

Background

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Minimizing Mischief in Venezuela, Stabilizing the U.S. Oil Supply

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Venezuelan President Hugo Chávez is systematically leading his country into dictatorship by provoking internal conflict and characterizing his internal opponents as traitors. Beyond Venezuela, he sees himself replacing Fidel Castro as the leader of Latin America's radical left—uniting the region against U.S.-style democracy, free markets, and American influence.

Chávez derives popular support from fellow ideologues and a small but committed segment of Venezuela's largely poor population, and he is beginning to use the hemisphere's dependence on Venezuelan oil to encourage leftist movements elsewhere and to pressure other countries into acquiescing to his activities. By politicizing and mismanaging the state petroleum industry, Chávez is jeopardizing vital U.S. interests in the Western Hemisphere.

The good news is that the majority of Venezuelans do not support Chávez's evolving dictatorship. Opponents have succeeded in petitioning for a referendum to recall him from office on August 15. Democratic governance and free markets are making slow strides in Latin American countries formerly ruled by dictators. While oil resources give him power, countries can buy oil from other vendors.

The bad news is that Chávez has consolidated his hold over Venezuela's public institutions and is manipulating the electoral system in his favor. Increasing global demand for petroleum has given him an international power base, and his anti-American political agenda—fueled by petrodollars—could

Talking Points

- Venezuela's citizens will go to the polls on August 15, 2004, to decide whether to retain or recall President Hugo Chávez.
- Like Cuba's Fidel Castro, Chávez sees himself leading Latin America against an imperialistic United States.
- Chávez has impoverished his citizens and turned Venezuela's state oil industry into a political tool.
- The United States should support international scrutiny of Venezuela's referendum, diversify its sources of petroleum, and engage Latin America to help strengthen allies' nascent democratic institutions and market economies.

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threaten nearby fledgling democracies and flourishing markets.

To strengthen Venezuela's thread-like hold on democracy, cut the potential for regional destabilization, and deter manipulation of energy markets, the United States should help to keep Venezuela in the hemisphere's democratic fold; promote private property rights and the rule of law, including in the natural resources sector; develop alternate sources of petroleum; and engage Latin America more effectively to help allies strengthen democratic institutions and market economies.

Reform, Then Reversal

Venezuelan leaders have never permitted either true representative democracy or really free markets. Until 1958, Venezuela was ruled by generals who first taxed coffee exports and then—after its discovery in 1917—petroleum. They created a welfare state and led citizens to believe that all could benefit from this underground treasure. In 1958, the country rejected military dictatorship in favor of civilian-elected rule. The first president, Romulo Betancourt, tried to institute free-market policies, but an economy and political system run by insiders and ratified by elections proved resistant to change.

During the 1970s, Venezuela nationalized its oil industry and gradually incurred increasing debt through runaway government spending on social programs designed to placate the middle class and the poor. The roller coaster of rising and falling market prices failed to sustain subsidies and programs to provide menial jobs to otherwise unemployed citizens. As a result, the average Venezuelan actually became poorer.

In 1992, a band of army officers led by Lt. Col. Hugo Chávez Frías attempted to overthrow President Carlos Andrés Pérez. Although court-martialed and jailed, Chávez emerged a hero. In 1998, he was elected president on promises to clean out corruption and reduce poverty. Once in office, Chávez promoted a new constitution to consolidate his powers and began to constrain the business community, civil society, and rival politicians.

By 2001, Venezuelans had begun to protest his attempts to nationalize the Venezuelan Workers Union and turn schools into political indoctrination centers with Cuban curricula and teachers. Massive demonstrations followed in 2002. When 150,000 protesters marched on the presidential palace on April 11, Chávez reportedly ordered snipers to fire on them. Top generals convinced him to resign and replaced him with a hastily assembled junta headed by protest organizer and Chamber of Commerce and Industry President Pedro Carmona. The Rio Group of 19 Latin American presidents¹ denounced the event as a coup, while the United States guardedly urged Venezuelans to restore democratic order.

Accounts of what happened next vary, but the junta attempted to dissolve the National Assembly and dismiss other elected officials. The military withdrew its support for the insurrection and brought Chávez back two days after his departure. The president later denied his resignation, and no investigation occurred to reveal what transpired.² Later, opponents tried to force another resignation by staging a massive national strike (December 2002–January 2003) that spread to the state oil company, causing a temporary shutdown in January 2003. When that failed, more democratically

1. An informal consultative body formed in 1986.
2. The junta made uncharacteristically rapid and peculiar decisions, suggesting it was under pressure from the officers. The military also summoned Venezuelan civic leaders to the palace to sign a pledge supporting the junta. This may have been a ruse to draw out Chávez's adversaries in order to discredit them. One of the participants in the insurrection, General Lucas Rincón, escaped punishment and is now the Minister of Interior and Justice. In a similar strange incident in May 2004, Chávez claimed that on a farm outside Caracas, his police had captured Colombian paramilitaries who were plotting to assassinate him. Eventually, 102 were charged and shown to reporters in Venezuelan army fatigues. A National Assembly deputy called it a publicity stunt to distract attention from the referendum drive to recall Chávez from office. See James Menendez, "Chavez Foils 'Assassination Plot,'" BBC News, May 9, 2004, at news.bbc.co.uk/1/hi/world/americas/3699245.stm (August 2, 2004). See also Carlos Chirinos, "Venezuela: 'Bluff Paramilitar,'" BBC Mundo News, June 29, 2004, at news.bbc.co.uk/hi/spanish/latin_america/newsid_3852000/3852047.stm (June 30, 2004).

minded detractors prevailed to seek a referendum on his presidency.

From Friend to Foe

Until the Chávez presidency, oil-rich Venezuela had been at peace with its neighbors and a firm American ally. Shortly after coming to power in Cuba in 1959, Fidel Castro visited President Betancourt in Caracas and asked him to join an alliance against the United States. Betancourt refused, and an angry Castro began sending insurgents to overthrow Venezuela's democracy in 1961. In the 1970s, President Carlos Andrés Pérez discouraged further external aggression by improving relations with Cuba, as well as the Soviet Union and China, while remaining a friend to the United States.³

But the situation changed in 1998. As a presidential candidate, Hugo Chávez campaigned against the "savage capitalism" of the United States. On August 10, 2000, he became the first foreign leader to visit Saddam Hussein since the Gulf War, and he allegedly aided Afghanistan's Taliban government following the September 11, 2001, attack on the United States.⁴ At the same time, Chávez said that Cuba and Venezuela were "called upon to be a spearhead and summon other nations and governments" to fight free market capitalism.⁵

He cut back U.S.–Venezuelan military cooperation on counternarcotics by refusing overflights of U.S. aircraft tracking drug smugglers. In May 2004, Defense Minister Jorge García ordered the

U.S. military mission to leave the Fuerte Tiuna offices that it had occupied for the past 50 years.⁶

Since his brief departure from power in April 2002, Chávez has charged the United States with complicity in what he now calls an attempted coup against him. After a June 24, 2004, U.S. Senate hearing on the situation in Venezuela, Chávez characterized U.S. Congressmen as "dogs of war, those that intend to dominate the world, those imperialists."⁷

Within Venezuela's immediate neighborhood, reports suggest that Chávez has aided the narcoterrorist Revolutionary Armed Forces of Colombia (FARC). Videos and documents revealed by dissident Venezuelan military officers portray official promises of supplies and refuge as well as the existence of several FARC fronts on the Venezuelan side of the Colombia–Venezuela border.⁸ In Bolivia, Chávez reportedly has close ties to indigenous activists Felipe Quispe and Evo Morales, who helped lead an uprising that forced elected President Gonzalo Sánchez de Lozada from office in October 2003. And in El Salvador, Venezuelan troops sent to help victims rebuild after a devastating earthquake in 2001 were nearly declared *persona non grata* for allegedly urging villagers to support the leftist Farabundo Martí National Liberation Front.⁹

President Chávez's Fifth Republic Movement (MVR) party is allied with the Brazil-based Foro de

3. Cuban insurgents initially tried to recruit Venezuelan collaborators, but pro-Soviet Venezuelan communists resented the Cuban intrusion, while other supporters left to develop a concept that embraced indigenous pride and sought an alliance between radicals and soldiers eager to re-establish military rule. It was called la Revolución Bolivariana after Simón Bolívar, a hero of South American independence. As a junior officer, Hugo Chávez was undoubtedly influenced by this ideology. See Alberto Garrido, "El Eje Revolucionario Chávez-Castro," *El Universal*, June 22, 2004.
4. According to former Chávez personal pilot Major Juan Díaz. See Casto Ocando, "Organismo demanda a Chávez en Miami," *El Nuevo Herald*, January 30, 2003, at www.miami.com/mlde/nuevo/news/world/americas/5060974.htm (January 31, 2003).
5. "Chavez Says Ties Make Venezuela, Cuba 'One Team,'" Reuters, September 6, 2001.
6. "Venezuela Asks U.S. Military to Leave Base Offices," Reuters, May 12, 2004.
7. "Chávez califica de 'perros de la guerra' a congresistas de EE.UU.," Associated Press, June 27, 2004.
8. "Colombia evaluará supuestos nexos entre Farc y militares venezolanos," *El Tiempo*, January 31, 2002, at www.terra.com.co/actualidad/internacional/31-01-2002/nota47739.html (March 27, 2002), and Javier Ignacio Mayorca, "740 de las FARC en Venezuela," *Venezuela Analítica*, March 11, 2002, at www.analitica.com/va/vpi5521076.asp (April 1, 2002).
9. Giaconda Soto, "El Salvador se retracta y permite permanencia de militares venezolanos," *El Nacional*, May 3, 2001, at www.el-nacional.com/eln03052001/pa2s1.htm (May 3, 2001).

São Paulo—an organization of some 39 leftist parties and guerrilla organizations from 16 countries in the hemisphere. It shares Chávez's anti-American agenda, opposing U.S. counternarcotics collaboration with Latin America and the Free Trade Area of the Americas, which it characterizes as an annexation of the region to the United States.¹⁰

Opening a rival front, Chávez inaugurated the first Peoples Bolivarian Congress on November 25, 2003, in Caracas. It reportedly brought together 400 representatives from 20 Latin American countries expressly to condemn the policies of the United States, U.S. Southern Command, the International Monetary Fund, and the World Bank.¹¹

Oil Politics and Mismanagement

When the United States became a net oil importer in the 1970s, friendly Venezuela was a founding member of the Organization of Petroleum Exporting Countries (OPEC) and a top supplier to the American market. Even though it nationalized its oil industry in 1975, creating the state oil company *Petróleos de Venezuela, S.A.* (PDVSA), reform-minded politicians proposed giving back shares to every Venezuelan family while exploration and production was reopened to foreign participation in 1996.

Chávez put further reforms on hold and set a precedent by expropriating foreign assets. His 1999 constitution prohibited future PDVSA priva-

tization, while his 2001 Hydrocarbon Law doubled royalties on foreign operators from 16.67 percent to 30 percent and required a majority government stake in future joint ventures.¹² During the December 2002 national strike, the Venezuelan military seized an information technology company jointly owned by PDVSA and the U.S.-based Science Applications International Corporation (SAIC).¹³ Such expropriations could jeopardize the investments of international major oil companies—such as Mobil, ChevronTexaco, and ConocoPhillips—in oilfield development projects like those in Venezuela's Orinoco basin. According to its 2004–2009 development plan, PDVSA projects \$37 billion in new investment, including \$10 billion from international companies.¹⁴

For the moment, PDVSA is dependent on U.S. refineries, which partially supply its CITGO gas station chain. PDVSA owns refining facilities located in Louisiana, Illinois, Texas, New Jersey, and Georgia as well as several installations in Europe.¹⁵ Irresponsible tampering with U.S. and international company activities by the Chávez government could prompt legal proceedings against Venezuelan holdings in the West.

Using Oil as a Political Tool. Chávez uses oil as a political tool to advance his hemispheric and global ambitions. He played a key role in the 1999 and 2003 OPEC decisions to cut production and coordinate policy aimed at driving oil prices higher. In 2000, Chávez visited Iran, Iraq, Libya, and Saudi

10. "Resolução a favor da revolução bolivariana da Venezuela," Foro de São Paulo, 10th Encounter, Havana, Cuba, December 7, 2001, at pt.uol.com.br/site/teste/textos/10venezuelap.asp (March 27, 2002).
11. "Primer Congreso Bolivariano de los Pueblos," Final Declaration, Web site Rebelión–Resistencia Global, November 30, 2003, at www.rebellion.org/sociales/031130congreso.htm (June 30, 2004).
12. Energy Information Agency, *An Energy Overview of Venezuela, Privatization Status*, p. 2, at www.fe.doe.gov/international/venzover.html (July 27, 2004).
13. Established in 1996, Informática, Negocios y Tecnología, S.A. (Intesa) provided computer services to the state oil giant, SAIC exercising a 60 percent share. In May 2002, the Venezuelan government notified SAIC that it wanted to terminate the partnership and made a buyout offer. Before the parties could come to an agreement, PDVSA president Ali Rodríguez ordered a lock-out and the army seized Intesa's assets. The U.S. Overseas Private Investment Corporation granted SAIC \$6 million in compensation, while its spokesman declared it would not support future investments in Venezuela. See Bruce V. Bigelow, "SAIC to Recoup Some Losses in Venezuela Deal," *The San Diego Union–Tribune*, July 20, 2004, at www.signonsandiego.com/uniontrib/20040720/news_1b20saic.html (July 30, 2004).
14. "Venezuela Says OPIC Ruling Won't Hurt Investment," Reuters, July 21, 2004.
15. *Ibid.*

Arabia, further agitating for production cuts and quota enforcement. The same year, he promised Fidel Castro 53,000 barrels of oil a day on concessionary terms in exchange for the services of Cuban doctors, teachers, and intelligence experts.

Besides supplying the United States with 1.5 million barrels of oil a day (mbd), Venezuela provides most of the petroleum consumed by U.S. allies in the Caribbean and Central America. Their leaders know that opposing Chávez in any significant fashion could result in less favorable sales terms or cuts in deliveries. In September 2003, President Chávez accused the Dominican Republic of harboring Venezuelans—like former President Carlos Andrés Pérez—who allegedly might conspire against his government. He then stopped oil deliveries, prompting a temporary energy crisis while Dominican officials scrambled for new suppliers.

Beyond the hemisphere, Chávez is preparing to shift PDVSA's customer base toward Asia and an increasingly oil-thirsty China, making Venezuela less dependent on petroleum sales to immediate neighbors. A deal signed on July 14, 2004, to build oil and gas pipelines between the Maracaibo Basin in Venezuela and the Caribbean and Pacific coasts in Colombia may seem innocuous, but it would enable Venezuela to ship petroleum to China without using the Panama Canal. This would make it more critical than ever for Chávez to secure a pliant government in Colombia to keep this facility operating in Venezuela's interest.¹⁶ Chávez would thus have the luxury of cutting deliveries to those who opposed him, forcing them to seek other sources at greater cost. By destabilizing and replacing democratic governments in hydrocarbon-rich Bolivia, Colombia, and Ecuador, he also could achieve a regional energy monopoly that could support rogue regimes and frustrate U.S. interests in the hemisphere.

Mismanagement Threatens the Future. During its 20-year history before Chávez, PDVSA built a reputation for smooth operation and competence, but the 2002–2003 national strike devastated the oil giant. Some 35,000–40,000 skilled workers, including fire fighters, walked out while spillage and fires ensued. Production capacity dropped from three mbd to 600,000 barrels. Chávez fired 18,000 skilled managers and workers, further undermining PDVSA's precarious situation.¹⁷ To regain and maintain pumping capacity at an estimated 2.5 mbd, PDVSA engineers reportedly “goose” wells by pumping air and water into them to coax Venezuela's viscous petroleum to the surface, endangering the long-term viability of existing fields.

Despite recent high oil prices that have provided a fresh infusion of cash, PDVSA remains in disarray. Venezuelan economist Gustavo García calculates that this year's internal investment fell from \$5 billion to \$4.3 billion while salaries went up 60 percent despite no apparent increase in productivity or number of employees.¹⁸ Without reinvestment in equipment and maintenance, PDVSA will not be able to maintain current production levels. Moreover, Chávez has reportedly channeled between \$1.6 billion and \$3.7 billion from PDVSA into a special account that he is using to finance social programs to influence voters in the upcoming referendum on his presidency.¹⁹

Recall and Prospects

President Chávez's Bolivarian Constitution contemplates a referendum process for recalling public officials. Fortunately, opponents of various political stripes—including some former Chávez allies—have agreed to settle differences with the president at the ballot box. The bad news is that Chávez has tried to intimidate and divide opponents or otherwise block a vote.

16. Chávez might then shift tactics from aiding Colombia's FARC guerrillas to backing revolutionaries in Colombian elections.

17. Frances Robles, “Oil Accidents Mount in Venezuela,” *Miami Herald.com*, January 21, 2002 (July 27, 2004).

18. Victor Salmeron, “PDVSA aumentó partida de salarios en 60%,” *El Universal*, July 30, 2004, at http://www.eluniversal.com/2004/07/30/eco_art_30158C.shtml (July 30, 2004).

19. Matthew Robinson, “PDVSA Spending May Hit Venezuela Oil—Analysts,” Reuters, July 12, 2004 (July 27, 2004). Lower estimate is from Economist Intelligence Unit, *2004 Country Report*.

Two months after President Chávez's brief departure from office in 2002, the government invited former U.S. President Jimmy Carter and later the Organization of American States (OAS) to broker talks between the administration and the opposition, leading to a binding referendum as an alternative to civil conflict. Shortly thereafter, the National Electoral Council (CNE) was packed with Chávez allies who blocked several efforts for a recall.

Finally, the CNE allowed an official period for gathering signatures—known as the *firmazo*—in late 2003. Once organizers collected names on government forms, it changed the rules on how the forms should have been filled out and then dragged out a review process to “repair” or rehabilitate some of the disqualified signatures.

In May 2004, under pressure from the OAS and the Carter Center, Chávez grudgingly allowed a re-examination, known as the *reafirmazo*, of nearly a million signatures thrown out by the partisan CNE. It turned out that petition organizers had 2.56 million names—130,000 more than were needed to trigger a recall. As a result, the CNE scheduled a referendum for August 15, 2004.

For its part, Venezuela's opposition umbrella group—the Democratic Coordinator—has united to support a 10-point platform to create jobs, attract investment, fight poverty, strengthen local government, institute checks and balances, rebuild public institutions, and open the government to citizen participation. Moreover, if Chávez loses the referendum, opponents promise to hold a primary to select their candidate. Chávez has declared that he will run again for his Fifth Republic Movement party even though the constitution is unclear on whether he can do so.

Despite the opposition's willingness to play by the rules, many signs point to possible fraud by the government, even though some polls show the

president with a 50-50 chance of winning the referendum. Specifically:

- The CNE will use new touch-screen voting machines from a company of which it is part owner. Technical glitches and power outages could disenfranchise thousands, thus producing fewer votes than needed to recall the president.²⁰ Rigged software could alter vote totals. Similar touch-screen systems without paper trails are under fire in the United States.²¹
- Government teams in military trucks have circulated in pro-Chávez neighborhoods, credentialing new voters. No such efforts have been made in opposition barrios. The regime also has been naturalizing foreign residents at a frantic pace—some 236,000 from May through June in a program called “Misión Identidad.”²²
- Chávez continues to intimidate opponents. On numerous occasions, he has accused them of trying to assassinate him. National police claim they found fake ID cards, computers, and printers in raids on offices of an opposition party in June 2004, but witnesses say they saw agents carry in suspicious bundles. The government even charged the directors of Sumate, a non-governmental organization (NGO) that helped organize the referendum, with conspiracy to commit treason for accepting a \$53,000 grant for electoral observation from the U.S.-funded National Endowment for Democracy even though the Chávez administration has accepted thousands of doctors, teachers, and intelligence agents from Cuban dictator Fidel Castro.
- Chávez has earmarked from \$1.7 billion to \$3 billion worth of state oil income to spend on poor voters during the campaign. He commands radio and TV stations to broadcast his speeches without equal time for opponents. In June, he revealed plans to enlist millions of

20. Some 3.8 million are required to exceed the number that re-elected Chávez president in the 2000 contest following the adoption of his new constitution.

21. See Jon E. Dougherty, “Reformers’ Now Attack Costly Election ‘Reform’ of E-Voting,” *NewsMax.com*, July 30, 2004, at www.newsmax.com/archives/articles/2004/7/29/115913.shtml (August 2, 2004).

22. “Nacionalizados 236 mil extranjeros en dos meses,” *El Nuevo Siglo*, July 6, 2004, at www.elnuevosiglo.com.co/noticia.php (July 6, 2004).

“patriotic” electoral patrols to surveil neighborhoods under the authority of a campaign committee of high government officials known as the *Comando Maisanta*.

Curbing Mischief

Hugo Chávez is no democrat. At home, he has concentrated the powers of the state in his presidency, expropriating budgets from municipal governments, strengthening the national police, and packing the Supreme Court with cronies.²³ Abroad, he appears to be in the initial stages of creating a confederation of nations opposed to the United States that is sustained by oil and united by an improvised nationalist ideology. History suggests a future of conflict and poverty, both for those under his rule and for all those who are allied with him.

Other countries in Latin America share some of Venezuela’s economic characteristics—abundant resources and high rates of poverty that make them easy prey for populist demagogues. A bloc of states united in leftist authoritarianism and oil extortion could ignite the flames of armed confrontation again in the Western Hemisphere. To avoid needless conflict as well as a possible energy crisis, the United States should help direct Venezuela back toward democracy, develop alternate sources of petroleum, and engage Latin America more effectively to help allies strengthen democratic institutions and market economies.

Specifically, the United States must:

- **Encourage a free and fair electoral process in Venezuela’s August 15 referendum.** The Organization of American States, the Carter Center, and observers from other countries and international organizations sympathetic to Chávez have been invited to witness the vote. It is in America’s interest to support the OAS observer mission and to urge all impartial monitors to uphold electoral standards that protect Venezuela’s citizens from partisan intimidation, ensure equal party representation at the polls,
- **guarantee fair opportunity to vote, permit equal access to broadcast and print media by all sides, allow observers freedom to monitor and report on all aspects of the vote, and ensure an independent audit and paper trail for any voting machines used.**
- **Constrain mischief if Chávez remains in office.** Whether or not he wins the referendum, wins a follow-on election, or manipulates the process to remain in office, the United States, the OAS, and democratic neighbors must not relent in applying pressure on Venezuela to abide by norms contained in the Democratic Charter. U.S. Members of Congress should increase visits with counterparts in the National Assembly to advocate legislative oversight to curb executive branch excesses. The U.S. National Endowment for Democracy should continue funding election observers and local NGOs committed to strengthening democratic institutions. The United States and democratic allies should insist that Chávez dismantle and disband armed partisan groups such as the Bolivarian Circles, which clearly violate democratic principles. The same community should resist any attempt by Chávez to subvert democracy in neighboring countries.
- **Encourage timely political and economic reforms.** If Chávez’s opponents win the referendum and subsequent presidential elections, the United States should support the OAS in continuing to monitor human rights and civil liber-

23. On May 18, a slim majority of pro-Chávez deputies in the National Assembly passed a law expanding the Supreme Justice Tribunal from 20 to 32 justices and made it possible to approve and remove appointees by a simple majority vote. See “Venezuela: Judicial Independence Under Siege,” Human Rights Watch, June 17, 2004, at www.hrw.org/english/docs/2004/06/17/venezu8855.htm.

ties to prevent reprisals by violent loyalists. Washington and allies such as the Group of Friends (Brazil, Chile, Mexico, Portugal, and Spain)²⁴ should be willing to support reforms to roll back Chavez's police state and jump start a new market economy. The task will be daunting: to reverse decrees allowing expropriation of private property, repeal unduly restrictive business laws, restore local authority over municipal budgets and services, retire partisan generals, strengthen separation of powers, and rewrite Venezuela's convoluted socialist constitution.

Through diplomacy, the United States should encourage Venezuelans to safeguard PDVSA from presidential pilfering and put it in the hands of Venezuelan citizens through stock offerings. The creation of a transparent national oil fund fed by royalties would provide a social cushion without state mismanagement of the industry. A majority stake ownership by the private sector would be more likely to attract the capital needed to meet PDVSA's 2009 production target of 5 mbd and develop super-heavy oil fields and offshore natural gas fields.

- **Develop alternate sources of petroleum and gas to avoid energy extortion.** Besides increasing domestic exploration, America should be prepared to shift oil purchases to Brazil, Canada, Ecuador, and Mexico to compensate for potential cuts in Venezuelan production. Moreover, the U.S. Department of Energy (DOE) should help dependent Latin American and Caribbean nations diversify their energy sources.
- **Promote property rights.** The DOE should also encourage consultations between energy corporations, Latin American governments, and NGOs with expertise in property rights, such as Peru's Institute for Liberty and Democracy, to establish, guarantee, and enforce private and corporate property rights, including rights to

subsurface minerals and hydrocarbons. Enhancing such rights could even help the rural poor, some of whom may own land with petroleum deposits, and could also diminish exploitation of energy industries by self-serving politicians.

- **Increase support for democratic institutions and market economies throughout Latin America.** The United States must increase support for the countries neighboring Venezuela, many of which—like Bolivia and Ecuador—have fragile democracies and weak economies. It must strive to improve peoples' representation in political parties, enhance separation of powers, and promote equal treatment of all citizens before the law in order to increase confidence in democratic institutions as opposed to demagogues. Congress should ratify recently concluded trade pacts with Central and South American countries, and the White House should support regional economic reforms to enable entrepreneurs to start new businesses and the poor to accumulate wealth. Better integrated societies with accountable governments and abundant economic opportunities are more able to resist the spell of charismatic dictators.

Conclusion

On August 15, 2004, Venezuela's citizens will go to the polls to decide whether to retain or recall President Hugo Chávez. During the five years he has been in office, he has divided the nation through demagoguery, destroyed an already anemic private sector through bad economic policy and conflict, caused 12 percent of the population to slip into extreme poverty,²⁵ and created a climate of fear by dispatching partisan political gangs advised by Cuban intelligence officers. Logic would suggest that he be recalled, but fraud or fear that personal security depends on loyalty to Chávez could well keep him in office.

In view of its political and economic instability,

24. Organized by Brazil and the United States in January 2003 to hold President Chávez accountable for promises to abide by electoral procedures outlined in his own constitution.

25. Jackson Diehl, "A Missile from the South," *The Washington Post*, August 2, 2004, p. A17.

as well as its evolving anti-American policies, Venezuela should no longer be considered a reliable supplier of oil. Moreover, mismanagement, diversion of funds, and shifting alliances to match the political goals of President Chávez could keep PDVSA from raising enough capital to stay competitive and maintain production levels. Both the United States and neighbors that depend on Venezuela's oil should diversify their sources of energy imports. They should also guard against any efforts by Chávez to use oil revenues to support revolution beyond his country's borders.

Above all, the United States must not abandon Venezuelans who seek a democratic and free-market renewal. All their leaders, including Chávez, should be actively discouraged from populist rule

and guided toward institutions of public service by a combination of policy incentives and sanctions. To a lesser degree, similar problems exist elsewhere in Latin America. There too, the United States should redouble efforts to ensure that pluralism and free choice defeat authoritarianism and misery.

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