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Venezuela's Policy in Central America and the Caribbean

An Intelligence Assessment

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Venezuela's Policy in Central America and the Caribbean



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An Intelligence Assessment

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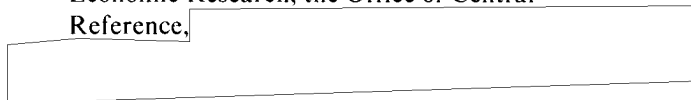
The author of this assessment is [redacted] Latin America Division, Office of Political Analysis. Comments and queries are welcome and should be directed to the Chief, Latin America Division, OPA,



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This assessment was coordinated with the Office of Economic Research, the Office of Central Reference,



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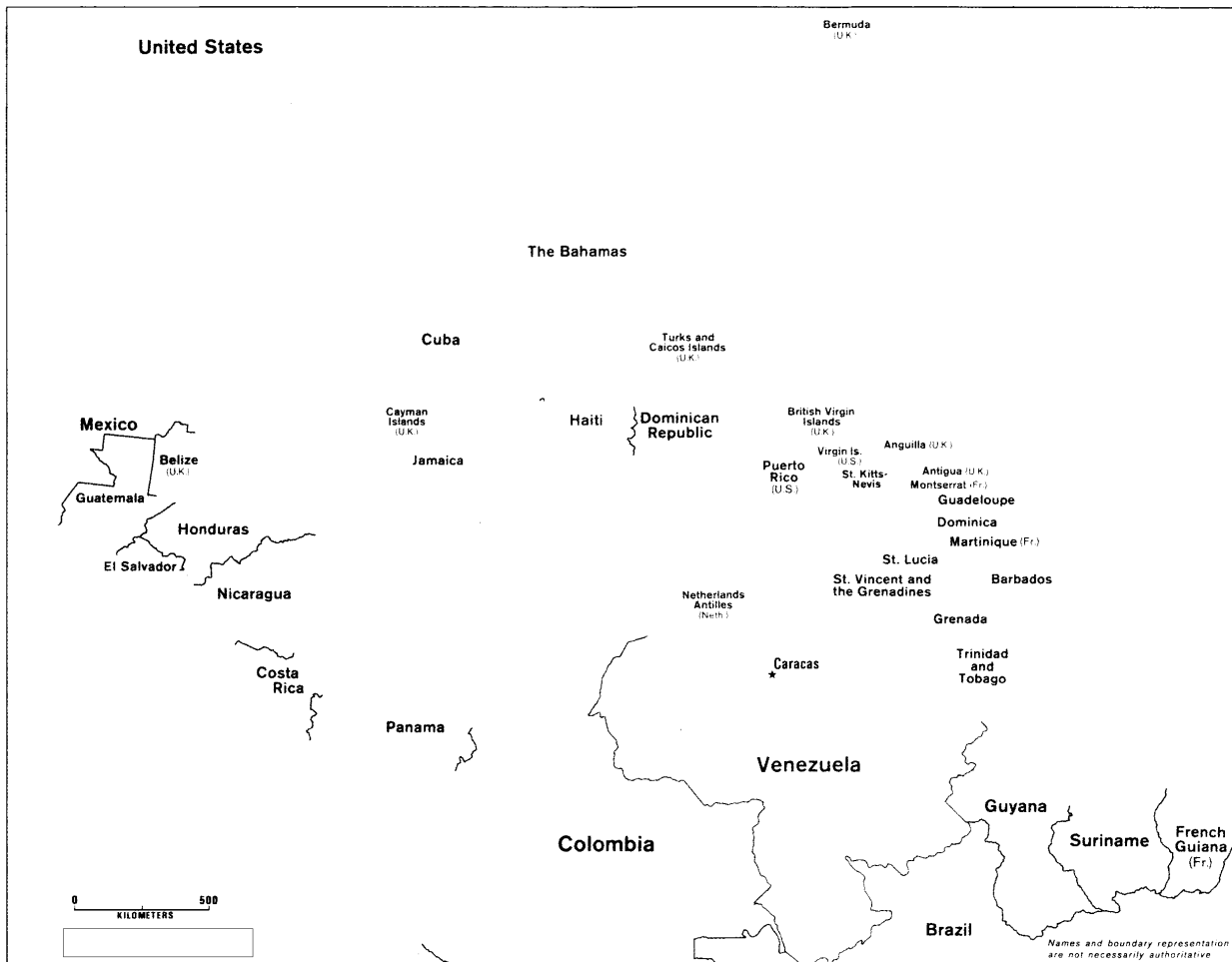
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December 1980

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**Venezuela's Policy in
Central America and
the Caribbean**

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Key Judgments

In its effort to become a major force in Central America and the Caribbean, Venezuela is using its financial and political resources to expand its influence throughout the region. In doing so, it is responding to the potential threat to its interests from the increasing pressures for change in the area, as well as hoping to promote progressive, friendly governments in several countries.

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Venezuela, however, does not appear to have the resources to be as effective as either of the two dominant outside powers, the United States and Cuba. In the short term, Caracas's bid for influence will be hampered by domestic partisanship, a shortage of technical and human resources, and a lack of central direction and coherent strategy. Over the long term, Venezuela's commitment to this course and the availability of surplus oil revenues for aid programs are uncertain.

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These circumstances and Caracas's deteriorating relations with Havana should produce closer cooperation with the United States. President Herrera's government recognizes a considerable community of regional interests with Washington but cannot abide the public perception at home or abroad that it is acting as a US surrogate. The prospects for closer cooperation also will be affected by Herrera's confidence in the depth and breadth of US consultations, as well as by the extent to which Washington appreciates Venezuela's more parochial concerns and its fears of big power confrontation in the Caribbean basin.¹

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Venezuela accepts that it must compete with Cuba for influence in the region, but is apprehensive and prefers to maintain stable relations with the Castro regime and to avoid involvement in US-Cuban disputes. If Venezuela proceeds with plans to release a Cuban exile accused of bombing a Cuban airliner in 1976, however, Havana may break relations in the next few months.

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¹ "Caribbean basin" refers to all of Central America and the Caribbean Sea. Central America includes Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, and Belize. "The Caribbean" refers to all of the islands of the Caribbean Sea, plus Guyana and Suriname.

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In Central America, Venezuela's short-term policies seek to counter external forces that support violent revolution or reaction and to provide economic assistance and political initiatives that will relieve internal pressures in those countries. Its longer term objectives are to reduce political polarization in El Salvador, Guatemala, and Honduras by encouraging democratic openings, bolster political pluralism in Nicaragua, and sustain and protect Costa Rica's democracy. El Salvador currently is the key to Venezuela's strategy. [redacted]

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In the Caribbean, Venezuela hopes to counter Cuban expansionism, preserve stability by shoring up democratic institutions and national economies, and avert superpower confrontations. Jamaica is the testing ground for more aggressive pursuit of these objectives. [redacted]

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Venezuela prefers to work much of its policy through multilateral mechanisms, such as international financial institutions, the Andean Pact, the Inter-American Energy Plan, and the OPEC Development Fund. Herrera believes this approach supplements, and in some cases replaces, Venezuelan resources and reduces Caracas's political exposure. [redacted]

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The new joint Venezuelan-Mexican Petroleum Financing Facility, the cornerstone of Venezuela's regional policy, can significantly further Caracas's interests. Among the agreement's potential pitfalls, however, are unanswered questions regarding its practicability as an instrument of political leverage and its vulnerability to possible Mexican-Venezuelan rivalry. In any event, the agreement promises to blunt charges from Central American and Caribbean nations that OPEC's pricing policies have undermined their economies, while the financial benefits will contribute to regional economic stability. [redacted]

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Domestic politics is playing an important role in Venezuela's policy toward the region. Former President Perez, still an independent force in Central American-Caribbean affairs and spokesman for the largest opposition party, differs with the Herrera administration on policy toward a number of countries, especially El Salvador. Herrera's confrontational style has hurt chances for interparty cooperation, but probably not enough to undermine Venezuela's overall policy. [redacted]

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**Venezuela's Policy in
Central America and
the Caribbean**



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**Part I
Central American-Caribbean Policy:
Motives and Tools**


Foreign Policy: Background and Styles

Because of the preoccupation of Venezuelans with consolidating their political and economic development, the foremost issues of foreign policy are those bearing directly on national development strategy. The chief objectives of that strategy are:

- Institutionalization of the democratic political system.
- Economic growth that promotes export-oriented industrial diversification and reduces dependence on oil exports.
- More equitable distribution of the benefits of economic development.

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Venezuela's abiding interest in Central America and the Caribbean is closely linked to these goals. 

Venezuela began to assign importance to foreign policy in 1958, when the current era of civilian democratic rule began. The transition from military dictatorship and the delicate task of nurturing democratic institutions gave Venezuela's foreign policy a distinctive preference for compromise and for building institutions within which differences could be reconciled. The quadrupling of world oil prices in 1974, however, provided Venezuela, a member of OPEC, the financial resources to expand dramatically its role and influence in world affairs. Then President Carlos Andres Perez was well suited by temperament, ego, and personal and nationalistic ambition to seize this opportunity and try to enhance Venezuela's international stature. 

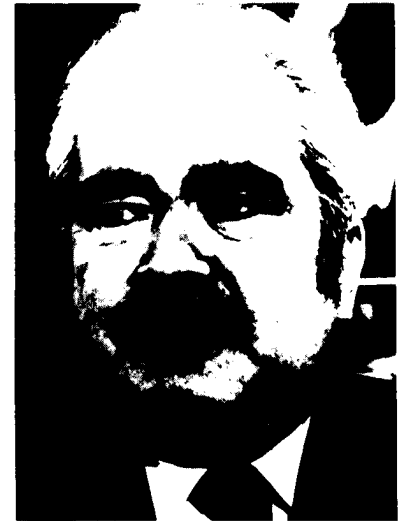
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The current administration of Luis Herrera Campins is trying to focus foreign policy more sharply than did Perez on issues more widely conceded to be in Venezuela's direct national interest. So far, this has not led to major foreign policy changes, but rather to such shifts in emphasis as greater involvement in hemispheric and subregional affairs. To the surprise of some, Herrera has maintained much of Venezuela's

*Venezuelan President
Luis Herrera Campins*




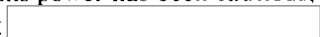

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Third World orientation, although with less clamor than his predecessor. Also contrary to most expectations, the stronger ideological orientation of Herrera's Social Christian Party (COPEI) has not yet produced a foreign policy of greater consistency and structure than Perez's piecemeal, action-oriented, often inconclusive efforts.  25X1

Tradition and the constitution give a Venezuelan president wide personal authority. Herrera's style in exercising this power has been cautious, deliberate, and searching  In addition, 25X6 although he has an inner circle of advisers, the decisionmaking process has been cumbersome because Herrera consults broadly and at length. 

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By employing broad consultation and collegial decisionmaking, Herrera has attempted to shift some of the personal policymaking burden to such agents as the Foreign Ministry, the Ministry of Energy, the

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Venezuelan Investment Fund, and the Institute of Foreign Commerce. The results have been poor; the proliferation of actors and instruments and the absence of central budgeting have created a bewildering complexity. [redacted]

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Venezuela's Foreign Ministry has long been one of the least professional agencies of the government. It suffers from inadequate staffing and lacks sufficient information on foreign affairs issues. Turnover resulting from the frequent changes of parties in power and the legacy of low interest in foreign affairs have compounded Venezuela's problems. Other ministries, such as those that have primary responsibility for national development and oil policies, compete for resources and influence. The resulting interministerial competition generates confusion and duplication and obliges the president to expend valuable time and scarce human and technical resources to provide coordination and central direction. [redacted]

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The Herrera administration is not well equipped to perform this coordinating role. Its uncharismatic, inconsistent, and indecisive leadership style and its unusual confrontational approach to key power centers, such as the political opposition, the media, business, labor, and the military, have stirred partisanship and eroded the government's domestic popularity. [redacted]

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Motives for Involvement in Central America and the Caribbean

Since 1958, successive administrations have believed that encouraging democracy elsewhere in the region would create a more fertile environment for Venezuela's own democratic growth. With revolutionary change now sweeping through the region, this long-held interest has a new sense of urgency. Venezuela has the resources, the incentives, and—for the present at least—the desire to join Cuba and the United States as one of the three most influential powers in the Caribbean basin. The one element essential for success that remains untested is Venezuela's long-term resolve. [redacted] 25X1

Venezuela's first vigorous, if spasmodic, initiatives in Central America and the Caribbean were the result of former President Perez's ego and personal ambition, as well as his vision of Venezuela's hemispheric destiny.

At the same time, some Caribbean leaders were urging Venezuela to become more involved. To be sure, Herrera shares Perez's desire to gain for Venezuela international prestige and favorable "public relations" from greater regional involvement. The most immediate source of Venezuela's increasing interest, however, is concern over the growing danger of instability in the region:

- Caracas is not so confident about the long-term vitality of its own institutions as to feel immune from either foreign-based subversion or general revolutionary spillover.
- Venezuela fears the effects of a big power confrontation in the Caribbean basin and accuses both the USSR and the United States of playing global politics there.
- Venezuela's economic interests and investments as well as its commercial and military sea lanes could be jeopardized by unrest in the area. [redacted] 25X1

In addition to security-related concerns, Venezuela's growing willingness to provide relief from high oil prices to oil-importing developing countries in the Caribbean basin indicates sensitivity to mounting criticism by those countries of OPEC's pricing policies. Venezuela has been keenly aware of this dissatisfaction and of calls by the region's developing nations for direct Venezuelan aid. [redacted] 25X1

To blunt the criticism and to shift much of the financial burden to OPEC as a whole, Venezuela has become one of the cartel's leading proponents of increased aid to developing countries. Caracas's efforts have been hampered by OPEC's pro-Muslim bias; only 10 percent of OPEC economic aid disbursed during 1974-79 went to non-Islamic, oil-importing developing countries. For obvious reasons, the cartel refuses to acknowledge that oil price increases are primarily responsible for current account deficits in developing nations and, therefore, has opposed preferential price treatment. [redacted] 25X1

Fearing their isolation within the Group of 77—the developing countries' caucus—Venezuela and OPEC in the past attempted to lay the blame for world energy problems on massive consumption by the industrialized countries. Since 1978, Caracas has departed somewhat from the OPEC line by virtually acknowledging that

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oil price increases have contributed to economic dislocation in the developing world. Nevertheless, Venezuela backs OPEC's charge that developed countries seek to undermine Third World unity in support of a new international economic order by pitting the oil exporters among the developing nations against those that import oil. [redacted]

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Partisan motives also play a part. The governing COPEI party has provided assistance to fellow Christian Democratic organizations throughout the region. Although the Venezuelan Government has been more restrained, its sympathies are obvious. [redacted]

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These various political considerations have outweighed commercial interests. Venezuela has little to gain economically from its relationships with Caribbean basin countries, since its imports from the region are only a small share of total imports and its exports consist mainly of oil, which is readily salable to other countries—including the United States. Moreover, although most loans extended to Central America have carried commercial interest rates, as required by Venezuelan law, returns have been well below what the funds could have earned if they had been invested elsewhere. [redacted]

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Views of Central America ²

Venezuela's concern about Central America's future is more immediate and probably more fundamental than its interest in the Caribbean. This is due less to supposed cultural and historical affinities than to the more imminent threat in Central America of growing polarization, revolutionary violence, and ascendancy of radical groups. [redacted]

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Venezuela's short-term policies in Central America are designed to counter external forces that support violence of the left or right, and to provide economic assistance and political initiatives to relieve internal pressures. Its longer term objectives are to reduce political polarization in Guatemala, El Salvador, and Honduras by encouraging democratic openings, to bolster political pluralism in Nicaragua, and to sustain and protect Costa Rica's democratic momentum. [redacted]

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² See appendix A for details on individual state-to-state relations. [redacted]

Visits by President Herrera or his Foreign Minister to every country in Central America in the past year demonstrated Venezuela's heightened concern for the region in light of Nicaragua's revolution. Mexico's own interest in Central America and Venezuela's habitual uneasiness about "intervening" in other nations' affairs may reinforce Herrera's inclination to act discreetly. Nevertheless, he seems optimistic about Venezuela's chances of influencing forces and events in the area, with the exception of those in Nicaragua. [redacted]

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In contrast to Herrera, many COPEI party leaders are more concerned over Cuba's involvement in Central America. They are even less sanguine than Herrera about the prospects for pluralism in Nicaragua and are more committed to bolstering the Christian Democrats in El Salvador. They believe that Honduras is as volatile as Guatemala but is being spared for the present by subversives who need it as a supply route for arms to El Salvador. [redacted]

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The Herrera administration's prospects for achieving its goals are obscured by its still-evolving strategy, its uncertain commitment, and the fact that the tractability of problems varies from one Central American country to the next:

- Venezuela's efforts in Costa Rica, for example, must concentrate on economic problems; politically, Caracas needs only to facilitate the country's democratic evolution. The Venezuelan commitment in both regards seems reasonably firm.
- In Honduras, also, the Herrera administration probably could be effective in protecting and accelerating the momentum toward civilian government, although establishment of democratic rule there still faces major obstacles. To date, however, Venezuela has not been very active.
- Many uncertainties remain about postrevolutionary Nicaragua, but experience to date suggests that even substantial Venezuelan input may have little discernible effect. Perhaps recognizing this, the Herrera government is losing enthusiasm for the effort.
- Caracas would like to exert major influence in El Salvador, and it appears committed to supporting the present junta, but other ingredients will be necessary to reverse the process of polarization in that country. Failure in El Salvador would set back Venezuelan efforts throughout the region.

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• What Foreign Minister Zambrano called the most problematical case in the region—Guatemala—may prove critical to Venezuela’s policy of attempting to channel Central American revolutionary ferment. It is too early to tell whether Caracas can achieve much in Guatemala, but success there could have greater positive effects than in any other country in the region. [redacted]

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Views of the Caribbean ³

Primarily because of proximity, Venezuelans consider the Caribbean a legitimate sphere of influence and one of their highest foreign policy priorities. Last year, Zambrano told the UN General Assembly that Venezuela is “essentially Caribbean.” Venezuela’s direct security interests in the region are:

- Countering Cuban expansionism and influence.
- Shoring up democratic institutions and national economies to preserve stability.
- Resisting superpower competition in the Caribbean.

Concessional loans and assistance programs further these goals, increase Venezuela’s influence and standing, and satisfy Caracas’s need to blunt criticism from oil-poor developing countries. [redacted]

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The problems Venezuela faces in attempting to provide this kind of aid and to seek influence in the Caribbean are less immediate and intractable than in Central America, but they are no less complex and deep rooted. As a result, the Herrera government has had a difficult time pursuing its Caribbean policy. In the English-speaking islands, this difficulty often is attributed to cultural and language differences, a convenient but misleading explanation. Although cultural differences have inhibited communication and understanding, the shortage of capable people in the Venezuelan Foreign Ministry and elsewhere has been the primary cause of the failure to pursue an aggressive strategy irrespective of these differences. [redacted]

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An equally serious impediment has been the difficulty of developing an integrated policy toward a diverse group of islands that face economic problems of varying intensity and that suffer from the continuing strains of political fragmentation. This has resulted in inconsistent policy in Caracas and a tendency to focus on the trouble spots. [redacted]

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³ See appendix B for details on individual state-to-state relations [redacted]

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Herrera also will have to overcome Caribbean cynicism and suspicion, some of which was engendered by the failure of Perez to deliver on many of his promises.⁴ Like him, the current administration has generated much promotional rhetoric with little concrete follow-up, other than the joint Venezuelan-Mexican Petroleum Financing Facility established this year.⁵ The eastern Caribbean, which so far is not included in the oil facility, will become particularly disenchanted with Caracas if some tangible aid is not forthcoming in the next year. Even if such assistance is offered, some of the eastern Caribbean islands—such as Barbados, the Netherlands Antilles, and Trinidad and Tobago—will remain suspicious of Caracas’s motives and dependability. For all these reasons and despite their genuine concern about the region, Venezuelan officials do not seem enthusiastic about becoming deeply involved in the localized, day-to-day political affairs of the Caribbean. [redacted]

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Kinds of Assistance

Venezuela’s efforts to project its influence in the Caribbean basin have almost exclusively taken the form of financial assistance.⁶ From 1974—when Venezuelan Government credits to the region first reached significant proportions—through 1979, the government committed \$5.8 billion of medium- to long-term credits at less than market rates. Two-thirds of that was disbursed, the bulk of it going to Central America, the Caribbean, and Andean Pact countries. Earlier this year, Caracas considered a new program of assistance to Central America and the Caribbean on the order of \$1.5 billion to \$2.5 billion for 1980. The government now seems inclined to adopt only an interim measure of about \$250-300 million in oil facility aid annually, in the hopes that OPEC will launch its new assistance programs in 1981 and that Mexico can implement its share of the facility. [redacted]

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⁴ Perez’s efforts to court Caribbean leftists such as Manley of Jamaica and Castro also antagonized moderates such as Trinidad and Tobago’s Prime Minister Williams. [redacted]

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⁵ The oil financing facility is a joint Venezuelan-Mexican agreement to guarantee oil supplies to certain Central American and Caribbean countries and to lend recipients 30 percent of the purchase price at low interest [redacted]

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⁶ What Venezuela presents as foreign aid in its official accounts consists almost exclusively of loans made on terms that are not sufficiently lenient to qualify them as aid. In international accounts, the accepted norm for Official Development Assistance is that a loan contains a concessionary element of not less than 25 percent; nearly all Venezuelan loans have been less than 14 percent concessional, and, therefore, would be classified as Other Official Flows. By the accepted standard, only about a tenth of Venezuela’s pre-1979 foreign commitments could qualify as ODA, that is, aid [redacted]

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Multilateral Assistance 1974-80¹

Million US \$

Multilateral Agency	Venezuelan Disbursing Institution ²	1974	1975	1976	1977	1978	1979	1980	Total
Commitments									
International Monetary Fund	BCV	540.0	247.0	38.0	580.0				1,405.0
United Nations	MRE	143.0							143.0
World Bank	FIV/BCV	524.0	25.0	27.0	26.0	23.0	20.0		520.0
Inter-American Development Bank	FIV/MH BCV	18.0	674.0	18.0	18.0	171.6	552.6		1,364.2
Caribbean Development Bank	FIV/MH BCV	35.0		3.0	3.0	3.0	13.8		48.8
Central American Assistance (SWAPS, bonds, coffee, and oil aid)	BCV/FIV MAC	708.4	33.0	50.0	50.0	50.0			731.4
OPEC Special Fund	MH			112.0	122.0				234.0
Andean Development Corporation	FIV/BCV MH		7.0	39.0	10.0	52.5	18.0		82.5
Reciprocal Credit Convention, Latin American Free Trade Association	BCV	12.0	67.0	180.0	186.0	186.0	186.0		186.0
Santo Domingo Agreement	BCV	18.0	48.0	48.0	48.0	66.0	66.0		66.0
Andean Reserve Fund	BCV			60.0					60.0
Inter-American Saving and Loan Bank	FIV				5.0		5.0		10.0
National Coffee Fund	FIV					20.0			20.0
Latin American Export Bank	FINEXPO					0.7			0.7
Contributions From International Organizations	MRE					12.3	14.6		26.9
Stock Market	MH	46.3	23.3	25.0					94.6
Total Commitments		2,044.7	1,124.3	500.0	1,048.0	585.1	876.0		4,993.1
Disbursements									
International Monetary Fund	BCV	301.4	422.2	61.8	9.0	5.7	43.9		844.0
United Nations	MRE	50.2	76.4	16.4					143.0
World Bank	FIV/BCV	350.0	150.0				20.0		520.0
Inter-American Development Bank	FIV/MH BCV		90.0	100.0	100.0	196.7	116.0		602.7
Caribbean Development Bank	FIV/MH BCV	5.0	6.6	6.2	6.2	6.3	7.7		38.0
Central American Assistance (SWAPS, bonds, coffee, and oil aid)	BCV/FIV MAC		168.9	116.1	110.0	108.7	87.2		590.9
OPEC Special Fund	MH			46.6	80.0		8.1	116.5	251.2
Andean Development Corporation	FIV/BCV MH					6.1	18.0		24.1
Reciprocal Credit Convention, Latin American Free Trade Association	BCV						106.0		106.0
Santo Domingo Agreement	BCV		5.9	5.8	19.1	5.5	1.3		37.6
Andean Reserve Fund	BCV					15.0	15.0		30.0
Inter-American Savings and Loan Bank	FIV				3.0	2.0	1.0		6.0
National Coffee Fund	FIV					20.0			20.0
Latin American Export Bank	FINEXPO					0.7			0.7
Contributions From International Organizations	MRE					12.3	13.5		25.8
Stock Market	MH	46.3	23.3	25.0					94.6
Total Disbursements		799.9	1,019.3	473.9	469.3	516.0	437.7	116.5	3,334.6

¹ Data for 1980 are not complete.² BCV: Central Bank

MRE: Ministry of Foreign Affairs

FIV: Venezuelan Investment Fund

MH: Ministry of Finance

MAC: Ministry of Agriculture

FINEXPO: Export Financing Fund

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**Bilateral Assistance to Central America
and the Caribbean 1974-80¹**

Million US \$

	Venezuelan Disbursing Institution ²	1974	1975	1976	1977	1978	1979	1980	Total
Commitments									
Barbados	FIV					5.0			5.0
Costa Rica	BCV/FIV	20.0		20.0		50.0			90.0
Cuba	BCV			2.3	2.3	2.3	2.3		2.3
Guatemala	MH			5.8					5.8
Guyana	FIV/FINEXPO			1.2	11.2	1.2	1.2		11.2
Honduras	BCV	4.0							4.0
Jamaica	BCV/FIV/FINEXPO		50.0		32.0	38.0	12.0		108.0
Nicaragua	BCV	3.0							3.0
Dominican Republic	FIV/BCV			100.0				11.1	111.1
Additional Caribbean countries	MH/MRE			6.6			13.5		20.1
Disbursements									
Barbados	FIV								
Costa Rica	BCV/FIV	20.0		20.0		50.0			90.0
Cuba	BCV					2.3			2.3
Guatemala	MH			5.8					5.8
Guyana	FIV/FINEXPO				10.0				10.0
Honduras	BCV		4.0						4.0
Jamaica	BCV/FIV/FINEXPO		12.5	25.0	38.2	4.8	4.3		84.8
Nicaragua	BCV		3.0						3.0
Dominican Republic	FIV/BCV				45.7	14.3	10.0	11.1	81.1
Additional Caribbean countries	MH/MRE			6.6			1.2		7.8

¹ According to the US Embassy in Caracas, it is impossible to provide a country-by-country breakdown of foreign aid, because so much Venezuelan assistance is channeled through international agencies. Data for 1980 are not complete.

² BCV: Central Bank
MRE: Ministry of Foreign Affairs
FIV: Venezuelan Investment Fund
MH: Ministry of Finance
MAC: Ministry of Agriculture
FINEXPO: Export Financing Fund

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Some Venezuelan officials believe they need to complement "big check" assistance with the kinds of human and technical resources that Cuba has employed successfully. Until unanticipated oil price increases late last year promised substantial surplus revenue in 1980, Caracas was in fact adopting the line that foreign aid would take the form of "less quantity, more quality."

Venezuelan Agencies for Channeling Assistance to Central America and the Caribbean

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Venezuelan Investment Fund (FIV)

The FIV was created in 1974 to invest excess government revenue in ways that generate more income, complement domestic development, and promote international financial cooperation. Autonomous from the treasury and the national budget, the FIV theoretically receives 50 percent of the tax revenue from oil and gas exploitation and income taxes. It handles most conventional foreign assistance programs, including the oil facility, as well as trust funds in the Caribbean Development Bank and the Inter-American Development Bank.

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Central Bank

The Central Bank contributes to International Monetary Fund facilities, buys bonds, and provides central bank swaps, credit lines, export credits, and other forms of financial assistance.

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Ministry of Finance

Finance administers contributions to the OPEC Fund and is responsible for capital subscriptions and contributions to special funds of multilateral development banks.

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Ministry of Foreign Affairs

Foreign Affairs is responsible for administering contributions to the UN and other international nonbank agencies, and it handles non-oil-related assistance to the smaller Caribbean islands.

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Venezuela's shortage of human and technical resources makes this approach difficult. One compelling reason that 60 percent of Venezuela's financial assistance from 1974 to 1979 was channeled through multilateral institutions was that the responsible government agencies lacked adequate staffs to evaluate development projects. For the same reason, most bilateral assistance has been directed initially at balance-of-payments problems rather than development projects. Caracas continues to depend on recipients and international financial institutions to develop and evaluate projects for development assistance.

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Some officials—particularly those at the Foreign Ministry—believe this reliance on multilateral channels has diluted the political returns on Venezuela's aid. They argue that direct bilateral aid is simpler and more effective. For the moment, the bilateralists appear to be gaining an edge over their multilateralist colleagues—mainly from the Ministry of Energy and the Venezuelan Investment Fund—who believe that direct assistance entangles Caracas in foreign and domestic political problems and overburdens the government's limited resources.

Financing Facility. A limited arrangement of this type was in effect for some countries of the Caribbean basin since early in the Perez administration, but an agreement between Venezuela and Mexico announced on 3 August 1980 promises to increase the volume of assistance and to extend it to most countries of the region.

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This debate probably also reflects differences among policymakers over the extent to which conditions should be attached to Venezuelan assistance. Publicly, the government asserts that aid is given with no strings, except that recipients are required to promote development and institutionalization of democracy. In practice, most multilateralists take this view. The bilateralists, however, are more aggressive in efforts to project Venezuelan influence in the region and to compete with Cuba.

The agreement pledges Venezuela and Mexico to share equally in guaranteeing delivery of up to 160,000 barrels of oil per day toward the net domestic consumption of Costa Rica, El Salvador, Guatemala, Nicaragua, Honduras, Panama, Barbados, Jamaica, and the Dominican Republic. Other countries could be included in the program later, but Venezuela and Mexico hope a similar proposal by Trinidad and Tobago, which would provide \$208 million worth of oil credits over three years, will take care of the smaller

The Petroleum Facility

If Venezuela's efforts to acquire influence in the region are manifested primarily in its aid programs, then the cornerstone of these programs is the Petroleum

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eastern Caribbean islands. The Venezuelan-Mexican arrangement will be retroactive to 1 January 1980 for Nicaragua and perhaps Costa Rica and will be phased in gradually for the other recipients. [redacted]

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Participating countries will receive 30 percent of the purchase price (which will be at the world level) paid into their central bank accounts on credits repayable in five years at 4-percent interest. If the money is applied to priority economic development projects, especially in the energy sector, the repayment period may be extended up to 20 years at 2-percent interest. This represents effective financial assistance of about \$300 million per year, with terms that are substantially more lenient than those of previous Venezuelan Government fundings. Separate one-year participation agreements are to be signed with each beneficiary country, renewable annually. Both Venezuela and Mexico have asserted that they will reach their respective supply quotas during the first quarter of 1981. In 1980, Venezuela has carried nearly all of the burden.⁷

[redacted] 25X1

The joint oil facility faces several obstacles. The Venezuelan congress must approve the program and authorize funding, but partisanship and procedure are almost certain to complicate and delay legislative action and implementation. Individual bilateral contracts remain to be worked out, and the mediocre record of Venezuela's previous effort and the Herrera administration's failure to correct bureaucratic inadequacies do not inspire confidence. Nonetheless, officials in Caracas seem optimistic that the program will be implemented quickly. [redacted]

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Perhaps the strongest Venezuelan reservations concern the anticipated shortcomings of the arrangement as a tool for direct political influence. The necessity for annual renewal represents potential Venezuelan leverage with the recipients. Once renewed, the program becomes largely automatic. In addition, recipients generally can be expected to assert that they are entitled to unconditional aid because they have been exploited by the oil producers. [redacted]

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⁷ Venezuela has been supplying 120,000 barrels per day to the region and has agreed to assume the total supply burden under the agreement until January 1981. [redacted]

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Mexico may also have second thoughts about the program. Never as enthusiastic as Venezuela, Mexico was reluctant to take on the financial burden, was uncomfortable in offering assistance to regimes in Guatemala and El Salvador that it does not support politically, and generally was hesitant about a program that runs counter to its conservative, commercial tendencies in oil policy. Mexican production may not increase enough to permit deliveries of its share without cutting into other contracted exports. [redacted]

25X1

Mexico's concern with supply details as well as its view that guaranteed deliveries are a greater benefit than the financial assistance reflect its longstanding preoccupation with retaining total control over its petroleum resources. For all these reasons, it would not be surprising if Mexico stalls full implementation of the agreement by starting shipments now to Nicaragua and other countries it seeks to befriend, while delaying well into 1981 shipments to Guatemala, El Salvador, and perhaps others. [redacted]

25X1

Despite the unresolved difficulties, both sponsoring governments evidently recognize the program's potentially significant political benefits. Venezuela views the oil arrangement as a relatively inexpensive means to further its overall foreign policy in the region and to blunt criticism from developing countries of Venezuelan and OPEC oil policies. Moreover, Caracas hopes the program will encourage OPEC to expand its financial aid to developing nations. [redacted]

25X1

Collaboration on this program could lead to broader cooperation between Mexico and Venezuela on other regional and international issues. The first signs, however, are not encouraging. Herrera apparently found it difficult not only to get Mexico to participate in the arrangement, but also to persuade President Lopez Portillo to extend it to Guatemala and El Salvador. The Mexicans may view Venezuela's current campaign for hemispheric energy cooperation as competition for Lopez Portillo's UN Global Energy Plan, which he introduced at the UN General Assembly session in 1979. [redacted]

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For its part, Venezuela has been displeased that Mexico enjoys the benefits of OPEC, such as higher prices, without assuming the obligations of membership or sharing in the criticism from the developing world. In addition, the association of Mexico's ruling party with Venezuela's opposition *Accion Democratica* in the Mexican-sponsored Permanent Conference of Latin American Political Parties could antagonize COPEI.

festation of Venezuela's regional leadership aspirations, since Central American and Caribbean states would be among the chief beneficiaries of such cooperation. [redacted] 25X1

25X1

Some Venezuelan-Mexican rivalry over influence in the Caribbean basin is almost inevitable. The two governments already differ to some extent on policies toward El Salvador, Cuba, and Jamaica. Mexico's policies toward much of the region are still in the formative stage. Compared to Herrera, Lopez Portillo is generally more supportive of the left, more inclined to keep hands off, and more confident that Mexico can accommodate major change in the region. [redacted]

The Inter-American Energy Plan was outlined first by Energy Minister Calderon a year ago and developed further last March by US and Venezuelan officials at the technical level. Personally taken with the project and in somewhat of a hurry—Calderon sponsored an exploratory meeting in September of energy ministers from Colombia, Brazil, Nicaragua, Mexico, Ecuador, Costa Rica, and the Dominican Republic. He plans a meeting soon of all the hemisphere's energy ministers, presumably to take formal steps toward implementation. [redacted] 25X1

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A number of factors, however, should inhibit serious rivalry:

Although the plan is far from fully worked out, it has several distinct features:

- Both governments are genuinely concerned about the dangers of economic deterioration and political instability in the region.
- Both seek to promote democratic institutions.
- Neither has a well-charted regional strategy.
- The United States has the incentive and some capability to induce both countries to cooperate. [redacted]

- Establishment of an inter-American program for energy cooperation and coordination with a board of governors and a coordinating group.
- Establishment of priorities in energy resource development.
- Parallel effort on energy planning, training, and conservation.
- Projects to be financed by an inter-American energy fund, with contributions from industrialized countries, oil-exporting countries, more developed oil-importing countries, the OPEC Fund, and the World Bank. [redacted] 25X1

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Mexican participation in the oil agreement could be one of several factors that might lead Cuba to reassess, and conceivably moderate, its efforts in the region. Castro probably would be more reluctant to jeopardize his good relations with Mexico than with any other Latin American nation. Moreover, the financial assistance to be provided is on a scale Cuba cannot match. Mexico benefits politically from its relationship with Cuba, however, and for the present is not likely to compete aggressively with Havana for influence in the Caribbean basin. [redacted]

A technical-level working group of the Latin American Energy Organization (OLADE) forcefully rejected Calderon's IAEP proposal in May. The OLADE representatives evidently believed the plan would duplicate and eventually undermine their organization. Moreover, OLADE opposes US participation, viewing energy as a North-South issue and blaming industrialized countries for the world energy shortage. One Venezuelan press article even suggested that Washington was taking part in IAEP to steer Latin American countries toward alternative energy sources and thus make more oil available for the United States. Calderon appears determined to push ahead, circumventing OLADE if necessary, but preferring its participation. [redacted] 25X1

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The Inter-American Energy Plan

Venezuela's Inter-American Energy Plan (IAEP) for hemispheric cooperation in development of Latin American energy resources is unrelated to the petroleum financing facility or other forms of assistance to the Caribbean basin. Nevertheless, it is another mani-

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The OPEC Development Fund

The Herrera government considers the OPEC Development Fund, previously known as the Special Fund, to be an integral element of its Caribbean basin policy. A founding member and one-time leading force in OPEC, Caracas retains a surprising degree of influence primarily because of its long experience in oil matters, its unique suitability as a moderating force, its historical stature in and technical contributions to the organization, and its willingness to use oil as a negotiating instrument. [redacted]

25X1

The Herrera administration is continuing efforts begun under Perez to increase assistance to Central America and the Caribbean from OPEC resources. In the process, Caracas has come closer than most OPEC members find comfortable to acknowledging the adverse impact of oil price hikes on the economies of developing countries. This appears to stem from Venezuela's fear that oil-poor developing countries—specifically in Latin America—might form a united front that would isolate Venezuela. [redacted]

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Consequently, shortly after taking office, the Herrera administration proposed that OPEC develop new mechanisms to help these developing nations cope with the effects of oil price increases. Venezuela, supported by Algeria, has been a leading advocate of the transformation of the OPEC Fund into an international development bank with a capitalization of a least \$10 billion and with authority—similar to that of the World Bank—to increase its resources by tapping international financial markets. Iraq has made a somewhat similar proposal. Saudi Arabia, Kuwait, and the United Arab Emirates have steadfastly opposed any such conversion. [redacted]

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Although OPEC finance ministers in early 1980 adopted reforms that substantially strengthened the OPEC Fund, they rebuffed the revisionists by reaffirming its status as a development agency, dependent upon OPEC contributions. The sweeping changes proposed by Venezuela, Iraq, and Algeria, which had been scheduled for consideration at the November 1980 Baghdad summit, have been delayed indefinitely by the Iraqi-Iranian hostilities. While Venezuela had hoped to see its proposals adopted by OPEC by early 1981, this appears highly unlikely. [redacted]

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The Andean Pact

The Herrera administration continues to hope that some of its initiatives in Central America and the Caribbean can be carried out through the Andean Pact. For a variety of reasons, Venezuela derives few economic benefits from membership in this regional integration organization. Caracas places far more value on such political dividends of the Pact as Andean support for democratic institutions, increased diplomatic bargaining leverage, defense against criticism of oil policies by the region's developing countries, and shared political risks. [redacted]

25X1

As the strongest power in the Pact, Venezuela has had the greatest influence in shaping the organization's political role, particularly in Central America. Early last year, the newly inaugurated Herrera administration orchestrated joint Andean policies toward the contending parties in Nicaragua's revolution. Although these efforts produced mixed results, the Pact's aggressiveness suggested some potential for joint political action. [redacted]

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Complications, however, such as the latest Bolivian coup and reservations about the Pact's political role on the part of the new Peruvian administration, coupled with longstanding economic disparities and political differences, probably will inhibit Venezuela from employing the Pact actively in its Central American-Caribbean policy. Venezuela evidently was disappointed that a joint fact-finding mission to Central America last January and a joint declaration in March produced nothing more than bland expressions of support for peace in El Salvador. Caracas probably will continue to involve the organization in its regional concerns, but the Pact's role promises to remain limited. [redacted]

25X1

Impact of Domestic Politics

Venezuela's domestic political contests characteristically spill over into foreign affairs, but in both spheres a measure of compromise, or at least a truce, usually emerges. In recent months, partisan issues increasingly have intruded on foreign policy, in large part because of Herrera's unrelenting attacks on the leading opposition party, *Accion Democratica* (AD) and his inability to win the complete support of his own party, COPEI. The contentious atmosphere takes on added importance because the ruling party does not enjoy a majority in congress. [redacted]

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More than any other area of foreign policy, relations with Central America and the Caribbean have been affected by partisan competition. AD has accused the administration of trying to foster Christian Democracy in Central America, especially in El Salvador, at the expense of other democratic forces. In fact, Herrera has been less inclined to funnel assistance to regional Christian Democrats than is the COPEI party in general, especially former President Caldera's wing. But even where both the government and COPEI favor assistance, Herrera often defers to the party to avoid public and partisan criticism. The largely independent involvement of Caldera and his former Foreign Minister Calvani in Central America—traveling throughout the region, speaking out on issues and policy, and supporting Christian Democratic groups—continues, nevertheless, to provide AD with ammunition. Some recent signs suggest that the growing intensity of debate over El Salvador may have sufficiently disturbed both sides to produce an effort at general reconciliation [redacted]

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Interparty differences on other regional issues are probably more resolvable. Perez was an enthusiastic advocate of former Jamaican Prime Minister Manley, but most AD party members did not challenge the COPEI administration's standoffish posture. The *Adecos* are more optimistic than COPEI about the prospects for political pluralism in Nicaragua, but both parties are concerned and see assistance as the only lever to induce moderation. There are few differences over policies toward Cuba—although Perez was close to Castro—or other parts of the region, with the exception of Panama. The Herrera administration views Panamanian strongman Torrijos as a Cuba-abetting mischiefmaker in Central America, but most *Adecos* seem unconcerned, probably because they believe Perez can manipulate Torrijos. [redacted]

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Part II**The Cuban and US Factors
in Venezuelan Policy****Ambivalent Policy Toward Cuba**

Cuba's involvement in Central America and the Caribbean gives added urgency to Venezuela's interest in the region. It complicates the already complex and sometimes confused Cuban-Venezuelan relationship. That relationship includes some elements of affinity, but at the root are fundamental differences in political philosophies that arouse Venezuelan apprehension over Cuban expansionism. [redacted]

25X1

Venezuelans generally feel they ought to compete with Havana for influence in the area, but are concerned over their ability to compete effectively and over the effects of such competition on their other regional interests. For these reasons, Caracas has shown little assertiveness and little consensus on this score, primarily because the Herrera government has not truly analyzed its Cuban policy. [redacted]

25X1

More hardline elements in the government—including the military and security forces—as well as many of the COPEI leaders not directly participating in the executive branch favor strong and direct challenges to Cuban initiatives in the region. Some believe the ultimate objective of Cuban thrusts into the area is Venezuela's oil. Over the longer period, the hardliners believe the Soviet Union will be less able to support Cuba, forcing Havana to moderate and seek accommodation with the West. They favor a tough-minded dialogue with Cuba that will open up chances for such accommodation, and they believe the United States should help by easing its economic denial program and its policy on the Guantanamo Naval Base. [redacted]

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The Herrera government's official policy on Cuba is less aggressive, seeking more subtle initiatives that minimize the risk of polarizing the Caribbean. The administration is particularly anxious to avoid being caught in the middle of US-Cuban differences. [redacted]

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Competing with Cuba on any terms is cause for anxiety. Venezuelans still hold Fidel Castro in awe and, believing he has consistently bested the United States, question their own capacity to compete. Many in the Herrera government seem humbled, intimidated, and almost apologetic that they can give only money to the Caribbean basin, while Cuba can provide ideas and human resources. Most Venezuelans, moreover, would not want competition to undermine official relations with Havana. They are habitually worried about the fragility of their democratic system and its vulnerability to a hostile Cuba and also believe that full Cuban reintegration into the inter-American system offers the best hope for imposing greater responsibility and restraint on Castro. [redacted]

25X1

These attitudes lead Venezuela to formulate its Cuban policy almost on a case-by-case basis. Castro's proposal last year that the two countries undertake joint assistance programs in Central America and the Caribbean drew a typically mixed response. Among others, Venezuela's Ambassador to Havana supported the idea as a means to keep Cuba in line and channel its energies constructively. More cautious observers argued probably successfully—that Cuban interests would profit inordinately from association with Venezuela's financial largesse, while Caracas would not receive its fair share of credit. [redacted]

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The Herrera administration's reluctance so far to alter the quadrilateral oil arrangement with Cuba is another example of Caracas's ambivalence. Venezuela delivers 10,000 barrels of crude oil per day to Cuba on Soviet account in exchange for Soviet delivery of a like amount to Venezuela's European customers. Venezuela's share of the transportation savings, about \$6 million annually, is a pittance. Some Venezuelan officials would like to scrap the arrangement to demonstrate displeasure with Cuba over other issues. Herrera evidently has felt obliged to continue, however, for the same political reasons that led Perez into the arrangement several years ago—to embellish Venezuela's image of Third World leadership and independence from the United States. [redacted]

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Former Jamaican Prime Minister Manley, Grenadian Prime Minister Bishop, UN Secretary General Waldheim, and Cuban President Castro at the nonaligned summit in 1979. [redacted]

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[redacted] ©

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Soured Relations

Notwithstanding Caracas's preference for stable ties with Cuba and its reluctance to compete openly and aggressively, relations in recent years have soured. Since 1976, a series of incidents over diplomatic privilege and the rights of asylum have periodically generated tension. Perez's personal rapport with Castro and increased commercial ties generally helped diminish these differences. Last spring, however, when thousands of Cuban would-be refugees stormed Peru's Embassy in Havana, Cuba launched a vitriolic propaganda offensive not only against Peru but also against Venezuela, which has been harboring asylum seekers sporadically for several years. [redacted]

25X1

Venezuela was surprised at Castro's aggressiveness over the refugee affair. Although the media highlighted verbal exchanges and increased tensions, neither Venezuelan public opinion nor the Herrera administration ever favored severing relations. Herrera rebutted Cuba's attacks in nonpolemical terms. When a hemispheric conference was held in Costa Rica in May to address the issue, Venezuela favored a restricted agenda and a nonbelligerent approach. Herrera felt compelled not to back down, yet clearly preferred to reach an accommodation with Castro. Many Venezuelans felt caught in the middle of a wider US-

Cuba struggle. Unless Castro chooses to sustain his provocative attitude or other complications arise, disagreement over the status of Cubans in Venezuela's Embassy in Havana is not likely to pose a long-term impediment to stable relations. [redacted]

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A more volatile complication, however, arose in September. The Venezuelan Government announced that it would release, for lack of evidence, Cuban exile Orlando Bosch and three others who were arrested and charged with the bombing of a Cuban airliner in 1976. Having lobbied vehemently for Bosch's trial and conviction, Castro was infuriated. He recalled the entire Cuban diplomatic staff from Caracas, threatened to break relations altogether, and publicly denounced the Venezuelan Government, the COPEI party, and President Herrera personally.⁸ Herrera forcefully rebutted Castro's criticism, but has left the choice to Cuba of severing relations or otherwise aggravating the bad feelings. Castro is not likely to take concrete

⁸ There is no evidence that political factors influenced the decision to release Bosch, but the Cuban exile community in Venezuela is large (estimated in 1976 at 20,000 to 50,000) and influential—several leading government security officials under the last two administrations have been Cuban exiles. Moreover, Caracas has been concerned in recent months with increasing insurgent activity. Venezuelans recall Cuba's support of Venezuelan guerrillas in the 1960s [redacted]

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action until Bosch's release, which is not expected before the end of the year. [redacted]

Enter the United States

Venezuela's concerns about Cuban activities in Central America and the Caribbean in many cases are parallel with the views of Washington. Such concerns, however, generally do not extend beyond this regional context. In fact, Venezuelans are apprehensive that the Caribbean basin might become the scene of a US-Cuban/USSR confrontation over nonregional issues that would polarize the region. For example, Caracas is not concerned over Cuban adventurism in Africa, and Foreign Minister Zambrano publicly criticized as overreaction US military activities in response to the Soviet brigade in Cuba. [redacted]

25X1

Venezuelan criticism of US policy in the Caribbean basin, while revealing some genuine concern over possible big power confrontation on its doorstep, should not be taken at face value. As indicated, Venezuela views Cuba as a competitor and the United States as an ally. For its efforts in the Caribbean to be effective, however, the Herrera government recognizes that it must not be perceived as marching in step with the United States. This would undermine Venezuelan credibility and compound the polarization Caracas wishes to avoid. Nevertheless, Herrera privately supports an active US role in the Caribbean basin, because of the congruence of general US-Venezuelan interests and his belief that only US aid—together with Venezuela's and Mexico's—can offset Cuba's investment of human resources in the region. [redacted]

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In many other respects, Venezuelan policies complement US interests. Both countries seek economic and political stability, promote democratic institutions, and support respect for human rights. Taking pride in its record on these principles and its reliability as a supplier of oil to the United States, Venezuela feels entitled to an improvement in its historically close relationship with Washington. The past two administrations appear to have been flattered by the US effort to work some of its Central American policy through Caracas. At the same time, Venezuelans are uneasy about what they perceive as waning US power. [redacted]

25X1

Neither Venezuela nor the United States is comfortable with the fact that oil has been the cornerstone of the bilateral relationship. Fundamental differences over nationalization of the oil industry, price, supply, and OPEC membership have generated friction for years. The fact that many Venezuelans suspect the United States of coveting their oil, particularly vast reserves of heavy oil, has aggravated sensitivities. [redacted]

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It is thus fortunate for both countries that complementary Latin American policies are becoming a second cornerstone in the bilateral relationship. Herrera probably still believes the United States pays too little attention to Latin America, and he sometimes has trouble understanding aspects of US hemispheric policy, but he appears generally pleased with the thrust of that policy and with the level of bilateral consultation and coordination. To the extent that polarization in the region increases, the bilateral gap will narrow even further. [redacted]

25X1

For the most part, Herrera will welcome US support for Venezuelan initiatives in the Caribbean basin, providing Washington meets his terms:

- US support must be exceedingly discreet. Caracas can afford to work *with* the United States to a limited extent, but it must not be perceived to be working *for* the United States.
- Herrera must feel confident that the United States is consulting closely on all facets of Central American-Caribbean policy. He questions, for example, whether US policy toward Nicaragua has been and is being closely coordinated with his government, and he probably resents continuing official US contact with his predecessor, former President Perez.
- The United States, Herrera believes, must recognize that Venezuela's focus is narrower and its concerns more parochial than those of Washington. Caracas will not, as a rule, be willing to carry its regional competition with Cuba into international forums or to link issues extensively. [redacted]

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Appendix A

Venezuela's State-to-State Relations
With Central America [redacted]

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Nicaragua

The revolution in Nicaragua has been the strongest single impulse behind the Herrera government's move toward more active involvement in Central America. After the Sandinistas took power in Managua in July 1979, Venezuela outlined its general policy objectives for Nicaragua—economic recovery and development, a pluralistic democratic political system, respect for human rights, a nonaligned foreign policy and, presumably, receptivity to Venezuelan guidance. [redacted]

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From the beginning, the Herrera administration was not very optimistic about attaining these goals. It decided, therefore, to provide a great deal of financial aid and ask nothing specific in return. Caracas apparently believed that attempting directly to exact political concessions would be counterproductive, hoping instead that the Sandinistas would gratefully solicit Venezuelan counsel or intuitively pursue the course desired by Caracas. Since neither has occurred, the Herrera government has become disillusioned and has decided to channel assistance more directly to the non-Sandinista democratic forces. Although the administration is more pessimistic than ever about the chances for democracy in Nicaragua, the experience may prove to have been a valuable lesson for Venezuelan policies on exerting leverage elsewhere in Central America. [redacted]

25X1

Shortly after the Sandinistas took power, President Herrera told US officials that he would do everything in his power to prevent Marxists from consolidating their control over Nicaragua because this would reverberate through all of Central America. Two weeks after Somoza's departure from Managua, Venezuelan Foreign Minister Zambrano arrived there at the head of a 72-person delegation—the largest in Venezuelan history—to begin the process of buttressing Nicaragua's democratic forces. Over the next three months, Caracas provided more than \$40 million in aid. By

November 1979, Zambrano was disappointed that this effort had not had much direct impact on Nicaraguan political processes. [redacted] 25X1

Leaders of the ruling Social Christian Party (COPEI) were more pessimistic than the government, and attempted to support and encourage non-Sandinista political and labor groups. The opposition *Accion Democratica* (AD) party, and especially former President Perez, viewed the prospects for pluralism more favorably and accused COPEI and the administration of contributing to radicalization of the Sandinista government by failing to put sufficient confidence in it. Given Perez's significant contribution to the Sandinista victory, his views may be more self-serving than simple partisanship would suggest. [redacted]

25X1

By the eve of Herrera's visit to Nicaragua from 29 to 31 March 1980, Venezuelan financial commitments had reached \$111 million. Nonetheless, the Venezuelan Government had become disillusioned by the ineffectiveness of this effort and frustrated that Cuba received greater credit for what Caracas thought was more modest assistance. Foreign Minister Zambrano emphatically told US officials that his country would stop providing money to the Nicaraguan Government, except through the Venezuelan-Mexican Petroleum Financing Facility. [redacted] 25X1

Herrera's state visit in March can be viewed as a last major effort to exert direct influence on the Nicaraguan Government. The visit was described by the US Embassy in Managua as a "public relations *tour de force*." Despite Zambrano's earlier statement, Herrera offered even more assistance programs, and in addition to official discussions, he met with and boosted the spirits of several non-Sandinista groups. [redacted]

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In the months following his trip, Herrera continued to advocate in principle unconditional assistance to Nicaragua.⁹ In July, Venezuela provided a \$30 million advance on the oil facility. Caracas lately has been pressing the Nicaraguan junta more overtly for political concessions, but the emphasis of Venezuelan policy is shifting to direct aid for democratic forces. Herrera's support for Alfonso Robelo, a former member of the Nicaraguan junta who has become the leading opposition personality, was given with reluctance, however, because of Robelo's ties to and ideological affinity with former President Perez. Moreover, Nicaragua's Social Christian Party is viewed as too small and ineffectual to merit much support. Herrera, therefore, has focused attention on the independent press, the private sector, and the Roman Catholic Church. He met with representatives of the leading businessmen's organization in July, reportedly persuading them to assert themselves and to combat Cuban influence and Sandinista authoritarianism. Immediately afterward, he met with Archbishop of Managua Obando y Bravo, whom Herrera considers a key figure in sustaining pluralism in Nicaragua. [redacted]

25X1

Nongovernment forces in Venezuela also are contributing to this campaign of support. A small group of COPEI leaders, Venezuelan business representatives, and clergymen are interested in helping to finance Archbishop Obando's educational campaign and Church radio station. The Venezuelan Trade Union Confederation is working on behalf of independent trade union activities in Nicaragua. [redacted]

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The pro-Cuba militaristic tone of the Sandinista anniversary celebration in July seems to have reassured Caracas of the wisdom of its present policy. During the festivities, past Venezuelan and Mexican support for the Nicaraguan Government was virtually ignored, while more modest assistance from Communist countries received top billing. The Venezuelan delegation to the celebration was prevented from attending at the

⁹ It is not a simple matter for Caracas to use its oil-related assistance as political leverage. Because Venezuelan oil shipments to Nicaragua are channeled through a private company, even former President Perez was unable to use them politically against former Nicaraguan President Somoza. Some officials in Venezuela's government oil company would like to initiate direct oil sales, which presumably would increase Venezuelan influence with Nicaragua, but it appears the government will shy away from such an approach. [redacted]

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last minute by bad weather and stringent airport security; Foreign Minister Zambrano acknowledged privately that in view of the atmosphere, he was just as happy to have missed the affair. [redacted]

25X1

In addition, Venezuelans recently have been surprised and upset by official Nicaraguan criticism of their aid effort and their policy toward El Salvador. One official explained that Venezuelans were not used to this kind of criticism and that its continuation could affect future assistance programs for Nicaragua. [redacted]

25X1

El Salvador

Venezuela's experience with Nicaragua may have stimulated in part its growing involvement in El Salvador, a policy that it sees as a fallback position in the struggle to stem radicalization in Central America. The Herrera government has supported the reformist civilian-military Salvadoran junta since it first took power by coup in October 1979. Venezuela's view that the junta offers the best—and perhaps the last—opportunity to avert revolutionary upheaval in El Salvador coincides closely with US policy. The Herrera government and the ruling party have been more generous and enthusiastic in supporting the junta since it was reorganized in January 1980 to incorporate leaders of the Salvadoran Christian Democratic Party (PDC). [redacted]

25X1

Venezuelan support has included funds, political advice, some quiet counseling on military and security matters, and protection for Salvadoran Christian Democratic leaders. Caracas provided a \$30 million loan through the Inter-American Development Bank. Following a visit to Venezuela last April by junta member and PDC leader Napoleon Duarte, Herrera offered another \$20 million loan for a hydroelectric project.¹⁰ [redacted]

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¹⁰ The US Embassy believed that this may not have been "new money," but rather oil facility money already in the Salvadoran Central Bank. [redacted]

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The full extent of Venezuelan support is not known. The Herrera government has tried to be discreet-- and perhaps sparing-- out of concern that limited and shaky public and international support for the junta would be even further undermined by evidence of extensive foreign backing. In addition, of all the elements of Venezuelan policy in Central America and the Caribbean, relations with El Salvador have been subject to the greatest amount of domestic partisan debate. [redacted]

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Perez and the bulk of his AD party oppose the Salvadoran junta as presently constituted. Perez believes that the junta must be expanded to include leftists, that rightwing officers must be purged from the military high command, and that the government must check rightwing terrorism. Herrera administration officials believe Perez has covertly provided Salvadoran leftist opposition leaders with several hundred thousand dollars of his own funds. AD leaders regularly attack the Herrera government and COPEI for supporting Christian Democracy in El Salvador at the expense of other forms of democracy. [redacted]

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Both Herrera and COPEI deny charges of favoritism toward Christian Democrats, but AD's suspicions are not entirely groundless. The ruling party has been known to provide various forms of support to Christian Democratic groups in other countries. Last July former Foreign Minister Calvani organized a meeting in Caracas of the Council of Christian Democratic Organizations of America -- made up of 17 parties from the hemisphere--and orchestrated the conference to highlight support for the Salvadoran junta and the PDC. Immediately afterward, Calvani -- as secretary general of the council-- went to El Salvador to reaffirm the organization's solidarity with the junta. Calvani has made other trips to El Salvador in the past year [redacted]

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In recent months, the Herrera administration has become guardedly more optimistic about prospects for the junta. Perhaps sensing that events were beginning to move in favor of the Salvadoran Government, the Venezuelan Foreign Minister in June gave a surprisingly bold defense of administration support for the junta. Critical members of the AD, however, have not been deterred. Venezuelan support of the junta at the present level is likely to have only modest effect, unless

other factors come into play. The junta's failure could have negative repercussions on Venezuelan policy throughout the region. [redacted]

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Costa Rica

Earlier this year, Venezuela encouraged Costa Rican President Carazo to assume more active leadership in Central America, particularly in hopes of stemming radicalization in El Salvador. President Herrera evidently believed that Costa Rica's democratic reputation and prestige could marshal important foreign support for the junta. Carazo was reluctant, however, reportedly because he believed such action would antagonize neighboring Sandinista government leaders, whom Carazo felt obliged to placate. [redacted]

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Nevertheless, Costa Rica remains an important part of Venezuela's Central American policy for several reasons:

- The two countries have a common bond as rare examples of functioning democracy in Latin America.
- Herrera believes that channeling significant aid to Central America's only democratic government could be an important object lesson and inducement to the nondemocracies of the region.
- Within Central America, only Costa Rica has good relations with all of the politically diverse states and, therefore, could be a useful channel for Venezuela.
- President Carazo is the only self-proclaimed Social Christian head of state in Latin America besides Herrera. [redacted]

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Venezuela plans to gain influence with Costa Rica through various forms of support, such as the oil facility--which Costa Rica helped craft--and by backing Costa Rica's bid for a UN Security Council seat this year. [redacted]

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[redacted] Costa Rican Energy Minister Altmann recently told the US Ambassador that Mexico had agreed to provide its share of oil under the joint oil facility at a discount rather than under the facility's financing terms, an unprecedented and surprising concession if true. Altmann intended to press Venezuela for the same special arrangement. [redacted]

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Guatemala, Honduras, and Panama

The Herrera administration and the ruling party believe Guatemala and Honduras are susceptible to political destabilization. Caracas insisted—reportedly over Mexico's objections on political grounds—that Guatemala be included in the joint oil facility arrangement. Despite this apparently farsighted effort to open a channel of influence, the Herrera government sees little hope at present of affecting the situation in Guatemala. Caracas also remains distracted by the more immediate concerns in Nicaragua and El Salvador. Venezuela thus is maintaining formal ties but doing little else. For its part, Guatemala eventually will become self-sufficient in oil and, in any event, questions whether Venezuela will be able to improve its poor record throughout the region of delivering on promises of aid. [REDACTED]

25X1

Venezuela's periodic interest in the Guatemalan territorial dispute with Great Britain over Belize is related to Caracas's own Central American-Caribbean policies in several ways. Venezuela's support for Belizean independence with territorial integrity probably is calculated in part to raise its stock with the English-speaking Caribbean, which avidly backs Belize. The stance also reflects some concern about Cuban interest in the issue as well as the possible impact of the dispute's outcome on Venezuela's boundary problem with Guyana. [REDACTED]

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Caracas also maintains only limited contact with Honduras, despite concerns in COPEI about the Honduran Government's vulnerability to subversion. The oil facility represents the bulk of Venezuela's effort to strengthen and gain influence with the Honduran Government and to encourage continued progress toward a democratic opening. [REDACTED]

25X1

Venezuela's relations with Panama are uniquely affected by domestic partisanship. President Herrera is uncomfortably aware that former President Perez has maintained his close personal relationship and influence with Panamanian leader Torrijos. Herrera has met twice briefly with Panamanian President Royo this year, but presumably sees no possibility of supplanting Perez's ties to the real source of power. In fact, the Panamanian Government is suspicious that COPEI is funding the opposition Panamanian Christian Democratic Party. Nevertheless, Panama will receive 24,000 barrels of oil per day under the joint petroleum facility, and other forms of assistance also are likely to be available. [REDACTED]

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Appendix B

**Venezuela's State-to-State Relations
With the Caribbean** [redacted]

25X1

Jamaica

In recent years Jamaica has been the centerpiece of Venezuela's Caribbean policy. During the 1975-79 period, Caracas disbursed \$85 million to Jamaica, much of which came via the earlier oil facility arrangement. Former President Perez's admiration for and close personal relationship with former Jamaican Prime Minister Manley accounted for some of this.

government, because Venezuela's capacity to promote moderate change in the Caribbean at Cuba's expense is being tested. Herrera is certain, therefore, to increase various forms of support to Jamaica. [redacted] 25X1

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Because the Herrera administration did not share Perez's favorable views of Manley and because the Jamaican economy is in serious trouble, Caracas lately has been more toughminded about assistance. Recognizing the political sensitivity of Jamaica's recent electoral period, Herrera authorized only enough aid to help Manley's government through the elections. In addition, while the volume of aid from Caracas to Kingston will increase because of the joint Venezuelan-Mexican Petroleum Financing Facility, the Herrera government was more blunt about attaching conditions for Jamaica than for most other countries of the region. A Venezuelan delegation warned Manley in March 1980 that assistance was contingent on maintenance of democratic institutions and avoidance of a state of emergency. [redacted]

Venezuelan aid remains crucial to Jamaica's efforts to devise an alternative economic strategy following Manley's break with the International Monetary Fund. Even after Seaga resumes negotiations with the Fund, Caracas will retain some influence over Jamaican economic policy. If political concessions also are obtained, Herrera's influence will take on new ramifications as well as greater proportions. Moreover, if the overall political-economic effort toward Jamaica has a clear stabilizing effect, Caracas probably would be encouraged to try more aggressive policies elsewhere in the region. [redacted] 25X1

25X1

Like other countries with interests in the Caribbean, Venezuela pays excessive attention to Jamaica because of the potential for economic collapse, growing political violence and the outside chance of destabilization, Cuban interest and influence, and Jamaica's prominence in the Third World. Caracas never accepted Manley's argument that his electoral defeat would result in more extreme groups taking over. Instead, the Herrera administration worried that radicals in Manley's ruling party would attempt to manipulate election results or retain power by force. [redacted]

Because the joint Venezuelan-Mexican oil facility for Jamaica is to be retroactive to 3 August 1980, the effective assistance from Venezuela should be about \$64 million per year. In September, Herrera responded to a personal appeal by Manley and authorized payment of \$10 million of oil facility credits, but he withheld the remaining funds until after the election. Herrera's guarantee to supply most of Jamaica's oil imports also pleased Kingston, as did his hint that Venezuela might prepay all 1981 oil facility credits in January. [redacted] 25X1

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Caracas will be more enthusiastic about providing support for Jamaica under Seaga. [redacted] 25X1

A high-level Venezuelan commission arranged to meet with the new Jamaican Prime Minister, Edward Seaga, the day after his election victory. Herrera has a direct personal interest in policy toward the Seaga

[redacted] all, Venezuela has sought influence in Jamaica more aggressively than in any other country in the Caribbean. [redacted] 25X1

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Eastern Caribbean

Venezuela is not as likely to acquire influence in the eastern Caribbean as it is in Jamaica, because both its effort to do so and the receptivity to it will be less. Caracas foresees many problems in undertaking an active political role in the area, and generally is not enthusiastic about trying. The Herrera government would prefer not to bother with the complications of extending the oil facility to these tiny islands. For their part, eastern Caribbean states—especially Trinidad and Tobago, Barbados, and the Netherlands Antilles—traditionally have distrusted Venezuelan motives. Moderate stable regimes complain that Caracas pays more attention to leftists such as Manley and to troublespots such as Grenada. Some of these island-states frequently accuse Venezuela of repeatedly promising assistance, then failing to deliver. [redacted]

25X1

In an effort to overcome this resentment, the Herrera administration played host to the prime ministers of most of the eastern Caribbean states during late 1979 and early 1980. The leaders of St. Lucia, St. Kitts-Nevis, Montserrat, Dominica, Antigua, Grenada, and the Netherlands Antilles all made what one Caribbean leader called "the pilgrimage to Caracas." President Herrera is expected soon to begin returning the visits. All of the prime ministers signed the familiar treaties of friendship and cooperation and received various promises of assistance, including guaranteed oil supplies. [redacted]

25X1

More skeptical states, such as Barbados, have put off the pilgrimage to register their dissatisfaction with Venezuela's generally unresponsive attitude as well as with trade imbalances. Some suspect Venezuela of imperialistic designs. Trinidad and Tobago and the Netherlands Antilles bitterly distrust Venezuela's interest in buying a share of their refineries, seeing it as a ploy to gain control of them. Nevertheless, the Netherlands Antilles has formally requested to participate in the Venezuelan-Mexican oil facility. Caracas is likely to put off this request for some months. [redacted]

25X1

Grenada

Given Venezuela's desire for stability and democracy in the Caribbean, some of its initial policies toward Grenada set an unfortunate example. After a Caracas newspaper first highlighted Cuban involvement in Grenada in April 1979, the Herrera government began

to pay so much attention to the tiny island that critics elsewhere in the Caribbean and in the United States charged once again that Venezuela followed a "squeaky wheel" policy. To make matters worse, officials in Caracas—perhaps despairing that Grenada was lost to Cuba—offered assistance with no strings attached. Incidents such as Grenada's support at the UN for the Soviet invasion of Afghanistan and Grenadian Prime Minister Bishop's radical posturing at the nonaligned summit in Havana evidently stirred Herrera to action. [redacted]

25X1

By the time Bishop visited Caracas in late 1979, the Herrera government had resolved to use assistance as a lever to reduce Cuban influence in Grenada. After hard bargaining, Venezuela promised Bishop a \$500,000 grant to help in construction of a new airport, guaranteed oil supplies, help in offshore exploration, three large oil storage tanks, road construction assistance, a \$1 million credit on imports from Venezuela, and the loan of a commercial aircraft and crew. By late March 1980, however, Caracas was still withholding the airport construction funds on the grounds that Cuba—which was providing manpower and technical assistance for the project—was receiving all the public credit. [redacted]

25X1

The tactic may have had some sobering effect on Bishop. In mid-1980, another Grenadian delegation received pledges of additional but small-scale assistance—polio vaccine, a few training slots and scholarships, fishing and agricultural cooperation, and a possible cultural center. In most cases, the new proposals were subject to exploratory missions and further study, which effectively signified that the go slow approach on Grenadian aid was still in effect. It is not clear whether the Herrera government has imposed precise conditions; more likely, it has simply urged that Bishop modify his pro-Cuba posture and guarantee democratic institutions. [redacted]

25X1

Dominican Republic and Haiti

Venezuela has had close ties to and some influence in the Dominican Republic since the fall of Trujillo in 1961. The two countries share a common language, culture, and political distinction as Latin American democracies. In 1978, Venezuela contributed to the favorable resolution of the Dominican Republic's electoral crisis. [redacted]

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At the same time, Dominicans are suspicious of Venezuela, in part because of the continuing severe impact of oil price increases on their economy. Caracas extended its first oil facility to the Dominican Republic and last year loaned an additional \$90 million to defray the cost of oil imports. The Dominicans will be major beneficiaries of the joint Venezuelan-Mexican oil facility—credits for the first year should total \$57 million—although oil imports will continue to hurt the balance of payments. [redacted]

25X1

The Herrera government is acting primarily out of concern that worsening economic conditions in the Dominican Republic could precipitate a military coup or Cuban encroachment. Recently, however, the opposition Reformist Party of former Dominican President Balaguer began to flirt with Venezuelan-style Christian Democracy. It is not known whether the Social Christian Party or the Herrera government have, or intend to, provide support to the Reformists. [redacted]

25X1

Venezuela does not have similarly close ties to Haiti. The two countries have little in common. Haiti is a relatively insignificant actor in the Caribbean and its political and human rights records are poor. The Herrera government, therefore, probably will not respond quickly to Haiti's request last August to be included in the oil facility. [redacted]

25X1

Guyana and Suriname

Venezuela's interest in neighboring Guyana is conditioned by a longstanding border dispute. Otherwise, the two countries do not have much in common. Successive Venezuelan administrations have been sensitive to Guyana's fishing agreements and other contacts with Cuba and the USSR. Caracas would like to exercise influence over Guyana, but except for some small loans, Venezuela has not included Guyana in its Caribbean assistance programs. Guyana buys its oil from Trinidad and Tobago, but might be interested in the Venezuelan-Mexican oil facility. The Burnham government believes that Guyana should remain non-aligned and promote its own development rather than become involved in what it sees as competition among the superpowers, Cuba, and Venezuela in the Caribbean. [redacted]

25X1

The boundary dispute complicates these objectives and colors Guyana's relationship with Venezuela. The two countries decided in the 1972 Port of Spain Protocol to shelve the boundary question for 10 years, which means that in 1981 tensions could recur. At the same time, Guyana pins much of its aspiration for development on a planned hydropower and aluminum smelter project on the Upper Mazaruni River, within the disputed territory. [redacted]

25X1

The Burnham government continues to underestimate the border problem as a factor affecting prospects for World Bank and private investor financing for the Upper Mazaruni project. Burnham also was misled when former President Perez suggested that Venezuela might buy some power from Guyana, as well as provide support directly and through international financial institutions. [redacted]

25X1

Perez's hint of support evidently hinged on Guyanese concessions on the border dispute. Although Herrera has not yet made a decision on support for the project, he probably would decline in the absence of a border settlement, though he might not make this condition explicit. The longer Caracas waits to raise the border issue as a consideration in approval of the Upper Mazaruni proposal, the harder it will be, particularly in light of Herrera's support for alternative energy sources in developing countries. The project apparently would compete with Venezuelan development plans for the area, but objection on those grounds could be embarrassing. Venezuela has expressed reservations about the economic feasibility of the Upper Mazaruni complex, but the project seems sound as long as both the dam and smelter are built. [redacted]

25X1

The project and stronger bilateral ties in general thus could be at stake when discussions of the border dispute resume no later than next year. Given the intractability of the problem, Venezuela's greater priorities—including the territorial dispute with Colombia—and the Herrera government's limited Foreign Ministry resources, the most likely outcome could be an extension of the Port of Spain Protocol. This would avoid some problems, but do little to further Venezuela's position in Guyana. [redacted]

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Venezuela has even less contact with Suriname than with Guyana. Caracas is concerned about stability, democratic processes, the potential for Cuban involvement with the new government, and human rights, but prefers to defer to the Netherlands. Suriname buys most of its oil from Trinidad and Tobago and regards Venezuelan offers of aid with some suspicion.

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