

TESTIMONY BEFORE THE WESTERN HEMISPHERE SUBCOMMITTEE OF THE FOREIGN AFFAIRS
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Mr. Chairman, members of the Subcommittee:

Thank you for the opportunity to testify before you on the subject of the current domestic and international situation of Venezuela and its relations with The United States. I wish to emphasize that everything in this testimony is backed by extensive, detailed and cross-checked information, in many cases with original documentation, which demonstrate that under its present leadership Venezuela is a clear and immediate threat to the national security of The United States, especially due to its extensive and growing ties to the Islamic Republic of Iran.

With reference to the internal situation in Venezuela at the present time, the following points need to be emphasized:

1. Caracas and the other major cities of Venezuela currently have the highest rates of common crime in the Hemisphere.
2. Venezuela currently has the highest rate of inflation in the Hemisphere,
3. There are shortages of many staple products such as eggs, milk, bread, etc. Venezuela imports the vast bulk of its consumer goods because of the serious deterioration of domestic production in the last few years.

The financial situation of the country is very poor. The free reserves of the central bank are negative and the state oil company, PDVSA, had to borrow sixteen billion dollars in 2007. The Venezuelan crude mix gets about \$20 per barrel less than the international benchmark rate. Production has been falling for years due to lack of investment and maintenance. Domestic demand is huge because gasoline is sold at four to six cents per liter. Much of what is exported is given away (such as to Cuba) or sold at a discount for political reasons, through PetroCaribe and elsewhere.

Refinery downtime is extensive because of poor maintenance and security, much gasoline is smuggled into Colombia and PDVSA management is so poor that the company is subject to dozens of lawsuits internationally for non-performance of supply contracts. PDVSA does not receive the proceeds from advanced sales to raise cash, such as the \$3.5bn loan from Japan and the \$4bn loan from China collateralized with future oil deliveries. These funds go directly into the so-called development bank, BANDES, which along with the equally so-called development fund, FUNDES, is used as a slush fund for international operations by the government with no controls or supervision or transparency whatsoever. PDVSA in 2007 not only borrowed extensively (including from its U.S. subsidiary, CITGO, which in order to lend its parent one billion dollars had to borrow it itself, thereby affecting its bond rating), but began to sell off international assets, such as an important storage facility in the Bahamas.

The crown jewels of the Venezuelan economy, formerly well-run companies, especially Electricidad de Caracas (EDC) and CANTV, the telephone company, were nationalized and are now run with the

same degree of efficiency as PDVSA. Many productive agricultural properties have been confiscated from their owners and given to the workers and are now much less productive.

On the political side, the deterioration of Venezuelan democracy is a well-known story. All of the major institutions of government are now in the hands of administration supporters as well as the vast majority of state governorships and municipal governments. The principal opposition television network, RCTV, was seized without compensation and remaining opposition media are constantly harassed.

The most recent outrage, however, is the disqualification of about 200 opposition candidates for governorships, mayoralties and legislatures. This is directly out of the Iranian playbook and the reasons given for the disqualifications range from the ludicrous to the absurd. Although all the disqualifications have been appealed, without outside pressure it is unlikely the bans will be lifted since all the electoral and judicial authorities are controlled by the administration. In any case, there is no reason to think that the electoral campaign will be conducted with any greater even-handedness than previous electoral contests in past years.

Finally, corruption in this administration in Venezuela is nothing less than monumental, with literally billions of dollars having been stolen by government officials and their allies in the private sector over the past nine years. One of the principal of these collaborators recently had his bank accounts closed by the Hong Kong and Shanghai Banking Corporation (HSBC) in London. They contained one and a half billion dollars. Some of this corruption and much of the money laundering taking place in Venezuela is connected with drug trafficking. At present, Venezuela and West Africa are the principal routes for Colombian cocaine going to Europe, and much of the resulting income stays with Venezuelan entities and individuals and is facilitated by the Venezuelan financial system, including both public and private institutions.

All of the above is aside from the billions that Venezuela has spent on military equipment, including advanced fighter planes and submarines, way beyond any conceivable needs of the country for legitimate self- defense.

Much of the money collected by the official funds and banks has been used to try to influence policy and elections in the rest of the Hemisphere and beyond. A recent compilation indicates that at least \$33bn has been used in this way, including buying billions of dollars worth of Argentine bonds at ruinous rates of interest, since Argentina has had no access to the international financial markets since defaulting on its international debt. Election contributions have been made in Nicaragua, Ecuador, Peru, and Argentina. Bolivia and elsewhere, including some of the Caribbean island states. In some cases this activity has been successful and in others, such as Peru, not, although it was a close call.

Additionally, financial support has been provided to insurgent groups in certain countries, most notoriously to the FARC in Colombia, as well as to ETA, the Basque separatist organization, and most importantly to Hamas, Hezbollah and Islamic Jihad, through their extensive network in Venezuela and

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elsewhere in Latin America. This is done directly through the Islamic Center on the island of Margarita and subsidiary centers in Barquisimeto, Anaco, Puerto Ordaz and Puerto Cabello, as well as a result of Iranian penetration in the Hemisphere, which has been assiduously cultivated by the current Venezuelan administration. Regular flights tie the two countries together (although ordinary citizens cannot buy passage on those flights), Iranians are provided with Venezuelan passports and other documents and more recently the Iranians opened a bank in Caracas, called the Banco Internacional de Desarrollo. This bank has an entirely Iranian board and was authorized in 72 hours in a process that usually takes months. It is an obvious and apparently successful attempt to circumvent the financial sanctions that have been imposed on Iran by the United States and other countries and of course has unlimited access to the facilities of the Venezuelan financial system. In short, should hostilities break out between the U. S. and/or Israel and Iran, the Iranians directly or through their proxies now have the ability to seriously damage U.S. interests in our own Hemisphere, including the Panama Canal.

As a final note, the current Venezuelan regime is notoriously anti-semitic, as documented by the American Jewish Committee (AJC) and others. Jewish institutions are frequently harassed and government publications print scurrilous cartoons, reminiscent of Nazi Germany.

U.S. policy towards Venezuela has been characterized by an essential passivity in the face of many provocations, including gross insults directed at the president and secretary of state, among others. That the current regime there has been taking multiple measures contrary to our national interest is beyond question. That it represents a threat to the national security of the United States and our allies in the region should also be beyond question, not least due to the tapes captured from the FARC leader Raul Reyes' camp inside Ecuador. This passivity is apparently motivated by the belief that the regime will eventually self-destruct and in any case more active measures would threaten to exacerbate the oil markets leading to even higher prices for crude. This is a policy that I can understand but with which I do not agree.

It is not necessary to declare Venezuela a state sponsor of terrorism although it obviously is, and not only with reference to the FARC but also to Hamas, Hezbollah, etc. Through current legislation on money laundering, drug trafficking and terrorism measures could be taken against Venezuelan banks which would cripple the Iranian attempt to bypass sanctions on their own financial system by using Venezuela's. However, if Venezuela were to be declared a state sponsor of terrorism and as a result oil imports from that country were blocked, it would be impossible for Venezuela to divert any substantial amount of its exports elsewhere because refining of its quality of crude (predominantly heavy, sour crude) is primarily concentrated in the CITGO refineries in the U.S. By simply releasing about two million barrels a day of crude from the Strategic Petroleum Reserve (SPRO), that oil would be effectively and immediately replaced, and with better quality crude. The effect on Venezuela, however, would be devastating.

We would be happy to provide the subcommittee with extensive documentation of all of the above.

Thank you very much.