rights organizations have expressed concern about the effect of the legislation.

## 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 2009 human rights report (issued in March 2010) maintained that "politicization of the judiciary and official harassment and intimidation of the political opposition and the media intensified" during the year.<sup>61</sup> According to Human Rights Watch's *World Report 2011*, "the Venezuelan government's domination of the judiciary and its weakening of democratic checks and balances have contributed to a precarious human rights situation." It maintains that the government has systematically undermined journalistic freedom of expression, workers' freedom of association, and the ability of human rights groups to promote human rights.<sup>62</sup> As noted above, the Chávez government has taken additional measures since 2009 to stifle political opponents, including elected state and local government officials, 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.)

According to the State Department's 2009 human rights report, various non-governmental organizations (NGOs) reported between 11 and 57 political prisoners in the country. Media reports point to many others under investigation for what many observers say are trumped up charges.<sup>63</sup> In April 2009, Raúl Baduel, 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. Prominent business leader Eligio Cedeño had been imprisoned since February 2007 in pretrial detention on charges of corruption and embezzlement until a judge released him on December 10, 2009, instead requiring that he report to court every 15 days.<sup>64</sup> Following his release, Cedeño subsequently fled to the United States; Venezuela has asked for his extradition.

The judge who released Cedeño, María Lourdes Afiuni, was arrested and imprisoned just hours after Cedeño's release in December 2009 and charged with corruption. President Chávez urged that the judge receive the maximum sentence of 30 years. U.N. human rights experts criticized the judge's arrest, maintaining that Venezuela's reprisal against the judge created a climate of fear

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<sup>61</sup> See the full report at <http://www.state.gov/g/drl/rls/hrrpt/2009/wha/136130.htm>.

<sup>62</sup> Human Rights Watch, *World Report 2011: Venezuela*, available at: <http://www.hrw.org/en/world-report-2011/venezuela>

<sup>63</sup> Juan Forero, "Politics and Prison in Venezuela," *Washington Post*, October 5, 2009.

<sup>64</sup> 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](http://www.robertamsterdam.com/venezuela/2009/06/new_white_paper_on_venezuelas_political_prisoners.htm).

that undermines the rule of law and obstructs justice.<sup>65</sup> According to Human Rights Watch, Judge Afiuni was held in deplorable conditions for over a year, where she was repeatedly insulted and threatened by other inmates. She reportedly received inadequate health treatment during her detention until she was released from prison and placed under house arrest on February 2, 2011. International human rights groups, such as Amnesty International and Human Rights Watch, have called for the charges to be dropped completely.<sup>66</sup>

On August 30, 2010, hunger striker Franklin Brito died at a Venezuelan military hospital. Since 2004, Brito had been engaged in a battle with the Venezuelan government over the seizure of a portion of his farm by squatting farmers who were given permission by Venezuela's National Land Institute (INTI). In his protests against the government, Brito had engaged in eight hunger strikes, and in 2005 cut one of his fingers off in front of reporters in order to call attention to his case. In December 2009, Venezuelan authorities ordered his removal from a protest camp that he had set up outside the Caracas office of the Organization of American States and he was taken to the Venezuelan military hospital.<sup>67</sup>

Venezuelans have increasingly turned to using hunger strikes as a form of protest against the government, with 5 conducted in 2009, 105 in 2010, and 35 in 2011 as of early March.<sup>68</sup> On February 22, 2011, more than 80 students ended a 23-day hunger strike after the government agreed to review cases of alleged political prisoners and to establish a committee to discuss the students' grievances. The students had called for the release of some 27 reported political prisoners.<sup>69</sup>

NGOs in Venezuela and human rights organizations abroad have expressed concern about legislation approved in December 2010, the Law for the Defense of Political Sovereignty and National Self-Determination, that prohibits civil society organizations that "defend political rights" or "monitor the performance of government bodies" from receiving international funds and would impose stiff fines on those that do. According to Human Rights Watch, the measure would make it very difficult for Venezuelan human rights to secure sustainable financing.<sup>70</sup>

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<sup>65</sup> U.N. Experts Say Venezuela's Chávez Creating Fear," *Reuters*, December 16, 2009.

<sup>66</sup> "Venezuela: Judge Afiuni Before the United Nations Human Rights Council," *Human Rights Watch*, March 8, 2011; and "Venezuela: Amnesty International Welcomes the Granting of House Arrest to Judge Afiuni," Amnesty International, Public Statement, February 4, 2011.

<sup>67</sup> Ian James, "Venezuelan Hunger Striker Dies After Repeated Protests Over Land Dispute with Government," *AP Newswire*, August 31, 2010; and "Hunger Striker Dies in Venezuela," *Latin News Daily*, September 1, 2010.

<sup>68</sup> Fabiola Sanchez, "Human Rights Group Say More Venezuelans Turning to Hunger Strike as Form of Protest," *AP Newswire*, March 10, 2011.

<sup>69</sup> "Chávez and the Students," *Latin American Andean Group Report*, March 2011; and "Venezuela's Student Hunger Strikes Claim a Deal," *LatinNews Daily*, February 23, 2011.

<sup>70</sup> "Venezuela: Legislative Assault on Free Speech, Civil Society," Human Rights Watch, December 22, 2010; "Severe Setbacks to Democratic Governance and Human Rights Guarantees in Venezuela," Washington Office on Latin America, January 19, 2011; and Ian James, "Ban On Foreign Funding Leave Venezuelan Activists in Limbo About Whether They Are Targets," *Associated Press*, January 30, 2011.

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**U.S. State Department**, Country Report on Human Rights Practices 2009, March 11, 2010, Venezuela, <http://www.state.gov/g/drl/rls/hrrpt/2009/wha/136130.htm>

### Anti-Semitism

Venezuela, which has a Jewish community of about 11,000, has witnessed a rise in anti-Semitic acts over the past several years under the government of President Chávez. In the past, anti-Semitism appeared to be rare in Venezuela, but has grown in recent years as Venezuela has moved toward closer relations with Iran and as it has criticized Israel for its actions in Lebanon against Hezbollah and for its actions in Gaza.<sup>71</sup> According to the State Department's 2009 human rights report, there was an increase in anti-Semitic vandalism, caricatures, and expression at rallies and in newspapers. Government-affiliated media outlets broadcast or printed numerous anti-Semitic comments. The State Department report noted that the government did not officially condone anti-Semitism, but maintained that it orchestrated several anti-Israel demonstrations and that President Chávez called on the Jewish community to denounce Israel's actions. These activities were accompanied by an increase in anti-Semitic rhetoric and graffiti, and vandalism of property owned by Jews.

In late January 2009, a Caracas synagogue was vandalized. Criminal charges have been filed against 11 people for the attack, including 8 police officers, and the suspects remain in prison awaiting trial. According to the State Department's 2009 international religious freedom report, Venezuelan government officials publicly condemned the synagogue attack, including President Chávez, who phoned the president of Confederation of Jewish Associations in Venezuela (CAIV) and promised to guarantee the safety of the Jewish community. A State Department official at the OAS condemned the incident, maintaining that it served "as a warning of what can happen in a highly politicized environment when intolerance is left to simmer."<sup>72</sup> In February 2009, 16 Members of Congress 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

<sup>71</sup> Roth Institute, *Anti-Semitism Worldwide 2008/9*.

<sup>72</sup> U.S. Department of State, "U.S. Delegation Condemns Anti-Semitic Attack Against Caracas Synagogue," February 4, 2009.

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.”<sup>73</sup>

In the aftermath of Israel’s Gaza flotilla incident in late May 2010, the Venezuelan government’s strong anti-Israeli rhetoric and conspiracy theories about the state of Israel contributed to continued anti-Semitic language in Venezuelan media.<sup>74</sup> In a September 2010 meeting with President Chávez, Jewish leaders raised the problem of anti-Semitism in the state-owned media and also asked for the restoration of diplomatic relations with Israel that were cut in early 2009. The leaders expressed confidence that the new dialogue with President Chávez would bear positive results.<sup>75</sup>

Some observers contend that President Chávez’s meeting with Jewish leaders was prompted by former Cuban leader Fidel Castro’s comments in September 2010 to a U.S. journalist criticizing anti-Semitism and maintaining that the state of Israel has the right to exist. According to Castro, no one “has been slandered more than the Jews.”<sup>76</sup> Castro’s comments were praised by Israeli President Shimon Peres and Prime Minister Benjamin Netanyahu (although Netanyahu subsequently clarified that his comments were limited only to Castro’s remarks about Israel and the Holocaust).<sup>77</sup> The Simon Wiesenthal Center commended Castro’s condemnation of anti-Semitism and urged the former Cuban leader to use his influence with President Chávez to criminalize anti-Semitism in Venezuela.<sup>78</sup>

## 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 third-largest foreign supplier of total crude oil and products to the United States in 2009 (after Canada, and Mexico), exporting about 1 million barrels per day of crude oil and products to the United States.<sup>79</sup> These exports amounted to about \$27 billion, accounting for almost 97% of Venezuela’s total exports to the United States.<sup>80</sup> A majority of Venezuela’s oil exports are destined for the United States, some 62% in 2009, highlighting the dependency of Venezuela on the U.S. market.<sup>81</sup> Venezuela’s state-run oil company, PdVSA, owns CITGO, which

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<sup>73</sup> House Committee on Foreign Affairs, Subcommittee on the Western Hemisphere, “Engel Condemns Attack on Synagogue in Venezuela,” February 2, 2009.

<sup>74</sup> See, for example, the following report by the Anti-Defamation League, “Anti-Semitism in Venezuela in the Wake of the Gaza Flotilla,” July 6, 2010.

<sup>75</sup> “Venezuelan Jews Express Concerns at Meeting with President Hugo Chávez,” *States News Service*, September 20, 2010; and “Comunicada Sobre Reunión con President Chávez,” Confederación de Asociaciones Israelitas de Venezuela, Caracas, September 16, 2010.

<sup>76</sup> Jeffrey Goldberg, “Castro: ‘No One Has Been Slandered More Than the Jews,’” *The Atlantic*, September 7, 2010, available at: <http://www.theatlantic.com/international/archive/2010/09/fidel-to-ahmadinejad-stop-slandering-the-jews/62566/>.

<sup>77</sup> “Israeli Prime Minister Clarifies to U.S. Lawmaker Praise of Fidel Castro,” *AP Newswire*, November 24, 2010.

<sup>78</sup> “Wiesenthal Center Commends Fidel Castro’s Denunciation on Antisemitism—Urges He Now Influence Chávez and Ahmadinejad,” *Targeted News Service*, September 12, 2010.

<sup>79</sup> U.S. Energy Information Administration, “Petroleum: U.S. Imports by Country of Origin,” July 29, 2010.

<sup>80</sup> Department of Commerce statistics, as presented by Global Trade Atlas.

<sup>81</sup> U.S. Energy Information Administration, “Venezuela Energy Profile,” accessed March 8, 2011.

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 211 billion barrels of oil in 2011, up from 99 billion barrels in 2010 because of the inclusion of heavy Orinoco Belt oil in the estimate. This makes Venezuela the country with the largest reserves in the hemisphere. Venezuela's proven natural gas reserves are estimated to be 178 trillion cubic feet (the second largest in the hemisphere after the United States).<sup>82</sup> 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 trillion-8 trillion cubic feet.<sup>83</sup>

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.<sup>84</sup> The rapid decline in the price of oil beginning in late 2008, however, 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.-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, and ConocoPhillips and ExxonMobil chose to leave the projects.<sup>85</sup> However, Statoil-Hydro, Total, and Italy's Eni subsequently signed agreements that could result in additional investments in the Orinoco Belt projects.<sup>86</sup> Other state-owned oil companies, such as Iran's Petropars, the China National Petroleum Corporation, Cuba's Cupet, as well as Russian companies such as Gazprom, TNK-BP, and Lukoil have also signed agreements for exploration in the Orinoco region.

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.<sup>87</sup> The U.S. Energy Information Administration reports that Venezuela's total oil production amounted to 2.472 million barrels per day (mbd) in 2009, with 2.239 mbd in crude oil

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<sup>82</sup> "Worldwide Look at Reserves and Production," *Oil & Gas Journal*, December 6, 2010.

<sup>83</sup> "Repsol YPF Confirms Large Gas Find Off Venezuela," *Oil & Gas Journal*, September 28, 2009.

<sup>84</sup> "Venezuela Passes Tax on Oil Companies," *New York Times*, April 16, 2008.

<sup>85</sup> U.S. Energy Information Administration, "Country Analysis Briefs: Venezuela," January 2009.

<sup>86</sup> Benedict Mander "Venezuela's Oil Belt Reopens to Private Groups," *Financial Times*, March 11, 2008.

<sup>87</sup> Danna Harman, "Venezuela's Oil Model: Is Production Rising or Falling?," *Christian Science Monitor*, May 31, 2006.

production. This is down from 2.639 mbd total oil production in 2008, with 2.394 mbd in crude oil production.<sup>88</sup>

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

On numerous occasions, however, Chávez has threatened to stop selling oil to the United States. In February 2006, he asserted that the “U.S. government should know that, if it crosses the line, it will not get Venezuelan oil.”<sup>89</sup> In April 2006, he warned that his government would blow up its oil fields if the United States ever were to attack.<sup>90</sup> In November 2006 (amid Venezuela’s presidential election campaign), President Chávez asserted that Venezuela would “not send one more drop of oil to the U.S.” if the United States or its “lackeys” in Venezuela try a “new coup,” fail to recognize the elections, or try to overthrow the oil industry. Many observers believe Chávez’s threats have been merely part of his rhetoric that is designed to bolster his domestic political support. Venezuela’s Ambassador to the United States asserted in July 2006 that oil-cutoff comments by Venezuelan officials, including President Chávez, only reflect what would be Venezuela’s response against aggression initiated by the U.S. government.<sup>91</sup> Once again in 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.<sup>92</sup> A week later, on February 17, Chávez said that he would only stop sending oil if the United States attacked Venezuela.<sup>93</sup>

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.<sup>94</sup> 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.

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<sup>88</sup> U.S. Energy Information Administration, “Venezuela Energy Profile,” accessed March 8, 2011.

<sup>89</sup> “U.S. Warned to Back off or Risk Losing Oil Supply,” *Miami Herald*, February 18, 2006; “Chávez Threatens To Cut Oil in Case U.S. ‘Crosses Line,’” Open Source Center, Foreign Broadcast Information Service, February 18, 2006.

<sup>90</sup> “Chávez Says He’ll Blow up Oil Fields If U.S. Attacks,” *Miami Herald*, April 20, 2006.

<sup>91</sup> Andy Webb-Vidal, “Venezuela Will Not Cut Off Oil Despite Hostile U.S. Attitude,” *Financial Times*, August 1, 2006.

<sup>92</sup> Benedict Mander, “U.S. Shrugs Off Chávez Threat Over Oil,” *Financial Times*, February 12, 2008.

<sup>93</sup> “Venezuela: Chávez Dials Back Threat to Halt Oil,” *Los Angeles Times*, February 18, 2008.

<sup>94</sup> U.S. Government Accountability Office, “Energy Security: Issues Related to Potential Reductions in Venezuelan Oil Production,” GAO-06-668, June 2006.



## 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 had 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 action in September 2009, and again in September 2010, marking the sixth consecutive year for Venezuela's designation as a country not adhering to its anti-drug obligations.<sup>95</sup>

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.<sup>96</sup> 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 Venezuela remains in limbo since the host country refuses to sign a memorandum of understanding authorizing" a DEA presence "even after successfully concluding a lengthy process of negotiation with U.S. officials."<sup>97</sup>

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. In September 2008, at the time of President Bush's fourth consecutive determination 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.<sup>98</sup> 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.<sup>99</sup>

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<sup>95</sup> White House, "Presidential Determination No. 2010-16, Presidential Determination on Major Illicit Drug Transit or Major Illicit Drug Producing Countries for Fiscal Year 2011," September 15, 2010.

<sup>96</sup> "DEA to Continue Working with Venezuela," *Latin American Regional Report, Andean Group*, July 2006; "Venezuela, U.S. to Sign Anti-drug Agreement," *Miami Herald*, June 27, 2006.

<sup>97</sup> U.S. Department of State, "Memorandum of the Secretary of State: Presidential Determination on Major Drug Transit or Major Illicit Drug Producing Countries for Fiscal Year 2007," Presidential Determination No. 2006-24, White House Press Release, September 15, 2006.

<sup>98</sup> 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.

<sup>99</sup> Phil Gunson, "U.S. Slams Venezuelan Hugo Chávez Top Intelligence Men," *Miami Herald*, September 13, 2008; *Federal Register*, September 19, 2008, pp. 54453-54454.

## 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.<sup>100</sup>

## September 2010 Presidential Determination

On September 15, 2010, President Obama issued the sixth annual determination (as part of the annual narcotics certification process) that Venezuela had “failed demonstrably” to meet its obligations under international counternarcotics measures. According to a memorandum of justification accompanying the determination, despite the opportunity for improved collaboration that could have occurred with the return of respective ambassadors in 2009, Venezuela has not responded to U.S. government offers to work in a consistent, rigorous, and effective way towards greater cooperation on counternarcotics. The justification noted that trafficking through Venezuela had increased from an estimated 50 metric tons in 2004 to an estimated 143 metric tons in 2009.<sup>101</sup>

The memorandum of justification acknowledged that the Venezuelan government had taken some positive counternarcotics steps over the past year, including the deportation of three significant fugitives to the United States in July 2010 to stand trial on drug trafficking charges; the purchase of aircraft, radars, and patrol vessels intended to combat drug trafficking; and the destruction of numerous clandestine airstrips. Nevertheless, the justification maintained that Venezuela remains “a preeminent transit country for cocaine shipment,” that the Venezuelan Navy and Coast Guard did not report making any at-sea drug seizures on their own in the past year, and that Venezuela’s new aircraft and radar are not effectively deployed against drug traffickers. The justification also maintained that there were credible reports that the Colombian FARC and ELN have established camps in Venezuela along the border with Colombia and that the ability of the FARC to operate freely in Venezuela would facilitate its involvement in drug trafficking. It noted that individual members of Venezuela’s National Guard and Police are credibly reportedly to both facilitate and be directly involved in narcotics trafficking.<sup>102</sup>

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<sup>100</sup> U.S. Government Accountability Office, “Drug Control: U.S. Counternarcotics Cooperation with Venezuela Has Declined,” GAO-09-806, July 20, 2009.

<sup>101</sup> White House, “Presidential Determination No. 2010-16, Presidential Determination on Major Illicit Drug Transit or Major Illicit Drug Producing Countries for Fiscal Year 2011,” September 15, 2010.

<sup>102</sup> *Ibid.*

## State Department 2011 INCSR Report

In its March 2011 *International Narcotics Control Strategy Report* (INCSR), the State Department contended that Venezuela was one of the preferred trafficking routes for the transit of cocaine out of South America because of a porous border with Colombia, a weak judicial system, inconsistent international counternarcotics cooperation, and a generally permissive and corrupt environment. The illicit drugs transiting Venezuela are destined for the Eastern Caribbean, Central America, United States, Europe, and western Africa. The report maintained that U.S. government estimates of cocaine transiting through Venezuela was about 250 metric tons (similar to U.S. estimates dating back to 2007).

The State Department maintained in the INCSR that bilateral cooperation with Venezuela was inadequate, and continued only on a case-by-case basis. It reiterated that Venezuela has not signed an addendum to the 1978 Bilateral Cooperation Memorandum of Understanding (MOU) with the United States that was negotiated in 2005. As in the past, the State Department maintained that the United States was prepared to deepen anti-drug cooperation with Venezuela to help counter the increasing flow of illegal drugs transiting the country. It suggested that cooperation could be improved in four ways: a formal reengagement between Venezuela and U.S. law enforcement agencies on counternarcotics issues; signing of the outstanding addendum to the 1978 counternarcotics MOU; activation of the Container Inspection Facility at Puerto Cabello (which was partially funded by the U.S. government); and Venezuela's participation in the U.S. Coast Guard's International Port Security Program.

## Venezuela's Views of Its Anti-Drug Efforts

Venezuelan officials maintain that, contrary to U.S. government claims, their government has been taking significant antidrug measures. According to Venezuelan government statistics, Venezuela seized almost 64 metric tons of illicit drugs in 2010, up 5% from 2009, but down from a high of 77.5 metric tons in 2005. Marijuana was reported to account for almost 61% of the seizures, while cocaine accounted for 39%.<sup>103</sup> The government also reported over 12,000 drug-related arrests in 2010, a 40% increase over 2009, including 17 internationally wanted drug kingpins. In 2008 and 2009, Venezuela installed 10 Chinese-made radar stations to help it monitor suspected drug flights. The Venezuelan government maintains that drug plane seizures have increased because of the new radar coverage.<sup>104</sup> In past years, the Venezuelan government reported on a program begun in 2008 aimed at destroying clandestine airstrips used by Colombian drug traffickers and at tracking drug smuggling planes. Venezuelan officials maintained that they destroyed more than 220 illegal landing strips in 2008 and 48 landing strips in 2009.<sup>105</sup>

Venezuelan officials also maintain that their government has cooperated extensively with other countries in combating drug trafficking, with 59 anti-drug agreements among 38 countries. Venezuela has periodically deported drug traffickers directly to the United States and other countries. In 2010, it deported five wanted drug traffickers to United States and three to

<sup>103</sup> Republica Bolivariana de Venezuela, Oficina Nacional Antidrogas, Observatorio Venezolano de Drogas, *Incautaciones de Drogas y Detenidos por Organismo de Seguridad y Entidad Federal en Venezuela, Año 2010*.

<sup>104</sup> Ibid; and Embassy of the Bolivarian Republic of Venezuela to the United States, "Venezuela's Fight Against Drugs, Advances Continue Throughout 2010," January 31, 2011.

<sup>105</sup> Embassy of the Bolivarian Republic of Venezuela to the United States, "Venezuela's Fight Against Drugs, Advances in the First Semester of 2010, July 15, 2010.

Colombia. In past years, the government pointed to a joint eradication program with Colombia to target coca, poppy, and cannabis cultivation in the common Sierra de Perijá mountain area bordering the two countries. According to the government, over the past five years the Venezuelan military has conducted annual inspections along the border with Colombia and maintains that there is no coca cultivation on its side of the border.<sup>106</sup>

### **Extradition of Walid Makled from Colombia**

On November 16, 2010, Colombian President Juan Manuel Santos said that his government would extradite a Venezuelan businessman and alleged narcotics trafficker, Walid Makled Garcia, to Venezuela. Makled was arrested in Colombia in August 2010. In addition to narcotics trafficking, Makled is wanted in Venezuela for several killings, including the 2008 killing of a suspected Colombian drug trafficker in Venezuela and for the murder of journalist Orel Sambrano in January 2009. After his arrest, Makled gave media interviews alleging that he had close links with high-level Venezuelan officials and that he paid millions of dollars for favors and protection. Venezuelan officials refute the claims, and President Chávez has alleged that the United States would try to use the fabricated allegations in order to justify an attack against his government similar to the 1989 U.S. invasion of Panama that removed General Manuel Noriega from power.<sup>107</sup>

Makled is also wanted in the United States on drug trafficking charges. In May 2009, President Obama identified Makled as a significant foreign narcotics trafficker under the Foreign Narcotics Kingpin Designation Act (which targets the financial assets of traffickers), while in early November 2010, Makled was indicted by a federal court in New York for trafficking tons of cocaine into the United States.<sup>108</sup> While the United States wanted Makled extradited to the United States, the Administration maintained that it respected Colombia's extradition processes. Santos maintained that Venezuela's extradition request came before that of the United States, and that he gave his word to President Chávez that Makled would be handed over once the judicial process in Colombia was completed.<sup>109</sup>

### **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.<sup>110</sup>

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<sup>106</sup> Embassy of the Bolivarian Republic of Venezuela to the United States, "Venezuela's Fight Against Drugs, Advances Continue Throughout 2010," January 31, 2011.

<sup>107</sup> Luis Jaime Acosta, "Colombia to Extradite Accused Venezuelan Drug Lord," *Reuters*, November 16, 2010.

<sup>108</sup> "Manhattan U.S. Attorney Announces Indictment of One of the World's Most Significant Narcotics Kingpins," *Targeted News Service*, November 4, 2010.

<sup>109</sup> Luis Jaime Acosta, "Colombia to Extradite Accused Venezuelan Drug Lord," *Reuters*, November 16, 2010.

<sup>110</sup> Renwick McLean, "U.S. Objections Lead Spain to End Venezuela Deal," *New York Times*, October 19, 2006.

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.<sup>111</sup>

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 2010.

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.<sup>112</sup> The Venezuelan government maintains that it purchased 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. After visiting Russia in September 2009, President Chávez announced that Russia would grant Venezuela a \$2.2 billion credit line to purchase military equipment. The loan will reportedly fund the purchase of battle tanks, armored cars, and anti-aircraft missile systems.<sup>113</sup>

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, then-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.<sup>114</sup> In September 2009, Secretary

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<sup>111</sup> U.S. Department of State, Daily Press Briefing, January 13, 2006; Phil Gunson and Pablo Bachelet, “Spain’s Planes for Chávez Can’t Use U.S. Components,” *Miami Herald*, January 14, 2006; Leslie Crawford and Andy Webb-Vidal, “Spain to Defy U.S. over Military Sale to Venezuela,” *Financial Times*, January 14, 2006.

<sup>112</sup> 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.

<sup>113</sup> See: CRS Report R41403, *Conventional Arms Transfers to Developing Nations, 2002-2009*, by Richard F. Grimmett, p. 9; and “Procurement, Venezuela,” Jane’s Sentinel Security Assessment—South America, February 23, 2011.

<sup>114</sup> 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.

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."<sup>115</sup> On February 2, 2010, then-DNI 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."<sup>116</sup>

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."<sup>117</sup>

## Venezuela's Activities in Latin America

As U.S.-Venezuelan relations have deteriorated over the past several years, the Chávez government has focused its relations with Latin America and its activities in the region in part as a means of countering the United States and U.S. interests and influence in the hemisphere. 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. In February 2010, then-DNI Dennis Blair testified that "Chávez's regional influence may have peaked, but he is likely to support likeminded political allies and movements in neighboring countries and seek to undermine moderate, pro-U.S. 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."<sup>118</sup> In February 2011, DNI James Clapper testified that "deteriorating economic conditions in Venezuela and Chávez's declining popularity at home and abroad have limited his ability to exert influence beyond his core group of allies."<sup>119</sup>

Over the years, there have been concerns about President Chávez's attempts to export his brand of populism to other Latin American countries. He has strongly supported Bolivia's President Evo Morales, and offered assistance to help Bolivia re-write its constitution and implement radical

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<sup>115</sup> U.S. Department of State, Secretary of State Hillary Rodham Clinton, "Remarks with Uruguayan President Tabare Vazquez After Their Meeting," September 15, 2009.

<sup>116</sup> 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.

<sup>117</sup> James Suggett, "Venezuela: U.S. Criticisms of Venezuelan Arms Purchases Lack 'Moral Weight,'" *Venezuelanalysis.com*, September 16, 2009.

<sup>118</sup> 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>.

<sup>119</sup> U.S. Senate Select Committee on Intelligence, "Worldwide Threat Assessment of the U.S. Intelligence Community," prepared testimony by James R. Clapper, Director of National Intelligence, February 16, 2011, available at: <http://intelligence.senate.gov/110216/dni.pdf>

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.

President Chávez launched a Bolivarian Alternative for the Americas (ALBA) in 2004 as an alternative to the Free Trade Area of the Americas. ALBA advocates a socially oriented trade block that includes 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.<sup>120</sup>

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 in December 2007, 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.<sup>121</sup> To date, however, only the legislatures of Ecuador and Venezuela have ratified their country's membership in the bank.<sup>122</sup>

Over the past decade, Venezuela has provided Cuba with substantial assistance. Cuba benefits from a preferential oil agreement with Venezuela signed in 2000, which provides Cuba with more than 90,000 barrels of oil per day. The market value of Venezuela's oil to Cuba reportedly amounted to over \$2 billion annually in 2006 and 2007, and over \$3 billion in 2008.<sup>123</sup> In partial payment for the oil, Cuba has provided extensive services to Venezuela, including thousands of medical personnel and advisers in a number of other areas, including sports, education, agriculture, communications, and even security programs involving the military. In addition to the substantial oil provided to Cuba, Venezuela has made significant investments in Cuba. It helped Cuba upgrade an oil refinery in Cienfuegos, which was inaugurated in 2007. In June 2010, construction of a joint Cuban-Venezuelan nickel plant began in western Cuba, and there reportedly are plans for a joint oil refinery project in Matanzas province in northeastern Cuba. PdVSA also has signed an oil exploration and production agreement with Cupet, Cuba's state-oil company. Because of Venezuela's oil assistance, the country is very much an economic lifeline for Cuba. There would be significant economic disruption in Cuba if the flow of Venezuelan oil were curtailed.

<sup>120</sup> For additional background, see the web portal of ALBA, available at: <http://www.alianzabolivariana.org/>

<sup>121</sup> "Venezuela's Chávez, Six Others OK 'Bank of the South,'" *Dow Jones News Service*, September 27, 2009.

<sup>122</sup> "Planea Ecuador Intercambio con Venezuela por 100 mdd con el Sucre," *Agencia Mexicana de Noticias*, February 2, 2011; "Ecuador, Segundo País A. Latina en Aprobar Creación Banco del Sur," *Reuters*, June 1, 2010.

<sup>123</sup> Jorge R. Piñon, "Cuba—2008 Petroleum Supply Demand Analysis," Center for Hemispheric Policy, University of Miami, July 6, 2009.

Since 2005, President Chávez has used so-called “oil diplomacy” to provide oil to other 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 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. Under the program, Venezuela reportedly supplied more than 100,000 barrels of oil per day to Caribbean and Central American countries in 2009, not including Cuba. Most Caribbean nations are members of PetroCaribe, with the exception of Barbados and Trinidad and Tobago. 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 and energy investments in Cuba, Venezuela is investing in energy sectors in several other 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 with the Brazilian energy company Petrobras to build an oil refinery in northeastern Brazil. Construction on the 200,000 bpd refinery began in 2007, and is to be supplied with oil from both Brazil and Venezuela when it begins operations in 2012. 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.

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).<sup>124</sup> Ultimately three of the four defendants facing trial—Maionica, Kauffmann, and Wansele—pled guilty, while Duran was tried and convicted in early November 2008 and later sentenced to four years in prison.

As noted above, according to DNI James Clapper, Venezuela’s economic deterioration and President Chávez’s declining popularity at home have limited the ability of President Chávez to exert influence in the region beyond a core group of allies. Such factors could also undermine support in the region for the populist authoritarian model of government represented by President

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<sup>124</sup> United States District Court, Southern District of Florida, Case No. 1:07-cr-20999-JAL, Document 24, December 20, 2007.



Chávez and his “Bolivarian Revolution.” Favorable opinions of President Chávez and of Venezuela’s influence in Latin America already are relatively weak. As reflected in the 2009 *Latinobarómetro* public opinion survey of Latin American countries, just 27% of people in the region had a favorable opinion of President Chávez, with eight countries showing a favorable opinion of less than 20% for Chávez.<sup>125</sup> In the 2010 *Latinobarómetro* survey, President’s Chávez’s favorable rating rose to 33%, but overall the Venezuelan President was the second lowest rated leader in the hemisphere after Fidel Castro. In contrast, favorable ratings for President Barack Obama remain strong, rising from 71% in 2009 to 73% in 2010.<sup>126</sup>

## 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.

In its 2009 *Country Reports on Terrorism* (issued in August 2010), the State Department maintained that President Chávez persisted in his public criticism of U.S. counterterrorism efforts and repeatedly referred to the United States as a “terrorist nation.” It noted that Venezuela’s cooperation with the United States on counterterrorism was reduced to an “absolute minimum” after the United States and Colombia signed a defense cooperation agreement in 2009.

## Colombian Terrorist Groups<sup>127</sup>

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 2009 terrorism report stated that it remained unclear to what extent the Venezuelan government provided support to Colombia’s two guerrilla groups—the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN). In the report, the State Department stated that the FARC and ELN 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. The report also noted that some weapons and ammunition from official Venezuelan stocks and facilities have ended up in the hands of these groups.

<sup>125</sup> Corporación Latinobarómetro, *2009 Report*, Santiago, Chile, December 2009.

<sup>126</sup> Corporación Latinobarómetro, *2010 Report*, Santiago, Chile, December 2010

<sup>127</sup> For additional information, see CRS Report RL32250, *Colombia: Issues for Congress*, by June S. Beittel.

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 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 June 2008, President Chávez 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 noted above, 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.<sup>128</sup>

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.<sup>129</sup> In 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. Three of the launchers reportedly had been recovered from a FARC arms cache in October 2008.<sup>130</sup> President Chávez asserted that the missiles were stolen in a robbery in 1995, and that Colombia made the claims to divert attention from a plan to open seven of its military bases to the United States.<sup>131</sup> In response, Venezuela decided in August 2009 to freeze commercial relations and restrict Colombian imports. The disruption in trade relations led to significant decline in Colombia's exports to Venezuela, which fell by 33% in 2009. In the first half of 2010, Colombian exports to Venezuela fell by 71% compared to the same period in 2009.<sup>132</sup>

In 2010, bilateral relations deteriorated even further when the government of outgoing Colombian President Álvaro Uribe asserted at the Organization of American States that Venezuela was harboring guerrillas of the FARC. In response, Venezuela suspended diplomatic relations with Colombia on July 22, 2010.

Yet less than three weeks later, on August 10, 2010, tensions between Venezuela and Colombia eased when new Colombian President Juan Manuel Santos met with President Chávez in Santa Marta, Colombia, and the two leaders agreed to reestablish diplomatic relations. The two presidents agreed to improve military patrols along their border and to set up a joint commission that will reestablish commercial relations. This has already begun to restart the traditionally more vibrant flow of bilateral trade between the two countries. The two presidents held another meeting in Caracas on November 2, 2010, and signed agreements on economic development, infrastructure, social development, security, and energy, and especially focused on the shared

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<sup>128</sup> Phil Gunson, op. cit., September 13, 2008; *Federal Register*, September 19, 2008, pp. 54453-54454.

<sup>129</sup> Simon Romero, "Evidence Shows Venezuelan Aid to Rebel Group," *New York Times*, August 3, 2009.

<sup>130</sup> "Rebels Obtained Arms Sold to Venezuela, Colombia Says," *New York Times*, July 28, 2009.

<sup>131</sup> "Venezuelan Arms in FARC Hands Were Stolen: Chávez," *Agence France Presse*, August 5, 2009.

<sup>132</sup> "Colombia Politics: Relations with Venezuela Improve," *EIU Viewswire*, September 17, 2010.

border area.<sup>133</sup> On November 17, 2010, Venezuela handed over to Colombia three alleged members of Colombia's guerrilla groups—two from the ELN and one from the FARC. In congressional testimony on February 15, 2011, Assistant Secretary of State for Western Hemisphere Affairs Arturo Valenzuela maintained that there was reduced Venezuelan support for the FARC since President Santos has reached out to Venezuela.<sup>134</sup>

## 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 long-standing 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 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.<sup>135</sup>

Iranian President Ahmadinejad has visited Caracas on several occasions since 2006, and President Chávez has visited Iran several times. 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. Then-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."<sup>136</sup> In February 2008, then-DNI Michael McConnell maintained that most cooperation between Iran and Venezuela has been on the economic and energy fronts, but that military cooperation was growing, and the two nations had discussed cooperation on nuclear energy.<sup>137</sup> 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.<sup>138</sup> Weekly flights between the two countries began in 2007; the State Department has expressed concern about these flights

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<sup>133</sup> Embassy of the Bolivarian Republic of Venezuela to the United States, "Advance the Relationship Between Colombia and Venezuela," November 5, 2010.

<sup>134</sup> "House Foreign Affairs Subcommittee on Western Hemisphere Holds Hearing on U.S.-Latin America Relations," *CQ Congressional Transcripts*, February 15, 2011.

<sup>135</sup> 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.

<sup>136</sup> Dennis C. Blair, Director of National Intelligence, "Annual Threat Assessment of the Intelligence Community for the Senate Select Committee on Intelligence," February 12, 2009.

<sup>137</sup> 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.

<sup>138</sup> Parisa Hafezi, "Iran and Venezuela Open Joint Bank to Boost Ties," *Reuters News*, April 3, 2009.

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 U.N. 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.<sup>139</sup>

Under Iran sanctions legislation signed into law July 1, 2010 (P.L. 111-195, Comprehensive Iran Sanctions Accountability, and Disinvestment Act of 2010), gasoline sales to Iran valued at more than \$1 million (or \$5 million over a 12-month period) would subject PdVSA to U.S. sanctions.<sup>140</sup> A number of observers raised questions about whether Venezuela would have the ability to provide significant amounts of gasoline to Iran since it has had problems in the past meeting its own domestic demands for gasoline.<sup>141</sup> In July 2010, press reports maintained that a gasoline shipment from Venezuela was headed to Iran as part of a deal agreed to in 2009.<sup>142</sup> In 2011, press reports alleged that additional shipments of gasoline from Venezuela were headed to Iran to arrive in February 2011, although subsequent press reports indicated that no such delivery had taken place.<sup>143</sup> Assistant Secretary of State for Western Hemisphere Affairs Arturo Valenzuela maintained in congressional testimony on February 15, 2011, that the United States was examining the issue of whether Venezuela is in violation of the Iran sanctions legislation.<sup>144</sup> Secretary of State Clinton indicated in congressional testimony on March 1, 2011, that the Administration would act if there were evidence that Venezuela was in violation of U.S. sanctions on Iran.<sup>145</sup>

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 during a September 2009

<sup>139</sup> "Venezuela Pledges to Help Iran with Investment, Gasoline Supplies," *The Oil Daily*, September 10, 2009.

<sup>140</sup> For further information, see CRS Report RS20871, *Iran Sanctions*, by Kenneth Katzman.

<sup>141</sup> "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; and Marianna Parraga, "Venezuela in No Position to Boost Iran Oil Exports," *Reuters News*, July 26, 2010.

<sup>142</sup> Marianna Parraga, "Venezuela in No Position to Boost Iran Oil Exports," *Reuters News*, July 26, 2010; and Amena Bakr and Luke Pachymuthu, "Iran Fuel Imports Nosedive as Sanction Bite," *Reuters News*, July 26, 2010.

<sup>143</sup> Irene Tang, "Iran Resumes Gasoline Imports With Venezuela Deal: Sources," *Platts Commodity News*, February 1, 2011; Luke Pachymuthu and Humeyra Pamuk, "Venezuela's PDVSA Sends Gasoline to Iran—Trade," *Reuters News*, January 31, 2011; and Irene Tang, "No Sign of Venezuelan Gasoline Hitting Iranian Ports," *Platts Commodity News*, February 22, 2011.

<sup>144</sup> "House Foreign Affairs Subcommittee on Western Hemisphere Holds Hearing on U.S.-Latin America Relations," *CQ Congressional Transcripts*, February 15, 2011.

<sup>145</sup> "House Foreign Affairs Committee Holds Hearing on U.S. Foreign Policy Priorities," *CQ Congressional Transcripts*, March 1, 2011.

visit to Iran.<sup>146</sup> 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.”<sup>147</sup> 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 September 2010, President Chávez maintained that his government was carrying out initial studies into starting a nuclear energy program while in mid-October 2010, Russia agreed to help Venezuela build its first nuclear power plant.<sup>148</sup>

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.<sup>149</sup> 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.<sup>150</sup> U.N. Security Council Resolution 1929 (June 9, 2010) bars Iranian investment in uranium mining projects abroad.

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.<sup>151</sup> 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 provided or attempted to provide services to Iran’s Ministry of Defense and Armed Forces Logistics.<sup>152</sup>

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

<sup>146</sup> “Visiting Chávez Backs Iran Nuclear Programme,” *Tehran Press TV Online*, September 5, 2009.

<sup>147</sup> “Iran Will Not Back Down on Nuclear Energy: Hugo Chávez” *Agence France Presse*, September 4, 2009.

<sup>148</sup> “Hugo Chávez Says Venezuela Is Studying Idea of Starting Peaceful Nuclear Energy Program,” *AP Newswire*, September 28, 2010; “Russia to Build Nuclear Power Plant in Venezuela,” *Reuters News*, October 15, 2010.

<sup>149</sup> 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.

<sup>150</sup> “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.

<sup>151</sup> 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.

<sup>152</sup> U.S. Department of the Treasury, Press Release, “Export Development Bank of Iran Designated as a Proliferator,” October 22, 2008.

freezing the U.S. assets of two Venezuelans—Ghazi Nasr al Din (a Venezuelan diplomat serving in Lebanon) and Fawzi Kan'an—for providing financial and other support to Hezbollah. U.S. citizens are also prohibited in engaging in any transactions with the two Venezuelans, including any business with two travel agencies in Caracas owned by Kan'an.<sup>153</sup>

An April 2010 unclassified Department of Defense report to Congress on Iran's military power (required by Section 1245 of the National Defense Authorization Act for FY2010, P.L. 111-84) maintained that Iran's Islamic Revolutionary Guard Corps—Qods Force (IRGC-QF), which maintains operational capabilities around the world, has increased its presence in Latin America in recent years, particularly Venezuela.<sup>154</sup> Despite the report, the commander of the U.S. Southern Command, General Douglas Fraser, maintains that the focus of Iran in the region has been diplomatic and commercial, and that he has not seen an increase in Iran's military presence in the region.<sup>155</sup>

### 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.<sup>156</sup> Posada was imprisoned in Venezuela for the bombing from 1976 until 1985, but not convicted. He escaped from prison in 1985. Posada is alleged to be involved in a series of bombings in Havana in 1997 in which an Italian businessman was killed. In November 2000, Posada was arrested in Panama (along with three other anti-Castro activists) for a plot to kill Fidel Castro, and ultimately convicted on weapons charges and sentenced to eight years in prison in April 2004. Then Panamanian President Mireya Moscoso pardoned Posada in August 2004, just before the end of her presidential term.

Posada entered the United States illegally in 2005. In subsequent removal proceedings, an immigration judge found that Posada could not be removed to Cuba or Venezuela because of concerns that he would face torture, and he was thereafter permitted to remain in the United States pending such time as he could be transferred to a different country. Posada subsequently applied for naturalization to become a U.S. citizen. This application was denied, and criminal charges were brought against him for allegedly false statements made in his naturalization application and interview. Although a federal district court dismissed the indictment in 2007, its ruling was reversed by an appellate court in 2008. In April 2009, the United States filed a superseding indictment, which included additional criminal charges based on allegedly false statements made by Posada in immigration removal proceedings concerning his involvement in the 1997 Havana bombings. His trial originally was set to begin in August 2009, but was rescheduled three times until it finally began on January 10, 2011.<sup>157</sup>

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<sup>153</sup> "Treasury Targets Hizballah in Venezuela," *States News Service*, June 18, 2008.

<sup>154</sup> Department of Defense, "Unclassified Report on Military Power of Iran," April 2010. For the full text of the report, see: [http://www.politico.com/static/PPM145\\_link\\_042010.html](http://www.politico.com/static/PPM145_link_042010.html). For background on the Qods Force, see CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman.

<sup>155</sup> Anne Flaherty, "Pentagon Says Iran's Reach in Latin America Doesn't Pose Military Threat," *AP Newswire*, April 27, 2010.

<sup>156</sup> For additional information, see "Background on Luis Posada Carriles," CRS Congressional Distribution Memorandum, December 8, 2010, prepared by Mark P. Sullivan, Specialist in Latin American Affairs, and Michael John Garcia, Legislative Attorney. Available from the authors.

<sup>157</sup> For additional information, see "Background on Luis Posada Carriles," CRS Congressional Distribution (continued...)

## Legislative Initiatives in the 111<sup>th</sup> Congress

Several initiatives were enacted, considered, or introduced in 111<sup>th</sup> Congress regarding Venezuela and proliferation, terrorism, and human rights concerns.

### Enacted and Considered Measures

**P.L. 111-195 (H.R. 2194)**, Comprehensive Iran Sanctions, Accountability, and Disinvestment Act of 2010, signed into law July 1, 2010. The law amended the Iran Sanctions Act of 1996 to make gasoline sales to Iran subject to U.S. sanctions. The House approved the measure on December 15, 2009, while the Senate passed it on March 11, 2010. A conference report (H.Rept. 111-512) was filed on June 23, 2010, which was approved by both houses on June 24, 2010.

On June 4, 2010, the Senate Committee on Armed Services reported **S. 3454** (Levin), the National Defense Authorization Act for FY2011 (S.Rept. 111-201), with a provision in Section 1237 that would have required a report on Venezuela related to terrorism issues within 180 days of enactment. The report was to contain a description of any activities by the government of Venezuela to supply any terrorist organization with planning, training, logistics, and lethal material support; activities to provide direct or indirect support to any terrorist organization; activities to provide other types of assistance that could provide material support for the activities of any terrorist organization; activities or assistance to governments currently on the U.S. list of state sponsors of terrorism; and activities by the government of Venezuela in the Western Hemisphere that undermine the national interest of the United States. The report was to focus primarily, but not be limited to, Hamas, Hezbollah, the National Liberation Army (ELN, of Colombia), and the FARC. The House version of the defense authorization bill, H.R. 5136, did not have a similar provision, and Senate action was not completed on S. 3454.

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 would have required a report within 90 days after enactment of the act on Iran's and Hezbollah's actions in the Western Hemisphere. The provision cited 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 noted that Iran had sought to strengthen ties with several Western Hemisphere countries in order to undermine U.S. foreign policy. The Senate did not consider the measure.

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(...continued)

Memorandum, December 8, 2010, prepared by Mark P. Sullivan, Specialist in Latin American Affairs, and Michael John Garcia, Legislative Attorney. Available from the authors.

## 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, have placed restrictions on nuclear cooperation with countries assisting the nuclear programs of Venezuela or Cuba (section 209). The bill would also have authorized the President to impose foreign aid and export controls on countries that the President determined was engaged in military cooperation or nonmarket-based trade with a state sponsor of terrorism, was carrying out policies that threaten U.S. national security interests, or was not fully cooperating with U.S. counterterrorism or nonproliferation efforts (section 106). It would also have amended 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, included a provision (section 728) identical to that in H.R. 375 described above that would have placed restrictions on nuclear cooperation with countries assisting the nuclear programs of Venezuela or Cuba.

Also related to proliferation concerns, **H.R. 4436** (Ros-Lehtinen), introduced January 13, 2010, would have expressed the sense of Congress that any use by Iran of nuclear cooperation agreements with other countries as a means to proliferate weapons technology and expertise to countries such as Venezuela, either directly or by means of arrangements with Belarus or other countries, would not be in the interest of the United States. The bill also would have required an annual report from the Secretary of State (1) regarding a determination as to whether nuclear cooperation agreements and activities involving Iran, Belarus, or Venezuela were being used as means to proliferate nuclear arms technology and expertise and (2) on the sale or delivery of weapons or related technologies from Belarus to any country designated as a state sponsor of terrorism or not fully cooperation with U.S. antiterrorism efforts, including Venezuela.

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.

Also related to the state of democracy in Venezuela is a resolution introduced on March 1, 2010, **S.Res. 428** (LeMieux), that would have expressed concerns about violations of civil liberties taking place in Venezuela.

Before Venezuela's September 26, 2010, legislative elections, **S.Res. 645** (Ensign) was introduced on September 24, 2010; it would have expressed the sense of the Senate supporting the right of the people of Venezuela to free and fair elections and to freedoms of speech and assembly and rejecting any effort by President Chávez to intimidate or punish Venezuelans who exercise these rights.

Two introduced resolutions would have expressed concerns about anti-Semitism in Venezuela. **H.Res. 174** (Hastings), introduced February 13, 2009, would have expressed concern about "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 have expressed the support of Congress for the Jewish community in Venezuela. Among its provisions, the resolution



would have condemned anti-Semitic acts in Venezuela and urged the government of Venezuela to take verifiable steps to ensure the safety of the Jewish community in the country. The resolution also would have expressed 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, would have condemned the Venezuelan government “for its state-sponsored support of international terrorist groups”; called on the Secretary of State to designate Venezuela as a state sponsor of terrorism; and urged 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:* February 8, 2011

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

### **Congressional Budget Justification for Foreign Operations FY2011, Annex: Regional Perspectives (pp. 768-769 of pdf)**

*Date:* March 10, 2010

*Full Text:* <http://www.state.gov/documents/organization/137937.pdf>

### **Country Reports on Human Rights Practices 2009, Venezuela**

*Date:* March 11, 2010

*Full Text:* <http://www.state.gov/g/drl/rls/hrrpt/2009/wha/136130.htm>

### **Country Reports on Terrorism 2009 (Western Hemisphere Overview)**

*Date:* August 5, 2010

*Full Text:* <http://www.state.gov/s/ct/rls/crt/2009/140888.htm>

### **International Religious Freedom Report 2010, Venezuela**

*Date:* November 17, 2010

*Full Text:* <http://www.state.gov/g/drl/rls/irf/2010/148784.htm>

### **International Narcotics Control Strategy Report 2011, Vol. I (Venezuela, pp. 584-588 of pdf)**

*Date:* March 2011

*Full Text:* <http://www.state.gov/documents/organization/156575.pdf>

### **International Narcotics Control Strategy Report 2011, Vol. II (Venezuela, pp. 189-191 of pdf)**

*Date:* March 2011

*Full Text:* <http://www.state.gov/documents/organization/156589.pdf>

### **National Trade Estimate Report on Foreign Trade Barriers 2010, Venezuela**

*Date:* March 2010

*Full Text:* [http://www.ustr.gov/sites/default/files/uploads/reports/2010/NTE/2010\\_NTE\\_Venezuela\\_final.pdf](http://www.ustr.gov/sites/default/files/uploads/reports/2010/NTE/2010_NTE_Venezuela_final.pdf)

### **Trafficking in Persons Report 2010 (Venezuela, pp. 348-350 of pdf)**

*Date:* June 2010

*Full Text:* <http://www.state.gov/documents/organization/142979.pdf>

## Appendix B. Key Developments in 2009-2010

Also see “Recent Developments” above.

On August 5, 2010, the State Department released its 2009 *Country Reports on Terrorism*, which maintained that Venezuela’s cooperation with the United States on counterterrorism was reduced to an “absolute minimum” after the United States and Colombia signed a defense cooperation agreement in 2009.

On July 22, 2010, Venezuela suspended diplomatic relations with Colombia after the government of outgoing Colombian President Álvaro Uribe asserted at the Organization of American States that Venezuela was harboring Colombian guerrillas. Less than three weeks later, on August 10, 2010, bilateral tensions eased when new Colombian President Juan Manuel Santos met with President Chávez and the two leaders agreed to reestablish diplomatic relations.

On July 1, 2010, President Obama signed into law the Comprehensive Iran Sanctions, Accountability, and Disinvestment Act of 2010 (P.L. 111-195, H.R. 2194), which amended the Iran Sanctions Act of 1996 to make gasoline sales to Iran subject to U.S. sanctions. In September 2009, Venezuela and Iran signed an agreement for Venezuela to supply Iran with some gasoline in the case of U.N. or U.S. sanctions against Iran’s gasoline imports.

On June 16, 2010, the House Subcommittee on the Western Hemisphere held a hearing on “Press Freedom in the Americas” that focused in part on threats to freedom of expression in Venezuela. (A transcript of the hearing is available from the subcommittee’s website at <http://foreignaffairs.house.gov/111/56996.pdf>.)

On June 4, 2010, the Senate Committee on Armed Services reported S. 3454 (Levin), the National Defense Authorization Act for FY2011 (S.Rept. 111-201), with a provision in Section 1237 that would have required a report on Venezuela related to terrorism issues within 180 days of enactment. The Senate did not complete action on the measure.

On March 11, 2010, the State Department released its annual human report for 2009. The section on Venezuela maintained that “politicization of the judiciary and official harassment and intimidation of the political opposition and the media intensified during the year.” (See the full text of the report at <http://www.state.gov/g/drl/rls/hrrpt/2009/wha/136130.htm>.)

On March 1, 2010, the State Department released its 2010 *International Narcotics Control Strategy Report* (INCSR), in which it maintained that Venezuela continued to suffer from high levels of corruption, a weak judicial system, and inconsistent counternarcotics cooperation that have enabled a growing illicit drug transshipment industry. The State Department also asserted that the United States was prepared to deepen anti-drug cooperation beyond the minimal cooperation that now exists.

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.

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.

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.

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.

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 U.N. or U.S. sanctions against Iran's gasoline imports.

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.

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 reelection 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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