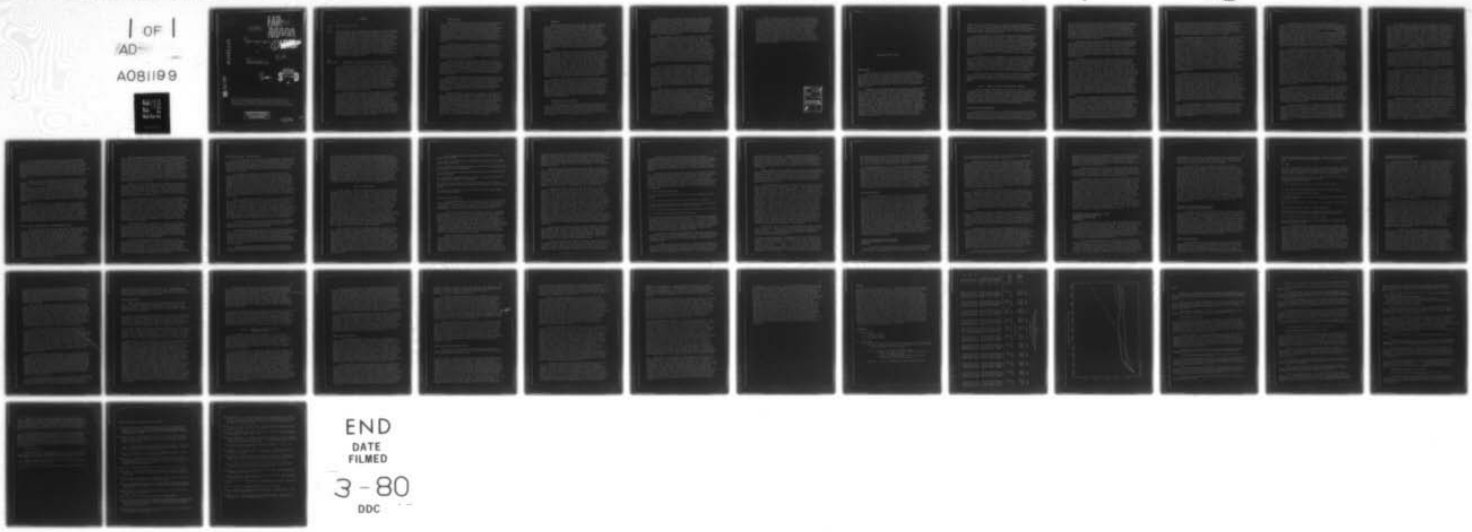
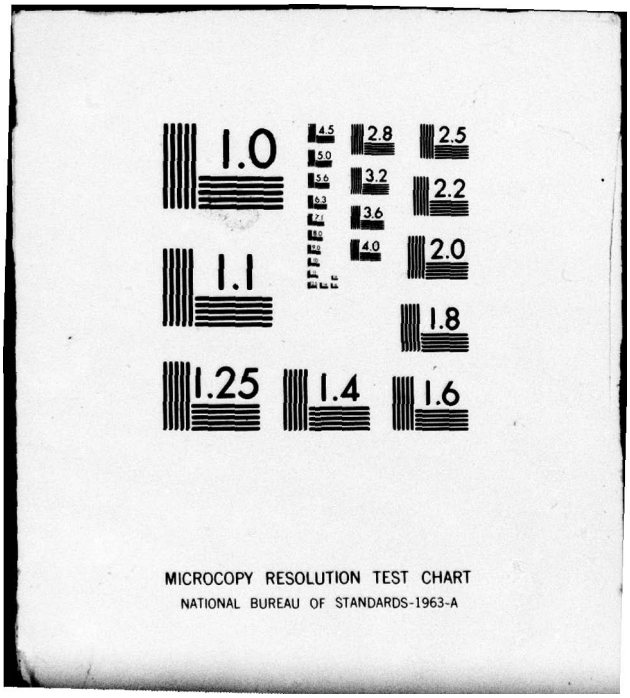
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SUMMARY

TITLE: Venezuelan Foreign Policy

TOPIC: A study of the origins and conduct of Venezuelan foreign policy with special emphasis on Venezuela's petroleum diplomacy and its relations with the United States. The study has three parts. The first delineates those aspects of Venezuela's political and economic background which are important in explaining and predicting the country's international behavior; the second part analyzes the principal attributes of Venezuelan foreign policy in recent years, reviewing key objectives and actions; and the third presents a rough forecast of the near-term prospects for Venezuela and its international role, plus an examination of the implications these may have for the United States. An appendix contains a forecast matrix which depicts alternative fiscal futures for Venezuela based upon different petroleum price and production profiles. The principal conclusions of the study are summarized below.

MAIN CONCLUSIONS:

Background: Development Strategy and Domestic Politics

In order to understand Venezuela's international role and establish a sound basis for assumptions about its future, it is important to begin with an accurate grasp of the country's distinctive pattern of political and economic development. Venezuela is a young, vulnerable, oil-dependent democracy. Stabilizing and institutionalizing the democratic system has been a major objective of Venezuelan leaders in the years since 1958. They have also committed themselves to the goal of freeing the country from oil dependency, first by controlling and eventually nationalizing the petroleum industry, and second by using oil income to build an economic infrastructure independent of petroleum. Nationalization has been accomplished, thanks in good measure to the successes of OPEC, but has been less liberating than expected by many, since Venezuela now has the responsibility for marketing its own oil.

But the second, and more important, objective has not been accomplished; indeed the government has if anything become more firmly addicted to large and growing fiscal revenues from the oil sector. In addition, it has done little to redistribute income, another objective of public policy. These failures can be attributed in large measure to the system of accommodations and compromises that were necessary to insure the stabilization of the democratic polity. Recognizing these things, the current government, led by Carlos Andrés Pérez, has launched an ambitious development program using the income windfall generated by the post-1970 price increases. This is likely to be the last opportunity to use oil income to secure self-sustaining growth without causing severe social and political tensions and conflicts that may threaten the democracy itself.

Foreign Policy

Among Latin American countries, Venezuela in recent years has been one of the most assertive and independent in international affairs. This has been true especially since the influx of oil wealth in 1973 made it possible—actually necessary, to stem inflation —for Venezuela to extend itself economically beyond its borders. However, the central concerns of Venezuelan diplomacy remain those associated with oil: holding OPEC together—to accomplish this Venezuela has begun to play an active role as mediator and conciliator in the organization—keeping prices high; and, increasingly with nationalization, finding secure and diversified markets for its own output.

Venezuela has also taken advantage of its experience and prestige as a cofounder and member of OPEC to seek a leadership role in the movement to establish a new international economic order in the relations between developed and underdeveloped countries. To a degree its support for this movement can also be seen as a means of legitimizing its own position on oil prices, especially as it is becoming clear that the most severe costs of price hikes are being borne by the other developing nations.

Within the Hemisphere Venezuela has sought to lead the way in shaping a new more "open" system of Latin American international relations, and to establish itself firmly as a leader, or "co-leader," within the subregional geopolitical "frameworks" which are of greatest importance to it: Central America and the Caribbean, and the Andean Pact cluster of nations. These efforts have met with only partial success, but this has not yet blunted Venezuelan enthusiasm for the new role it seeks.

Venezuela's relations with the United States have been polite, but somewhat distant. Venezuela senses overall American support for its development effort and its labor to establish a democratic society and government, but is upset by persistent failure to obtain the status it feels it deserves in the United States oil import regulatory process. And the United States has responded to Venezuela's diplomatic activism with what may be characterized as "passive disapproval."

The main attributes of Venezuela's foreign policy, distilled from its conduct in recent years, are the following: its foreign policy has been vigorous, pragmatic, "consociational," and idealistic. The term "consociational" refers to two traits: a strong inclination wherever possible to build institutional and associational frameworks to handle problems on a more organized, long-term basis; and a willingness to disaggregate conflict situations, i.e., to prevent one point of conflict from overlapping with others and thereby obscuring opportunities for cooperation. One of the most important and distinctive attributes, this reflects closely the overall accommodative character of the country's domestic politics, a character which has been central to the construction of a democratic polity.

Prospects

Despite pervasive optimism in Venezuela, it seems clear that the ultimate success of the current development program is very much in doubt. In the near term, to the early 1980s, Venezuela will probably enter a period of moderate but growing domestic political and social tensions due to a levelling of oil income at the same time that the government comes to grips with the more difficult administrative and political problems associated with establishing an independent process of economic growth. This will be accompanied by a balance of payments deficit, absorption of international reserves, and even substantial international borrowing. This forecast is based on optimistic assumptions about the international petroleum market. Should prices drop significantly, the impact upon Venezuela will be much more serious, perhaps even threatening the survival of the democracy.

Given these domestic conditions, it seems reasonable to expect a general decrease in the intensity and scope of Venezuela's international activities, although the basic goals and objectives of foreign policy are unlikely to change. There will surely be a sharp decrease in Venezuelan financial aid—this has not been on concessionary terms for the most part, anyway. Oil production may be pushed up beyond the current planned levels, perhaps to the upper limits of capacity by 1980, and the government is sure to push for a more rapid exploration and development of the offshore areas and the Orinoco tar belt. Within OPEC, Venezuela may become more adamant and less conciliatory should pressure from Saudi Arabia threaten any significant reduction in prices. Overall, in the late 1970s and early 1980s Venezuela is likely to become increasingly vulnerable and "fragile" in oil matters, although it will surely remain firmly committed to OPEC unity.

Turning to the longer-run, it seems clear that the few years immediately after 1982-3 will be of the utmost importance for Venezuela. The full impact of the levelling-off of oil income will be evident by then, and Venezuela's big "push" for development must begin to bear fruit. The administrative and political obstacles to be overcome are substantial, and the Venezuelans are very much aware of this. This, without doubt, will be the historic turning point for the country. Afterward it will grow on its own, having "sown the oil" successfully, or will sink gradually into economic stagnation and, very probably, political authoritarianism.

Implications for U.S. Policy

The most important conflict of interests between the U.S. and Venezuela is over oil prices. Should the IEA succeed in lowering prices significantly, the damage to Venezuela will be severe. However, most forecasts indicate that this is not likely to happen, but that prices will either remain level, adjusted for inflation, or even rise somewhat. Nevertheless the conflict is there.

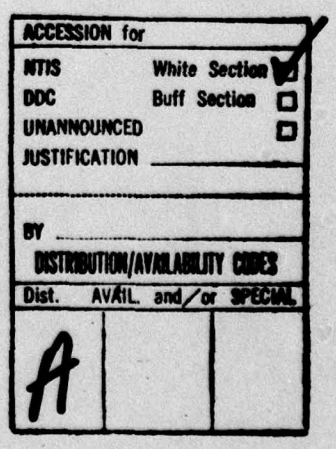
Energy supply is probably of more immediate interest since U.S. policy toward Venezuela in the near future may affect significantly the degree of U.S. dependence on more insecure sources of oil. It seems clear to this analyst that, with growing oil dependency an accepted fact, United States security requirements demand that the government establish a "profile" of preferred import sources, and that it proceed to encourage or force those in charge of import decisions (primarily the oil companies) to follow the guidelines of this security-determined profile.

Among available import sources, Venezuela is one of the most secure, and the United States has a strong interest in obtaining as much oil from there as possible. Unfortunately, the legacy of United States policy toward Venezuela in oil matters, plus recent actions, especially the discrimination in the Entitlements Program (now eliminated) and in the Trade Act, all have tended to provide the strongest incentives to the Venezuelan government to diversify its market as much as possible, reducing its dependence upon United States government decisions and upon the oil companies. Venezuelan production is limited, and although refining patterns and marketing problems will force Venezuela to adhere to its old export patterns in the immediate future, it seems very likely that Venezuela will do its best to seek markets in Latin America, Central America, and other countries which are able and willing to reward secure supply sources in some tangible way.

Here the United States response to the nationalization is pertinent. It is clear that the United States has a strong interest in the success of the nationalization process. The United States' recognition of PETROVEN'S legitimacy, and even assistance to the Venezuelan government in assuring the efficiency and managerial success of the nationalized industry, would have several beneficial consequences: it would signal United States acceptance of a nationalization process that has been perhaps the most orderly, cautious and democratic of all in the developing nations; and it might predispose those in charge of PETROVEN marketing in favor of continuing their long-standing place in the United States market once the company is on its feet.

With respect to the orientation of Venezuela's regional and international diplomacy, it is important for the United States to recognize that while conflicts with the United States may be involved, it may also be desirable to have Venezuela rather than another country (or countries) assume the leadership role it has. Among those countries aspiring to an international status of this kind, Venezuela is one of the most compromisory and generally friendly to the United States. Furthermore, the consociational character so prominent in the conduct of Venezuelan foreign policy may prove extremely helpful in the design of new institutions and the pursuit of essential compromises. Should its current developmental effort succeed, Venezuela may well evolve into a very useful and constructive mediator, or bridge-builder, between the United States and other developing nations, at the Hemispheric and global levels.

Finally, Venezuela is a democracy, sharing with the United States perhaps the most fundamental of all values, a firm commitment to the construction of an open, free society. To have such a country located strategically atop the South American continent is an asset of the most elemental long-range importance to the United States. Because of this it seems that American policymakers should be thinking hard about the critical threshold now at hand in Venezuela's development and be prepared to respond in the most creative way possible. This will be especially difficult if the required restructuring of the Venezuelan economy produces serious clashes with both Venezuelan and American economic interests. The real stakes involved require a constructive, long-range conception of the development process in Venezuela, not short-term "damage control" reactions that may be very harmful.



VENEZUELAN FOREIGN POLICY

Introduction

In the course of the last decade and a half, but especially since 1970, Venezuela has emerged as an independent and assertive actor in international politics. In Latin America it must now be counted among the handful of countries--others include Brazil, Peru, Mexico and Cuba--able to exert significant influence beyond their borders, and at the global level it has won a recognized place as a leader of the developing nations in the ongoing dialogue about the future of the international economic order.

Venezuela's new role poses important challenges to American foreign policy. The ability of the United States to respond constructively to the problems posed by Venezuela's active diplomacy may provide a measure of its overall capacity to adapt to a rapidly changing world and regional geopolitical context. At stake also is a system of longstanding economic and political bonds between the two countries. Venezuela is a vitally important source of imported oil for the United States: in 1975 it was our major supplier of imports, sending over a million barrels of crude and products daily. This accounted for more than 17% of all U.S. imports, and nearly 25% of the oil originating in non-Arab countries. Venezuela is also a valuable customer of the United States. In 1975 purchases of American goods and services totaled more than $2.3 billion. And finally, Venezuela is important to the United States because it is a thriving democracy in a region where authoritarian rulership in one form or another has become the norm. In the spring of 1974 the government of

Carlos Andrés Pérez took office with a strong electoral mandate, 48.6 percent of the vote, and with a small but workable legislative majority. Since that time it has proceeded to institute an ambitious and wide-ranging program of reforms, relying heavily on the sudden increases and income resulting from the post-1970 price hikes.

It is the purpose of this essay to analyze the origins and conduct of Venezuelan foreign policy, especially as these affect oil and OPEC, and Venezuelan-United States relations, and to consider any implications the findings and conclusions may hold for American foreign policy. The essay itself has three parts. The first focuses primarily on the domestic origins of foreign policy, advancing the thesis that, as with many developing nations, Venezuela's international activities are understandable only if one begins with an accurate grasp of its very distinctive development route, marked as it has been by heavy dependence upon oil income and by a very firm commitment to the stabilization and institutionalization of a democratic political system.

The second part is an examination of the major objectives Venezuela has pursued, and the means it has utilized, in the conduct of its foreign policy. A principal thesis developed here is that while Venezuelan international behavior has been both vigorous and assertive, it has also been distinctively pragmatic, experimental and "consociational"—this term will be explained in greater detail—in nature, suggesting the likelihood of a more constructive international role than might be possible for other countries with a similar surface profile of foreign policy objectives.

The final section of the essay contains a brief forecast of Venezuela's future international conduct, emphasizing the importance of possible changes in the international oil market, and then narrows in upon the possible implications of these trends and alternatives for United States foreign policy.

PART I: DOMESTIC POLITICS AND DEVELOPMENT STRATEGY

In the years since 1958 Venezuelan leaders have pursued a cluster of development goals, political as well as socio-economic, which together form a distinctive, interdependent development "route," or "model," and which have strongly influenced the determination and implementation of foreign policy, especially foreign economic policy. At the risk of oversimplification, these goals may be summarized as the following: democracy, economic independence, balanced growth less reliant upon oil earnings, and greater equity in the distribution of the benefits of developmental progress.

The Democratic Accommodations

Consider first the objective of establishing and institutionalizing a democratic political system. The strength of the commitment of Venezuelan political leaders to this goal, and the means they adopted to achieve it, can only be understood against the background of the sheer ferocity of the Pérez Jiménez dictatorship (1952-1958). The military dictatorship had killed,

jailed, or sent into exile the leaders of most political parties, focusing special attention upon Acción Democrática, the reformist party that had been the most successful in mobilizing new participants into the political process. This experience, in addition to the growing incompetence of the military government in handling economic affairs, led to a wide-spread revulsion in Venezuelan society against the military dictatorship. Thus when Pérez Jiménez fell and exiled politicians returned to try and re-constitute the government, they returned firmly determined never to let the country fall into military hands again.

Acción Democrática, which had already failed once in its efforts to establish a working democracy—chiefly because of its heavy-handed reforms and unwillingness to compromise—led the way in pursuit of this objective. After its candidate, Rómulo Betancourt, won the presidency, he took the initiative in the construction of what might be termed a "system of accommodations" designed to establish a cooperative relationship between the government and three key sectors of society: the political parties; the military; and the private economic elite, known in Venezuela simply as the "private sector."[1]

Accommodation among the political parties came in the form of coalition (or multi-party) government, agreed upon by the major parties before the election, which distributed electoral spoils and provided a strong counter to the tendency to fragmentation and destructive opposition so endemic in Venezuela in subsequent years. The coalition system, and especially the collaborative role of the Christian Democratic Party COPEI, was of great help in holding the democratic system together, especially in the most difficult times of the early 1960s when the state, facing a serious economic recession, survived despite repeated violent assaults from the left as well as right. The gradual consolidation of an accepted "rules of the game" in party competition, the cessation of significant anti-government violence, and the ultimate polarization of the electorate into two groups accounting for some 85 percent of the vote, led to the gradual abandonment of the coalition system. As democracy grew more secure, coalition government as a restraint on competition grew more redundant, and first President Caldera and then Carlos Andrés Pérez decided to do without it. Today the party system as such seems to have become an accepted and firmly institutionalized one: elections form the principle source of regime legitimacy and electoral contest is the accepted means of seeking control over public policy.

Achieving an accommodation with the military was perhaps the most difficult of the steps designed to secure the survival of the democratic polity, although the sensitivity of civil-military relations and the general reluctance to discuss the possibility of military intervention has diverted attention from this fact. Of the violent threats to the new civilian government, those coming from the military were by far the most serious (e.g. the episodes involving General Castro Leon and the Puerto Cabello and Carupano uprisings). Indeed the failure of the military to actually oust any Venezuelan government for the last eighteen years is one of the most remarkable facts of political life in that country. The reasons for this, and the causes of the gradual professionalization and depoliticization of the military in Venezuela have been analyzed carefully in an excellent

recent study by Gene E. Bigler.[2] They include the anti-military ambience in Venezuela in the immediate aftermath of the Pérez Jiménez era; the acquisition by the military of an important new role in the anti-guerrilla campaign; the overall professional improvement of the armed forces and their acquisition of a more sophisticated conception of their own role in preserving national security; and the success of the democratic polity in attracting the allegiance of a growing portion of the public.

Beyond these changes in the overall context within which the military operated, Bigler also stresses, and in this I concur, the enormous skill exercised by Venezuelan presidents in conducting civilian oversight of the armed forces. By compromising where necessary, avoiding heavy-handed interference in strictly professional matters, and making key appointments with great care, Venezuelan presidents, led by Rómulo Betancourt, have helped create in Venezuela an armed forces which, though a latent political force, is nevertheless no longer either the center of serious conspiracy against the state or a source of heavy-handed involvement in non-military policy decisions. There is little doubt that this role could change, especially should Venezuela enter a period of substained violence and/or developmental immobility and policy incompetence. Indeed, Bigler has concluded that the Venezuelan military has incorporated the doctrine of "developmentalism"[3] as part of its overall reconceptualization of national defense and security, a doctrinal change that was an important determinant of a new kind of military intervention in a number of other Latin American countries.[4] However, for the time being the critically important accommodation between the civilian democratic state and the armed forces of Venezuela seems an accomplished fact.[5]

Reconciling the powerful private economic elite of Venezuela to the establishment of a reformist democratic polity was made easier by the economic malperformance of the military dictatorship during its final years. Yet this process, which early leaders of Acción Democrática (AD) felt was essential to the survival of democracy, had important long-term consequences for the overall pattern of national development. Put succinctly, what successive democratic governments have chosen to do is to follow what may be called a "dual-track" development strategy, at the heart of which is the decision to minimize conflict with the private sector and instead rely upon large-scale state development projects to provide the principal developmental impetus for the economy. As understood by government policy makers, this would allow the private sector to retain its control of many areas of the economy and continue to benefit from low income taxes and generous tariff protection. And it would allow the government to avoid making many of the "harder" redistributive economic decisions, or at the very least to postpone them.

Thus, for example, in a continent with very low levels of corporate and personal income taxation, Venezuela has remained one of the countries with the lowest rates, even for very wealthy individuals and companies. Similarly, the government was able to join the Latin American Free Trade Area and the Andean Pact—despite the fact that the latter was in good measure a Venezuelan idea—only after years of delay and bargaining for protective exemptions.

The government hoped, instead, to use oil-derived income to stimulate growth in areas outside the traditional strongholds of the private sector. The petro-chemical industry and the Guayana Regional Development program are examples of this, as are many of the projects, described below, slated to receive public funds in the future. The idea was to rely on the state to "sow" the oil, while eschewing economic policies which might force the private sector to pursue greater efficiency and export capability, but which would provoke serious political conflicts with the still powerful economic elite. While neither the private sector nor the government have been satisfied with the resulting configuration of private/public relationships, leaving as it does a number of key problems of economic policy unresolved, it nevertheless has succeeded in postponing what would have been debilitating inter-sectoral political clash.[5]

It should be clear from what has been said so far that the successful conduct of petroleum policy was an essential component of the overall development strategy pursued by the government. The "dual-track" route required a constant supply of fiscal resources, and economic growth itself was important, serving as a cushion to the accommodative processes involved in institutionalizing democratic rules of the game. Indeed, the most difficult period of all for Venezuela, a period when it came closest to succumbing to a more authoritarian political formula, came in the early 1960s when declining oil prices and a leveling of production brought in turn fiscal deficits and a generalized period of economic austerity. To be sure, this was not the sole cause of the many difficulties the country faced at that time, but it clearly served to debilitate the state as it tried to come to grips with some very severe problems. Since that time successive Venezuelan presidents have proven extraordinarily reluctant to suffer a slowdown in the steady growth of national budgets, relying instead on deficit spending when necessary. Writing elsewhere I have labeled this addiction to constant budgetary growth "the politics of fiscal saturation;" it is a real and important attribute of Venezuelan democratic politics and shows little sign of changing, despite the massive influx of funds to the country since 1974.[6]

The need for funds from the petroleum industry acted as an important constraint upon the pursuit of economic independence, another key developmental objective of the government. This was true especially as far as the oil industry was concerned, where Venezuelan government leaders concluded that immediate and complete nationalization of the industry, although desirable, would cause untenable economic difficulties. Therefore they chose a more flexible and pragmatic approach, pursuing policy objectives in a persistent manner, but avoiding direct confrontations that would bring the industry to a standstill.[7]

The principle goals of oil policy may be summarized as follows: a) maximize the income received by the country for every barrel of its oil exported, doing so by achieving the highest price per barrel, taxing company profits at the highest possible rates, and seeking to build an international cartel of producers to raise prices and prorate production; b) maximize state control over the behavior of foreign companies in order to prevent them from using their multi-national status to damage Venezuelan interests; and c) plan ultimately to domesticate the petroleum industry entirely.

Space limitations preclude a detailed examination of the long process of bargaining and conflict between the companies and the government that ensued as the companies sought to defend their profits and maintain their control over the strategically valuable Venezuelan oil reserves, and as the government experimented with a series of different strategies and policy instruments designed to move toward its basic objectives.[8] The Venezuelan state in the end was able, thanks in good part to the consolidation of OPEC at the international level, to accomplish a great deal with respect to these objectives. On January 1, 1976 the government finally nationalized the industry in its entirety, signing technical service contracts with several former concessionaires in order to guarantee continued access to foreign technology, and closing a series of marketing deals with these companies to insure smooth continuation of the production and distribution of its oil.[9]

There are several consequences of this long-term conflict process with the companies, both negative and positive, that should be mentioned because of their importance for Venezuela's future international role. On the negative side, the petroleum industry as such in Venezuela has been in a process of gradual decline for more than a decade as the result of the reluctance of the private companies to make new investments in exploration, drilling, recovery techniques, and new equipment generally. This means that the Venezuelan state will have to make substantial capital investments to keep production rates at required levels in the future.

A few figures may help clarify this point. In 1970 Venezuelan production reached its record high of 3.7 million barrels per day (mbd) and it has been declining since then. It is expected to reach an average of about 2.2 mbd in 1976. Actual production capacity has also declined, reaching an estimated 3.1 mbd in 1975, and will probably continue gradually declining into the 1980s. A commonly accepted estimate is that maximum capacity by the year 1980 will be 2.8 mbd. PETROVEN, the new national oil company, will receive a full 10 percent of profits before tax to invest in the industry —this should amount to about $465 million a year—but this is unlikely to be sufficient to do more than allow production to remain at or near current levels. Current proven reserves stand at 18.568 billion barrels recoverable, or about enough to sustain production at current rates for about 20 years (this figure is up, incidentally, from 13.944 billion barrels in 1973, due to price increases—proven reserves refers to the amount recoverable under given market conditions—and are considered optimistic by private companies).

Although information on them is sketchy, Venezuela also has enormous reserves of heavy "irregular" oil, tar-like petroleum deposits, in the Orinoco region of the country. It is possible that, given high prices (cost estimates range from $7 to $10 a barrel and some experts feel even higher figures are likely) and the necessary technology, between 70 and 300 billion barrels of oil may be extracted from this deposit. However, none is currently being produced and the technology for doing to has apparently not yet been developed. To sum up, Venezuela as a producing area is in a state of gradual decline as far as regular petroleum is concerned, and although the possibility of a new cycle of production of very heavy oil seems in the offing, this is still problematic and dependent upon nascent technology and, evenmore crucial, very high prices.

A more beneficial consequence of the long process of bargaining and conflict with the companies has been essentially educational. Put differently, in struggling to control, extract profits from, and eventually domesticate the industry, Venezuelan leaders have gained a large amount of experience about the oil industry, domestically and internationally, that really could have been acquired in no other way. The care and skill with which they have to date executed the transfer of the industry to public hands is testimony to the value of the lessons they have learned, and there is no question that it will stand them in good stead in the more difficult years to come.

Indeed, one of the most important lessons that Venezuelan petroleum experts, if perhaps not yet the general public or the political elite, have learned, is that nationalization does not necessarily mean economic independence. They learned this in the last stages of the transfer, when they discovered that the oil companies had acquired a new bargaining status as "off-shore buyers," and now had a new freedom from direct Venezuelan regulation and control. The companies bargained hard at the end, and although they ended up purchasing enough oil to keep Venezuelan production levels up in 1976, they made it clear that they were now able and willing to seek closer Venezuelan compliance with market realities, allowing PETROVEN to suffer the tax consequences of a failure to achieve hoped for price levels.

The realization that it is now responsible for its own marketing arrangements, that it is actually more rather than less dependent upon the international market, has strengthened considerably the determination of Venezuelan petroleum policy-makers to diversify their outlets and secure long-term guaranteed markets, if possible independent of the oil companies as intermediaries—i.e. direct deals with state companies, or, even better, with public utilities and private refineries—and if possible, independent of any single market, such as the United States East Coast, to which they have been very closely tied by the nature of Venezuelan oil and by the nature of the refining systems installed by the international oil companies.

Sowing the Oil: Balanced Growth and Developmental Equity

As the analysis to this point has made clear, Venezuelan governments in the years after 1958 have made considerable progress with respect to two of the most important objectives of public policy: the consolidation of the democratic polity, and the control and domestication of the petroleum industry. But what of the other goals embodied in the distinctive Venezuelan development "route," specifically the use of oil-derived income to stimulate a process of rapid, balanced growth, freeing the economy from monocultural dependence upon oil, plus movement to a more equitable distribution of the benefits of economic progress? Unfortunately, it seems clear that with respect to these objectives, Venezuela's development strategy has not worked well; indeed, to a degree it would seem that components of this strategy have in fact proved incompatible as pursued, and, given the prospect of continued support from the oil sector, the government has chosen a pattern of public policy choices that minimize the strain upon the democratic system while leaving to the future the more difficult decisions about the economy.

There are many reasons why the program of state-directed economic growth and redistribution seems to have fallen short. To begin with, it seems clear that the government did not have enough funds to carry the load by itself, and increasing non-oil corporate and personal taxation levels proved nearly impossible politically, although two governments made the effort (and another effort is under way now). The pursuit of control and domestication of the petroleum industry plus a conservationist posture with respect to production, made a simple increase in production unacceptable as a means of expanding fiscal receipts. Also the administration of several important state enterprises proved very disappointing. The petrochemical industry, in particular, has been characterized as an administrative and financial disaster by nearly everyone informed about its operation. Instead of generating an export income for the country, it has continued persistently to operate in the red.

Finally, it is becoming apparent that Venezuela's private sector contributed very little to the vital objective of increasing efficiency and building an export capability in manufactured goods. This, despite the government's mild warnings and incentives. Instead private interests have pulled together with increasing frequency for defensive attacks on the state, doing their best to remain a protected economic "island" benefitting from demand generated by petroleum income.

As the result of these things, by the end of the Caldera administration in early 1974 Venezuela could claim only modest accomplishments with respect to the key long-term goal of achieving a more diversified and balanced pattern of growth. The economy and the government still depended heavily on oil revenues. Indeed, in 1972, before the "crisis" price hikes, petroleum-derived revenues accounted for a higher percentage of government income than they had in 1960. In 1972 oil earnings also contributed fully 17.2 percent of the Gross Domestic Product. A reduction of less than 2 percent from the figure in 1960. And oil accounted for about the same percentage of the total value of exports (92 percent) as it did in 1935, 1945, 1955, and 1965. Self-sufficiency even in food products seemed a distant hope. The conclusion is unavoidable: Venezuela had simply not been "sowing" the oil income.

The same general conclusion applies to the goal of distributing income to the poorer citizens of the country. Indeed, despite the rhetoric of reformism, available evidence suggests that income distribution (as distinct from total income) remained practically unchanged in the years between 1958 and 1973. In the latter year the government admitted to an unemployment rate of 13 percent, but informed observers concur that this did not measure the actual rate, which was probably as much as 50 percent higher due to hidden forms of underemployment.

These socio-economic problems did not go unnoticed. On the contrary, in the years immediately preceding the massive price increases of 1974, Venezuelan technical experts and political leaders were becoming increasing concerned about the country's lack of accomplishments with respect to the government's objectives.[10] It seemed, in fact, that the government and the private sector might soon be thrown into a much more direct and intense conflict as public policy makers began to consider harsher measures to transform basic structures of the economy.

The "Auge Petrolero": The Last Chance

It was at this point in the national reconsideration of the development process that the price of oil shot up and the government seemed to have been granted still another reprieve, an opportunity again to achieve the postponed goals without an intense, frontal clash with the domestic economic elite, and without an enormous pressure on the state and its autonomous enterprises to improve the performance of the public sector without the injection of new funds.

The response of the government of Carlos Andrés Pérez to this challenge is perhaps best delineated by describing the steps it has taken in using the new income.[11] The first step came with the creation of the Fondo de inversiones de Venezuela (FIV), an institution designed to handle funds which could not be absorbed directly by the domestic economy without causing serious inflation. Its assignment was to seek useful investment abroad.[12] Set up in June of 1974, the FIV was slated to receive 50 percent of the country's oil earnings each year above a pre-set base-line. In 1974 it received 13 billion bolívares, was scheduled to receive a slightly larger sum in 1975, but production (and thereby government income) decreases allowed an additional deposit of only 7.5 billion bolívares. In 1976 it will receive no additional funds; indeed it seems unlikely that it will ever do so again.

Although comprehensive guidelines for the use of the new funds have not yet been published, enough specific investment decisions have been announced so that a rough pattern can be discerned. Part of the funds will go to about a dozen key state infra-structure development programs, some new and some already established. Among them: 1) the oil industry (for a tanker fleet, refining technology, and general anticipated post-nationalization expenses); 2) electrical power generation; 3) a ship-building industry and a merchant fleet; 4) the petro-chemical industry; 5) the steel industry—the government hopes to be producing 15 million tons of steel by 1985 with the ore coming from the now nationalized iron ore mines; 6) coal production; 7) hydroelectric power; 8) aluminum extraction; and 9) a small railway.

The FIV has also been used to recycle funds outside of the country, and here it is clear that Venezuela has committed itself to a substantial program of lending to its Latin American neighbors, especially in the Caribbean (see the next section for the details).

In addition, the government has created four new domestic investment funds: 1) for industry ($465 million), 2) for agriculture ($465 million), 3) for urban improvement ($465 million), and 4) for small and medium-sized industry and crafts ($84 million). Finally, the government has also launched a large-scale ($70 million) program to generate skilled manpower. Set up in 1974, it has the announced goal of providing technical training to 10,000 students every year for five years at the university level, both at home and abroad.

Although the new national five-year plan has not yet been made public, preliminary reports on its contents indicate that the impression created by these first steps of the Pérez government is roughly correct:

the state has decided upon an enormously ambitious development leap on nearly all fronts. Indeed, President Pérez surprised observers on the day of the nationalization of the oil industry by announcing that Venezuela will step well beyond its currently enlarged oil income and actually borrow as much as 60 billion bolívares in the future for developmental purposes.[13] The scope, and, if you will, audacity of this new program reflects a very strong current of opinion in Venezuela that the country stands now at its most critical historical threshold, that it must now use all its skills and resources to re-direct the pattern of development and establish a self-sustaining non-oil economic base that will provide for the future. There will be no more income bonanzas to resolve conflicts and allow another postponement of difficult development decisions. Indeed, it is to this challenge that President Pérez referred when, during his presidential campaign, he stated several times that the next government (1974-9) would be the last chance for the survival of democracy in Venezuela.[14]

PART II: FOREIGN POLICY

Before turning to a detailed examination of the main objectives of the Venezuelan foreign policy and the means used to pursue them, it might be helpful to begin with a few more general observations. First, the most important policy areas are those which have a tangible bearing upon the ultimate success of the country's development program. These include oil matters, OPEC, the legitimatization of cartels generally, and US bilateral trade relationships. It is upon these that the country must focus. However, the recent influx of oil wealth, which has brought in its wake a very unaccustomed level of attention, has nourished in Venezuela a long-held dream of continental leadership (not domination) which can really only be understood against the background of what might be called the "legend of Bolívar." Venezuelans as they grow up are indoctrinated intensively in the adulation of Simon Bolívar, the country's principal hero. He is pictured there as not simply a Venezuelan by birth, but as a statesman of continental stature whose mission, unaccomplished obviously, was to bring Latin America together in a system of constructive relationships. This cultural hero-worship is extraordinarily pervasive in Venezuela, and must be taken very seriously by anyone seeking to understand and explain the country's international behavior. This, despite the fact that its precise impact can never be measured with any precision.

Also, there is the role of personal leadership. In recent years, the conduct of foreign policy has been tightly controlled by the president, and the personal styles of different individuals in that office have therefore been of unusual importance.[15] Currently the country is led by an individual of remarkable personal energy who has a strong sense of personal obligation to use this moment in history to achieve self-sustaining growth and to establish an energetic international reputation for Venezuela as a leader. He is his own Secretary of State, but has also proven capable of tapping the loyal support of some of the best of the corps of statesmen that democratic Venezuela has produced in the last decade and a half. An example is Manuel Pérez Guerrero, current co-chairman of the CIEC. In the conduct of foreign policy, therefore, Venezuela currently has an unusually alert and capable leadership cadre, a cadre closely supervised by the president himself.

The principal objectives of Venezuelan foreign policy may be summarized as follows:

1. To secure the oil life-line: maintain OPEC; keep prices high; justify cartels; and market oil.

2. To consolidate the national boundaries, including the maritime boundaries, where possible in favor of Venezuela.

3. To lead the way in shaping the emerging new system of hemispheric international relations.

4. To establish Venezuela firmly as a leader or co-leader within several key sub-regional geopolitical "frameworks."

5. To serve as an example and leader in the forging of a new global economic order that will grant an enhanced status and role to the developing nations.

6. To obtain a satisfactory status and influence in the overall United States oil import system.

To Secure the Oil Life-Line

This means many things, and it has come to mean even more since the nationalization of the industry. In the broader sense it means doing what is necessary at the international level to keep the oil income flowing to the treasury. Given the current commitment to a massive and expansive developmental "leap forward," this has become even more critical.

At the heart of Venezuela's oil diplomacy, of course, is the OPEC, an organization which was in large part the original idea of a Venezuelan petroleum minister, Juan Pablo Pérez Alfonzo, and which since 1970 has become the key to the new wealth of the oil producers. Venezuela's particular profile of resource endowment places it as the OPEC member with the strongest overall commitment to the full range of OPEC objectives: i.e. price control at high levels, perhaps even leading to a common pricing system in the near future; production control, if possible through organized, as opposed to spontaneous, proration; and, finally, joint agreement on secondary "obligations," such as supporting other cartelizations and providing a portion of the wind-fall from price increases as development aid to the oil-poor underdeveloped countries.

Since the production lifetime of Venezuela's regular oil reserves is relatively limited, the government is very strongly committed to maintaining prices. In the past this has been true even if it meant some sacrifice in terms of production quantities. Indeed, hoping to conserve oil for the future and at the same time to help OPEC handle the recent market surplus, Venezuela has made significant reductions in production rates on a voluntary basis. Another reason for Venezuela's commitment to high prices, probably more important in the long run, is the fact that the utilization of the Orinoco heavy oil deposits, upon which Venezuela expects

to rely increasingly after the next decade, will require high prices. As mentioned earlier in this essay, it may cost from $7 to $10 per barrel simply to produce this oil. This means, in contrast to oil being currently produced, that government income per barrel is likely to be very low. Assuming costs in the range indicated, Venezuela would have to produce enormous quantities to realize the same fiscal dividend: up to 16 million barrels per day.[16]

Venezuela has pursued its objectives within OPEC in a number of ways. Wherever the opportunity has arisen, the Venezuelan government has tried to set an example by taking the first step or taking the initial risk, in the hope that this might convince the more reluctant members to follow along. In the early days, this role was more pronounced, but Venezuela has recently resumed its efforts to become a kind of pacesetter.[17] In 1970, for example, Venezuela moved ahead with a tax change timed precisely for its possible impact on the OPEC meeting in Caracas of that year. And its recent success in extremely tough bargaining with the international oil companies over prices has to a degree served this function as well.

At preparatory and full OPEC meetings Venezuela has consistently sought to persuade its fellow members to raise tax levels and, where possible, prices, by substantial amounts. At Quito in 1974 Venezuela proposed a very substantial tax increase (from 55 percent to 87 percent, designed to cut company profits from about $4.50 per barrel to $1.00 per barrel) but its proposal was dropped, in favor of a very small increase in royalties along with stable prices, after the Saudis indicated they favored a 20 percent reduction in prices. More recently, while still aligning with those in OPEC asking for higher prices, Venezuela has increasingly assumed the role of mediator in the organization. As the world oil surplus has increased the tensions within the price "camps" in OPEC, Venezuela has often been the initiator and promoter of compromise. In the critical Vienna meeting of September, 1975, for example, the final decision to raise prices by 10 percent was the result of careful Venezuelan diplomacy. As one source reported it, Venezuela "emerged in a central role as a responsible conciliator, with President Carlos Andrés Pérez personally telephoning the Shah of Iran and Crown Prince Fhad of Saudi Arabia in pursuit of compromise."[18] To those familiar with the many compromises and reconciliations that have been required in the construction of Venezuelan democracy, the parallel is striking.

On the basis of current behavior, it seems reasonable to predict that Venezuela will continue to favor higher prices, will settle for prices that parallel world inflation rates, and will resist very strongly any reductions in price that are greater than about 5 percent. However, it can also be expected that Venezuela will continue to serve as a conciliator and mediator among the varied membership of OPEC, and will continue its deep commitment to the unity of the organization itself.

A natural extension of its OPEC activities for Venezuela has been its promotion and support of other efforts at cartelization, including those in bauxite, copper, sugar, iron ore, bananas and coffee. In the case of coffee, Venezuela has agreed to invest $85 million, and perhaps more, to support an export control program proposed by Central American producers.

Venezuela has also been the initiator and chief promoter of formalized energy cooperation among the Latin American countries, helping establish first ARPEL (Asociación de Asistencia Recíproca Petrolera Estatal Latinoamericana, created in 1961) to promote cooperation among state oil companies in Latin America, and then later OLADE (Organización Latinoamericana de Energia, inaugurated in 1973), as a forum in which the region's ministers of energy and petroleum could meet and discuss national energy policies.

Venezuela has also led the OPEC countries in commiting its current and future reserves of oil earnings to recycling modes designed explicitly to aid underdeveloped countries and, more specifically, those suffering from the need to pay high prices for Venezuelan oil. Indeed there is general recognition that Venezuela response to the surplus generated by oil price increases has been the most sophisticated and carefully administered to date. The loans, in almost all cases, at an annual interest rate of 8 percent per year and for terms ranging from 15 to 25 years, have gone to the following:

1) The World Bank, $500 million.

2) The Inter-American Development Bank, to a special lending fund, $500 million.

3) The Central American Bank for Economic Integration, $40 million.

4) The International Monetary Fund, to help countries adjust to balance of payments problems caused by oil price hikes, $450 million.

5) The Caribbean Development Bank, special development fund, $25 million.

6) The Andean Development Corporation, $60 million.

7) A special lending program designed to help Central American governments finance oil imports from Venezuela, $500 million. (Under these agreements Venezuela will grant 6-year credits equivalent to the first $6 of the price of each barrel of imported oil, also at 8 percent. Agreements have already been signed with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. Ths subsidized volumes will decrease by one-sixth each year, but once the funds have been repaid, they will then be available to the countries involved for long-term development loans.)

Finally, within the formal OPEC framework, Venezuela led the way, with Iranian help, in recently establishing the special Third World Development Fund, which will receive 10¢ from the earnings of each barrel of oil produced by member countries and is expected to grow to some $5 billion within five years.

It should be stressed that these aid activities, in addition to having a very real humanitarian component, have been selected carefully with an eye to their contribution to concrete Venezuelan interests. With the exception of the Central American arrangement and the OPEC tithing, these loans have not been on particularly concessionary terms; they thus are

also forms of income recycling. In addition the Central American fund, if used, will have the result of tying the Central American countries involved to Venezuela as the supplier, thus preventing a possible loss of this market to Mexico in the future. Secondly, as a chief promoter of high prices, Venezuela along with Iran is being pressed increasingly to provide a strong justification, for its demands, to the rest of the developing nations.

Before turning to other dimensions of Venezuelan foreign relations, mention should be made of the possible impact that the recent nationalization of the oil industry may have on the conduct of petroleum policy at the international level. The nationalization itself has gone quite smoothly; the administrative reorganization is underway, and production continues according to plans drawn up by the private companies (at the government's command) before the take over.

As mentioned earlier, however, Venezuela was not able to place its oil at the levels desired—approximately 2 mbd in exports—without some very tough bargaining with the former concessionaires. These companies sought to use their new position as "off shore buyers" to force the government to bring its prices down below the levels the government negotiators had set as conforming with OPEC standards.[19] Venezuelan negotiators held out, and finally seemed to have placed the amounts they intended, but not after some very frightening moments. Since the original negotiations, just before New Year's Day 1976, the market has improved and it seems that Venezuela will continue to succeed in its short-term marketing efforts. But the lesson was not lost; Venezuelans were made to feel very insecure indeed. PETROVEN will now have to handle marketing, and this is the one area of the petroleum industry activity that Venezuelans have been least trained to handle. In several of the companies formerly controlling the industry these decisions were taken for the most part by parent multi-national headquarters. To make matters worse, Venezuela's marketing job is very difficult compared to that of the other OPEC countries. As one observer has noted, "there is not much doubt that the nationalization operation is a very much more ticklish one than any attempted in other areas such as the Middle East. Venezuela exports a much larger proportion of finished products than any Middle East country."[20] Actually, just under half of Venezuela's exports are in the form of refined products.

All of this adds up to a new and very pronounced form of dependence on the international companies, and a new and direct vulnerability to the world oil market. It also means that the Venezuelan government has a strong incentive, already mentioned by top officials, to reorient the country's markets in several key ways:

1) <u>To circumvent the international companies</u> wherever possible without sacrificing price realizations. There are several ways of doing this and Venezuela is actively exploring all of them. First, there is the possibility of state-to-state arrangements. These have proven difficult since most governments have tried to bargain for price reductions, which Venezuela has not been willing to entertain. (Actually, most experts feel that the much discussed state-to-state alternative is not going to materialize in the near future, but may remain possible for small amounts.)

Second, there is the option of direct agreements with individual refineries and individual public utilities. Here the possibilities are very good, and it is likely that Venezuela will be moving in this direction in the future. This will allow long-term, secure agreements that need not damage prices, but that will displace the companies as intermediaries.

2) To diversify markets, so that a company decision to supply a critical, large volume Venezuelan market, such as the U.S. East Coast heating fuel market, from other sources, would not damage Venezuela as severely. In this respect there is considerable concern in Venezuela about the possible encroachment of Mexican oil in a traditional Venezuelan market area.[21] Caracas is strongly interested in providing an increasing proportion of the import requirements of other Latin American countries. Brazil in particular, is the object of special attention. Venezuela now has only 2 percent of the Brazilian market, and the president has stated several times that he hopes to increase that percentage considerably. As economies grow in Latin America generally, Venezuela expects demand to increase and hopes to become a more important source of supply to the countries of the region.

Securing the Borders

Space limitations preclude an extensive discussion of Venezuelan efforts to consolidate and secure its borders. Fortunately this subject has been recently surveyed in an excellent study by John Martz and his analysis need not be repeated here.[22] Venezuela is currently involved in border "controversies" of varying intensities and future significance with: a) the Netherland Antilles (maritime delimitations); b) Trinidad-Tobago (maritime delimitations and fishing rights); c) Guyana (over Venezuela's continuing but currently dormant claim to more than one-third of all of that country's territory); d) Brazil (involving a thinly disguised Venezuelan suspicion of the long-term implications of the very active Brazilian military and civilian presence across the line from Venezuelan territory that is nearly uninhabited); and, finally, with e) Colombia (over the delimitation of the waters of the Gulf of Venezuela). Only the last of these is currently the subject of active controversy, since the deeper issue involves the possible oil reserves under the disputed land, and since the Venezuelan military has expressed considerable concern and involvement. Active military conflict with Colombia seems very unlikely in the immediate future, but cannot be discounted. Colombia, despite its surface stability, may be subject to sudden and rapid socio-political change in the future, and Venezuela, like most democratic countries, is subject to considerable "mood" reactions with respect to issues touching upon the sanctity of national territory.

To Lead the Way in Shaping the Emerging New System of Hemispheric International Relations

In the last half decade hemispheric international politics have been changing rapidly, and Venezuela has worked diligently in surprisingly diverse ways to build a strong reputation as a leader of the process. In doing so

it has experienced some success, but has also been forced to recognize the very real limits to collective action in the region.[23]

Latin America has, so to speak, "opened up" as far as international relationships are concerned. There is a marked new heterogeneity, a new fluidity in bilateral and multilateral relationships which denotes a kind of groping for a kind of regional "understanding" about objectives and appropriate policy means. This is to be explained in large part by the fact that a number of Latin American countries have grown more experienced, more self-confident, and more self-assertive, accepting the responsibility for shaping their own future. This is true especially of those countries that have begun to consolidate strong central governments. Closely related to this trend is the clear inclination on the part of a number of states to dismantle, or at least modify, the U.S.-designed hemispheric institutions created originally to handle Cold War problems, and to replace them with ones that a) address the more immediate issues of development and facilitate the cooperative action needed to boost that development, and b) tolerate diversity and ideological experimentation.

To a number of countries this has led also to a hesitant, but growing, advocacy of a more openly adversarial relationship with the United States, a relationship which would keep the United States at arms length, available for bargaining on problems of clear concern to most or all Latin American countries, but distant enough to open up Latin America as a region to a more active pattern of sub-regional international interactions—this to be increasingly shaped by the Latin American "middle powers" themselves. Economic arrangements and experiments designed to bring Latin American countries together and to control the intrusion of overseas economic influences form an important part of this new commitment to autonomy and self-control.

As indicated earlier, Venezuela has been an active promoter of this image of a more "open hemisphere" in which the major countries engage in freer, more active sub-regional diplomacy and in which the emerging cleavage between rich and poor countries is allowed to enter the hemisphere and to texture relationships between the United States and Latin American countries. An exhaustive list of Venezuelan positions and activities that have contributed to this change is impossible, but a summary will help outline the pattern.

President Pérez at the outset of his administration set as a primary goal the bringing together of Latin American heads of state in a series of consultative meetings, using as a pretext the anniversaries of key events in the struggle for Latin America independence 150 years earlier. After two such meetings, in Buenos Aires in September, 1974 (Bolivarian and San Martinian countries) and in Lima in December, 1974 (the anniversary of the Battle of Ayacucho), the initiative petered out as the Venezuelan leader, while benefitting from some personal diplomatic successes, nevertheless received an education on the limits of sub-regional cooperation. All of this was to lead to a final meeting in Panama in 1976 to celebrate Bolivar's famous congress, but this plan has now been abandoned.

Venezuela was also a prime mover, with Mexico, in the creation of the Sistema Económico Latinoamericano (SELA), an institution that

Venezuela hoped would facilitate communication among Latin Americans and would provide a constructive framework for an adversarial dialogue with the United States on key development issues.[24] Here also the compromises necessary to launch the organization and the apparent lack of early dynamism has served to blunt the enthusiasm of Venezuelan diplomats with respect to this kind of institution.

Finally, in the Organization of American States (OAS), Venezuela strongly supported the effort to re-assimilate Cuba as well as the reform of the Rio Treaty codifying the acceptance of "ideological pluralism" in the hemisphere. It joined Mexico and others in asking the abolition of the special Inter-American Defense Commission Against Communism.

These measures in support of ideological pluralism deserve special mention because they constitute the most important change in Venezuela's foreign policy in the years since the overthrow of Pérez Jiménez. In the early days, when Betancourt struggled to preserve his government from a military coup, and when he nearly lost his life to an assassination squad sent by Dominican dictator Trujillo, Venezuela actively promoted what has since come to be known as the "Betancourt doctrine." This asserts the obligation of democratic governments to refuse recognition to military juntas that overthrow other freely elected governments. Beginning with the Caldera government, Venezuela has gradually muted its formal adherence to the Betancourt doctrine, because it has proved an obstacle to the accomplishment of other key foreign policy objectives. However, the importance of this change can be easily overstated. Venezuela has always been willing to deal with non-democratic governments, and it has not become an eager supporter of military coups against democracies. Its attitude toward the new Chilean government—Venezuela is a chief home for Chilean exiles—is perhaps the clearest manifestation of this.

To Establish Venezuela Firmly as a Leader or Co-Leader Within Several Key Sub-Regional Geopolitical "Frameworks"

Within the context of the new more "open" hemisphere, Venezuela has recognized, and begun to take account of, several special relationships which in a sense arise out of its geographic setting and out of its need to establish bilateral ties with countries which, like itself, have begun to extend themselves into the international system. Two such relationships are especially interesting: one with Peru within the framework of the Andean pact and the belt of Spanish-speaking countries to the north of Chile; and the other with Mexico, within the context of the Central American countries and the Spanish speaking Caribbean.[25]

These sub-regional geopolitical relationships are interesting and worth mentioning for several reasons. The geographic areas involved are of primary economic concern and extension for Venezuela, and thus are ones in which patterns of rivalry might be expected to arise. And in fact there has been a good deal of speculation in the press about Venezuelan/Peruvian rivalry in the Andes and Venezuelan/Mexican conflicts over intluence in the Caribbean and Central America. Venezuela has in fact been very active

diplomatically in these areas, extending special loans, promising to fund development projects, and even taking publicized positions on boundary issues which it previously might have ignored entirely (on Belize; the Panama Canal; Bolivia's exit to the sea; for examples).

However, one of the most distinctive aspects of Venezuelan diplomacy in these areas is that the country has gone out of its way to avoid conflict and rivalry, but rather to work out direct and friendly relationships—relationships of mutual respect, if you will—with the other "active powers" involved. This pattern was established first on a direct, personal level (Lima and Mexico City meetings between heads of state) and has extended to the point where the relationships between the countries involved have the distinct character of cooperation or "co-leadership." This hasextended to a degree beyond the sub-region involved to mutual sponsorship of important Latin American initiatives such as the Ayacucho Summit and the SELA system itself. It is quite possible that much of this cooperation is superficial and might dissolve into more direct conflict, but this does not seem likely at present. Perhaps the most serious dispute in these areas is the potential one with Mexico over its oil sales and over its pricing policies in the U.S. market. Mexico, at Venezuela's urging, actually applied for membership in OPEC, and the application was received in Kuwait, but Mexico felt obliged to withdraw its application, apparently because of the terms of the 1974 U.S. Trade Act. However, Mexico did say that it would follow OPEC price policies, clearly a gesture to calm Venezuelan fears.

To Serve as an Example and Leader in the Forging of a New Global Economic Order

In working with the OPEC and generally with oil matters, Venezuela has acquired considerable global experience in the conduct of international economic diplomacy. Few Latin American countries have been involved so consistently at the global level, although many of them have greater experience within the hemisphere. And Venezuela has a strong stake in reinforcing the legitimacy of non-market arrangements designed to improve the position of developing nations. In particular it has promoted strongly the idea that prices for raw materials from underdeveloped countries and prices of manufactured goods from developed countries should be considered together by the international economic community. For these reasons, it is likely that Venezuela will continue to cultivate the global leadership role it has already begun to assume, especially in such forms as the United Nations, the Group of Seventy-seven, UNCTAD, CIEC, and others.

United States Response

At this point it is useful to pause in order to comment upon the response of the United States to Venezuela's new diplomatic activism.[26] Not surprisingly, that response may be characterized as one of "passive disapproval," this reflecting the insecurity felt at the prospect of a more open, and perhaps permeable, hemisphere, involving less direct U.S. involvement and the emergence of active diplomatic subsystems, will probably

be less controllable and less predictable. A list of the specific sources of U.S. irritation with Venezuelan diplomacy is actually surprisingly long:

1) OPEC.

2) SELA. Although the Secretary of State did "welcome" SELA on his recent trip to Curacas—SELA was created in August, 1975 at a meeting in Panama—and expressed U.S. willingness to cooperate with it, he also made it clear that he would be unhappy if it were to be used for confrontation.

3) The oil nationalization. Disapproval was expressed in a note sent to President Pérez by President Ford criticizing dimensions of Venezuelan policy.

4) The promotion of raw material and primary product cartels.

5) The Andean Pact and (in general) restrictions on private capital.

6) The Sesquicentennial "summit" program.

7) Venezuelan support of the initiative to legitimatize pluralism in the Rio Treaty system.

8) Venezuela's sponsorship of the initiative to reassimilate Cuba into the OAS.

9) Venezuela's backing of Panama in canal negotiations.

10) The effort to establish extra-hemispheric contacts and to bring Latin America into the rich/poor adversarial dialogue more fully.

11) Venezuela's hostility to the Chilean regime.

12) The special OAS condemnation of the 1974 trade act, engineered by Venezuela (described below).

The "open hemisphere;" assertions of economic independence and ideological pluralism; the promotion of collective institutions excluding the U.S.; engaging in active diplomacy beyond the hemisphere—all of these promise to complicate if not derail hopes for a New Dialogue leading to a new understanding, and acceptance, of the limits within which the U.S. is willing to see the new Latin American regional international relations operate. Indeed many have interpreted Secretary Kissinger's tapping of Brazil for a special role—Brazil has been more cooperative on such matters—as a strong gesture intended to signal U.S. displeasure at policy initiatives such as those described here. It seems clear, of course, that the result will in fact be precisely to reinforce the commitment to those initiatives among countries such as Venezuela, Peru, Mexico, and Cuba.[27] In sum, it is not surprising that United States relations with Venezuela are currently polite but cool.

To Obtain Satisfactory Status in the Overall U.S. Oil Import System

Returning to the delineation of Venezuelan foreign policy objectives, one key goal remains to be mentioned. It is key because it relates to oil and because it is likely to take on greater importance in the future. Put in the simplest, most direct way, the Venezuelan government feels, and has argued for years, that it should be granted a special status in its trade relationship with the United States because of its role as a major supplier of oil and oil products. The reasons Venezuela gives for this claim: a) Venezuela is currently, and has for years been, the single most important source of petroleum imports to the United States; b) though a member and founder of OPEC, Venezuela has never embargoed the United States or used its oil as a means of political blackmail, indeed its trade pattern as it currently stands, is one of such great interdependence that such an action would be virtually impossible; c) during times of crisis—World War II, Korea, the various Middle-East wars—Venezuela proved to be a reliable provider of petroleum; d) although Venezuela has moved to nationalize its industry, it has paid adequate compensation which all the important companies have accepted (the companies have accepted, but many do not feel that the amounts paid were adequate), and perhaps more important, has established a good working relationship with the large American multinationals, thus assuring the continuation of supply to its established American markets; e) Finally, it is a fellow democracy.

For a number of different reasons, including the nearly Byzantine interest-group struggle affecting U.S. decisions on oil imports, the influence of the major oil companies that have a stake in Venezuela, the general lack of central coordination in energy matters in the United States, and the lack of congregational expertise in these matters, among others, Venezuela has been consistently denied the special status it has requested. When mandatory oil import control was established in the United States in 1958-9, Venezuela suggested an intergovernmental agreement among the hemisphere countries supplying oil to the U.S. (Canada, Venezuela, and to a lesser degree, Mexico) in order to prorate supply according to U.S. requirements. Such an agreement would grant hemispheric producers a "preference," recognizing their status as more secure sources. The American decision was instead to exempt Canada and Mexico from the mandatory system while leaving Venezuela out entirely. This was done by exempting imports overland.[28]

The mandatory oil import program was a source of continual strain and friction between the United States and Venezuela until its termination in 1973. Immobilized by an interest group conundrum, drifting along without a real energy policy, and desiring to protect the interests of American corporations operating in Venezuela, the United States government repeatedly turned down Venezuela's petitions for preferential status in the U.S. market. This, despite the recommendation of a high-level task force that a hemisphere preference be adopted in order to avoid increasing reliance on less secure Arab oil.[29] The only exception to this was with respect to the imports of heavy fuel oil, and in this case the exception was made for the wrong reasons from Venezuela's standpoint. After about 1966 the quotas for residual fuel oil were set at such high levels

as to be non-operative since American refineries preferred to produce as little of it as possible, instead turning their crude into more profitable commodities such as gasoline and using imported residual to supply the U.S. demand. With this exception, however, Venezuela could accomplish little; the large international companies had firmly decided upon a "non-hemispheric preference" with respect to imports since costs were lower in the Middle East and North Africa and since they strongly resented Venezuela's tougher controls and tax laws.

After the energy shortage and the OAPEC embargo of 1973-4, a few Venezuelans hoped that they would finally receive the special status they desired. However, this did not come about.[30] In fact, when the old import control program was finally abandoned, subsequent regulatory changes tended to place Venezuelan imports, especially fuel oil, at a price disadvantage in its traditional East Coast U.S. market. The severity of this disadvantage was reduced by a recent (Spring, 1976) administrative adjustment in what is known as the Entitlements Program (a program designed to equalize the benefits among refiners accruing from the price difference between domestic and imported oil), and Venezuelans are hoping that Congress will acquiesce to the administration request that fuel oil prices be decontrolled, so as to further improve its competitive standing in American markets.[31]

And then, literally adding insult to injury, the U.S. Congress included in the important 1974 Trade Act, signed by President Ford in January, 1975, a provision excluding by definition all OPEC members from the benefits conferred by the new system of Generalized Tariff Preferences (GSP) authorized by the Act. This was apparently done as the result of the common misconception that it was OPEC, rather than OAPEC, that embargoed the United States. Both the President and the Secretary of State subsequently urged a reconsideration of this provision, introducing legislation into both houses of Congress which would modify the "OPEC" clause in such a way as to permit Venezuela (and Ecuador, also affected) to benefit from GSP adjustments. However, despite considerable urging, including a personal appeal by the Secretary of State, the Congress does not appear willing to act on the administration's request.

Carlos Andrés Pérez reacted vigorously to the special discrimination in the Trade Act. He sent an urgent message to all OAS member states requesting a special meeting of the OAS Council to consider the action, and a meeting of that group two weeks later produced a resolution (20 votes in favor) condemning the Act and expressing "profound preoccupation with the deterioration of the inter-American solidarity provoked by certain clauses of the law."[32] There was a great deal of sympathy among the other Latin American countries for the Venezuelan position on this issue. The precise effect of the exclusion is not yet known—the GSP has just been put into effect—although one estimate is that about $35 million worth of annual Venezuelan exports of manufactured goods exported to the U.S. will be affected. Oil is not affected.

The real damage of the Act, of course, is symbolic: it confirms the worst fears and frustrations on the part of Venezuelans with respect to their hope for recognition of the special role Venezuelan oil has played in supplying American needs. For practical purposes, there can be no doubt:

Venezuelan oil is the same as Arab oil in U.S. eyes. With PETROVEN now taking over the job of marketing, and with the U.S. finally admitting to itself that energy independence is not to be forthcoming in the near future, this mistake may have unfortunate consequences.

Foreign Policy Style

Before proceeding it is instructive to distill from this summary review of the conduct of Venezuelan foreign policy a few of the more consistent attributes that can be seen therein. Four descriptive terms seem to apply well: Venezuelan foreign policy has been vigorous, pragmatic, consociational, and idealistic.

1) Vigorous. The sheer intensity of activity and the extent of involvement at nearly every level—bilateral, multilateral, regional, global— is quite astonishing. This has accelerated since 1973, but can be traced only partly to the influx of oil income. Other key influences include the role of personal leadership, the consolidation of strong political institutions, and the new more "open" hemispheric and global geopolitical context.

2) Pragmatic. Venezuelan democratic governments have demonstrated a capacity to pursue basic objectives in a very flexible and pragmatic way, but without losing sight of the objectives themselves. Typically diplomacy has been assertive, but not rigid and ideological. Venezuela's behavior as a member of OPEC, and the muting of the anti-dictatorial thrust of policy with the decline of direct threats to Venezuelan institutions, are examples of this.

3) Consociational. Finally, and this is the trait most interesting and most difficult to describe accurately, Venezuelan foreign policy has been remarkably "consociational." This refers not just to willingness to work together with others to resolve problems, but more important, to a strong inclination wherever possible to build institutional and associational frameworks to handle problems on a more organized, long-term basis. It refers also to a willingness to disaggregate conflicts, i.e. to prevent one issue in conflict from overlapping with others and to prevent adversarial aspects of a relationship from overriding and obscuring opportunities for cooperation in other areas. Actually, a close review of Venezuelan conduct reveals that the tendency to respond in a consociational fashion is extraordinarily pervasive, extending beyond the founding of compromisory institutions to its conduct as mediator and conciliator once these have been founded. The list of new organizations and institutions that Venezuela has helped found is really quite long. OPEC, the Andean Pact, and SELA are among the best known. But it is important to note also the consociational responses to conflict situations that did not in the end lead to the founding of formal organizations. Venezuela's early suggestions for a world petroleum organization (in the late 1950s and early 1960s) to bring together consumers and producers is one example; another is its idea of a hemispheric energy policy and consultation system. Both were patronizingly rejected out of hand, and these rejections in part led Venezuela to promote OPEC as an alternative.

The consociational character of Venezuela's foreign policy can be traced to many sources. First, and perhaps most important, it parallels the process of institution building and conciliation in which Venezuelan leaders have been engaged domestically. This can be seen most clearly in the system of democratic accommodations discussed earlier. Second, it reflects the experience gained in the conduct of oil diplomacy, especially, where important benefits, often after years of failure, accrued to a group precisely because they prevented other conflicts from intruding upon the compromises needed for success in one area. Finally, of course, there remains the real but unmeasurable impact of the myth and example of Bolívar, also mentioned earlier in this essay.

4) Idealistic. Idealism, perhaps even naivete, at the outset of a diplomatic enterprise especially, is the final attribute selected for mention here. Many of its sources are the same as those listed above. Its manifestations are easily visible. The hope of using Bolívar's 1826 Congress as a symbolic unifier of a heterogeneous continent is the most recent. It should be added that this trait is qualified by the fact that exposure to reality has not brought disillusionment in most cases. Nor has it yet gotten Venezuela into serious trouble, although it may have caused irritation to the North.

PART III: PROSPECTS, AND IMPLICATIONS FOR UNITED STATES POLICY

In Venezuela today there is a pervasive sense of optimism, often bordering on euphoria, with respect to the country's future. In an unprecedented spurt of administrative vigor the government is laying plans for an ambitious program of development. Large numbers of Venezuelan students are studying on scholarship at home and abroad, to fill the jobs that this sudden growth is to create. At the international level the country is receiving widespread recognition for its financial assistance and political leadership.

It is the conclusion of this study, however, that this optimism may not only be misplaced, but may actually be dangerous because it encourages complacency about the future. Although most will agree that Venezuela has done comparatively well in responding to the short-term challenge posed by its income windfall since 1974, there remain very fundamental structural problems in the economy which must be overcome before self-sustaining, oil independent growth will be possible. The products of the state-created heavy industries require complements in the rest of the economy if the country is to generate exports. As one analyst has put it "now the country is plunging suddenly into a vast program of heavy industry, but these steel, aluminum, and petrochemical projects can only hope to grow if a medium-sized industrial sector emerges rapidly to provide the multiplier effect that it needs."[33] And the state, still deeply addicted to a constant growth in income stemming from oil, is under growing pressure to provide an expanded system of social welfare to compensate for persistent under- and unemployment. In sum, an enormous amount needs to be done and time is actually much shorter than many realize.

A rough forecast exercise, the assumptions of which are summarized briefly in an appendix to this study, suggests a rather sobering picture even for the next half decade. It indicates that Venezuela is very likely to enter a period of moderate fiscal leveling accompanied by some growth in domestic political tension after about 1979 and lasting at least into the early 1980s, as oil income ceases to grow and the government is forced to come to grips with the more difficult administrative and political problems in the building and restructuring of the Venezuelan economy. The GNP/import coefficient indicates a balance of payments deficit as early as 1977, and it seems likely that foreign reserves may well be depleted by the early or mid-1980s.[34] As President Pérez has already indicated, the government will probably rely on a substantial program of borrowing in order to maintain the flow of capital investments the development program will demand.

The political tensions projected are likely to result from increased "sectoral" tensions—between the state and the private sector, the state and labor—and over such issues as the performance of the public sector and the extent and form of its regulation of private (domestic and foreign) economic activities. Overall, however, unless there is a surprise such as a fall in oil prices, it does not seem that these tensions or the fiscal leveling anticipated will be such as to threaten the democratic system itself during the period to 1983. Should the party system fragment seriously over some of these problems during the 1978 electoral process, however, the polity may enter the crucial 1980s in a very weakened condition.[35]

Foreign Policy Implications

If these domestic conditions materialize, it seems reasonable to expect a decrease in the overall intensity and scale of Venezuelan foreign involvement in the coming half decade. The basic goals and objectives of foreign policy, however, are unlikely to change significantly. Nor is the overall "style" which has been described above. But Venezuela's leaders will surely have less time and resources to commit to diplomatic initiatives, especially ones that do not directly concern the oil lifeline. There will also be a sharp decrease in Venezuelan financial aid to other countries and to global and regional institutions and entities. In fact, Venezuela will almost surely want to reabsorb these resources as they become available. Funds for even small salvage operations will dry up as well by the early 1980s—for operations such as assistance to Ecuador to head off an Ecuadorian price cut, or to finance a Central American coffee retention scheme.

Oil policy may be influenced in palpable ways too. Production may be pushed to higher levels than current plans call for, probably rising to the estimated 2.8 mbd upper limit of capacity by 1980. The government is also likely to push ahead much more rapidly on the Orinoco development, although, as indicated, this is likely to have little short-term consequences and may never bring a fiscal payoff of the kind Venezuela has received from its regular oil. Pressure for the exploration of the outer continental shelf is also likely to mount quickly, with the possibility of an exacerbation of the conflict with Colombia over the Gulf of Venezuela. While remaining a firm supporter of OPEC, Venezuela may become much more adamant and less conciliatory should pressure from Saudi Arabia threaten any significant

reduction in prices. Overall, in the late 1970s and early 1980s, Venezuela will in all likelihood become increasingly vulnerable and "fragile" in oil matters; it will be less able to take large risks and make sacrifices to serve broader OPEC purposes.[36]

It should be stressed that this forecast, sobering as it is, is nevertheless based on quite optimistic assumptions about the key variables involved. It assumes that non-oil income to the government will grow at 5 percent in real terms; that oil prices will remain stable, adjusted upward for inflation; that production capacity in Venezuela will sustain an increase in daily output to an upper limit of about 2.8 mbd by 1980 (and perhaps even higher in the nearer term); and that Venezuela will demonstrate broad administrative success in the handling of the nationalized oil sector. Oil prices, in particular, are a source of very important vulnerability. A drop in prices of as little as 20 to 30 percent would have very serious consequences for Venezuela, even in the short-term period we are considering here. Such a change would aggravate dangerously all of the aforementioned fiscal and political problems.

Turning to the longer run, it seems clear that the few years after 1982-3 will be of critical importance for the future of the country. The full impact of the leveling off of oil-derived fiscal impetus will be evident by then, and Venezuela will either begin to grow on its own, on the basis of the ambitious developmental push currently planned, or it will begin to fall into a gradual process of economic decay, a process whose political consequences will almost surely be disastrous. By that time we will finally know whether democratic Venezuela was able to "sow the oil" or whether it squandered its last fiscal bonanza and will sink into economic stagnation and political authoritarianism as Carlos Andrés Pérez has suggested it might.

Implications for United States Policy

On the basis of this review of Venezuelan foreign policy, its origins and prospects, there are a number of conclusions we can draw about its significance for the United States.

1) Energy Policy. Consider first the central issue of energy price and supply. One of the few areas of conflict of interests between the United States and Venezuela is over oil prices.[37] American energy policy as enunciated has as a central goal the denial to OPEC of the capacity to set international oil prices, plus the reduction of those prices, if possible, though not below the Minimum Safeguard Price (MSP) of $7 per barrel agreed to by the IEA. It should be clear from what has been said that even partial success on the part of the U.S. and the IEA in attaining these objectives may have very serious consequences for Venezuela, including the ultimate imperiling of its future as a democracy. This conflict of interests is real, and, as posed by stated U.S. policy, is not susceptible to amelioration (i.e. it is zero-sum in nature). However, it seems clear that the American commitment to this objective is weakening quickly, despite the growing evidence of the severe hardship the high oil prices are imposing

on the oil-poor less developed countries. The reasons for this change are beyond the scope of this study, but its effect may be to blunt the edge of actual conflict on this issue. The most widely accepted forecasts of international price trends suggest that in fact prices are not likely to decrease in a way that will be threatening to Venezuela. However, there is considerable disagreement on this issue.[38]

The issue of energy supply is also a central concern to both countries, and is of more immediate pertinence to this study since U.S. policy toward Venezuela may affect significantly the degree of U.S. dependence upon insecure sources of oil. The forecasts of the FEA and others now indicate that Americans are not going to achieve energy independence in the foreseeable future. This is not surprising. What it does mean, however, is that the United States, for security reasons, must begin paying much more careful attention to its overall pattern of oil supply, maximizing that which involves the least vulnerability to manipulation or embargo. In the judgment of this analyst, U.S. energy policy administrators have not yet accepted the full implications of this conclusion. A key problem in this respect seems to be their current inability and unwillingness to consider the imposition upon the private companies (those currently determining the import levels and origins) of a government-determined preferred "profile" of import sources.[39]

What is most pertinent for this study is Venezuela's place in the overall U.S. import profile of the future. Among import sources, Venezuela is one of the most desirable, and the U.S. has a strong interest in obtaining as much oil as possible from there in the future. Unfortunately, both the legacy of U.S. policy toward Venezuela and recent U.S. actions tend to provide the strongest incentives to the Venezuelan government to diversify its market as much as possible, reducing its dependence upon the United States and upon American oil companies. The mandatory oil import program, the entitlements program, the Trade Act discrimination, and the special recognition of Brazil, all carry a very clear message: for a variety of reasons, including American policy incompetence and lack of coordination in energy matters, the United States cannot be relied upon to reward or even recognize the security value of Venezuelan oil. For Venezuela, one of its greatest sources of insecurity stems precisely from its dependence upon the U.S. market. Venezuelan production is limited, and it seems very likely that without some U.S. encouragement, Venezuela will do its best to seek markets in South America, Central America, and other countries which are vulnerable to embargo and manipulation, but which are able to reward secure supply sources in some way.

A final point on oil matters concerns the nationalization and the future of PETROVEN. Despite the residual anger of some oil company officials, the nationalization is an accomplished fact. Furthermore, the American companies with the largest holdings in Venezuela are likely to continue to receive substantial income from oil operations there due to the very favorable post-nationalization "technological assistance" contracts. Overall, therefore, it is clear that the United States has a strong interest in the success of the nationalized industry. U.S. government recognition of PETROVEN's legitimacy and even assistance to the Venezuelan government in assuring the efficiency and managerial success of the nationalized

industry would probably have several beneficial consequences: it would indicate U.S. acceptance of a nationalization process that has been one of the most orderly, democratic, and cautious; and it might predispose those in charge of PETROVEN marketing decisions in favor of continuing their long-standing supply arrangements with the U.S. once the company is on its feet.[40]

2) Cartelization and Resource Nationalism. Venezuela is likely to continue to promote resource nationalism and the formation of primary product cartels in the hemisphere and at the global level. This is likely, therefore, to remain a source of friction with the United States. However, it is unlikely that Venezuela will be able for long to extend actual financial assistance to those attempting to form cartels. Its assistance will mainly be by way of example. Depending on the nature of the material involved, the economic and political constraints such cartels normally face will be the primary determinants of success or failure. Certainly this orientation on the part of Venezuela need not form a major obstacle to Venezuelan/American accommodation at other levels.

3) The "Open Hemisphere" and the New International Economic Order. The full implications for the United States of the changing geopolitical pattern in the western hemisphere, including the growing links between Latin American countries and the rest of the developing nations, are not yet apparent. These patterns of change, as is usually the case, are likely to present both opportunities and challenges to the United States. Venezuela is likely to continue its efforts to lead this process of change in the ways described in this essay, although with declining momentum as it becomes more fully aware of the obstacles to diplomatic success of any kind in such a diverse collection of nations. Within the sub-regional "framework" it has identified as of special interest, Venezuela's role has generally been quite constructive, in the sense that it has not been a source of rivalry or tension that might cause U.S. concern, and it will probably continue to be so in the future. Here, again, the extent and intensity of Venezuelan involvement will probably gradually decrease, as will its financial involvement, in the coming half decade. At the global level Venezuela will probably continue to act with vigor as a representative of developing nations in the essential adversarial series of dialogues and bargaining sessions that will almost surely continue in the years to come.

With respect to these aspects of Venezuela's regional and international diplomacy, it is important for the United States to recognize that, while conflicts with U.S. interests may be involved, it may be highly desirable to have Venezuela, rather than a number of other countries, assume a leadership role. Among those countries aspiring to an international status of this kind, Venezuela is one of the most compromisory, and generally friendly to the United States. Furthermore, the strong consociational character so prominent in the conduct of Venezuelan foreign policy may prove extremely beneficial in the design of new institutions and in the pursuit of essential compromises. Should its current development process succeed, Venezuela may well evolve into a very useful and constructive mediator, or bridge builder, between the United States and the rest of the developing nations.

4) Democracy. At a time when praise of authoritarian rulership in the developing nations is so fashionable, it may seem anachronistic to reassert that the United States has a stake in the survival of other democratic polities. But it does. On these grounds, it seems very important that the United States find it possible to see past minor irritations, and assist the institutionalization of the democratic system in Venezuela in every available, open, non-covert way. This is not sentimentality, but cold, hard realism: to have a successful, friendly, open democracy located on the top of the South American continent is an asset of enormous long-range importance to the security of the United States. Therefore, despite the impediments Venezuela may pose to a "New Dialogue," and such things as its unnecessary support of Panamanian claims in the canal conflict with the United States, American policy makers should be thinking hard about the absolutely critical period coming up for Venezuelan development in the early 1980s, and be prepared to respond in the most creative way possible. This will be especially difficult if the restructuring of the Venezuelan economy produces, as I feel it very likely will, serious clashes with Venezuelan and foreign economic interests. The real stakes involved require a constructive, long-range conception of the development process in Venezuela, not short-term "damage-control" reactions that may do more harm than good.

Appendix

The table on the next page depicts in a crude fashion some alternative futures for Venezuelan fiscal supply and demand. The graphical depiction is of the demand profile which is most consistent with past Venezuelan performance (before the "oil crisis" increases in income), plus two alternative income supply curves. Reserves plus borrowing are assumed to be available to make up, for a short time, the gap depicted. The income supply curves are optimistic in several senses: first, they assume a constant growth of non-oil income at 5% per year; second, they assume in both cases a level of production higher than that which the government currently plans; third, they assume a constant per barrel take on oil produced, but this is actually likely to decrease since domestic demand for petroleum products is rising very quickly and these are sold at very low prices in Venezuela; fourth, they assume no reduction at all in world price for oil, indeed, since constant dollars are used, they assume implicitly that inflation adjustments will be enforced by OPEC; finally, they assume no increased costs of production (including administration) after the take-over of the industry. The figures for 1976, the baseline year, are taken from the official estimates in the national budget. Asterisks on the table indicate those columns depicted in the graph. Perusal of the others gives a clear picture of the rather significant implications of any price reductions, as far as Venezuelan government income is concerned.

Assumptions

1. Income Demand
   - A. 5% annual increase
   - B. 8% annual increase
   - C. 12% annual increase

2. Income Supply
   - A. Non-oil income (N) begins at Bs. 8.554 billion, and increases at 5%/year.
   - B. Oil Income. Starts at a total of Bs. 24.820 billion, or Bs. 34/bb for 2.0 million barrels per day production.

   Price:
   1. Begins at Bs. 34/bb and remains stable.
   2. Begins at Bs. 34/bb and drops by 5%/year for a total of 20%, then remains stable.
   3. Begins at Bs. 34/bb and drops by 5%/year for a total drop of 30%, then remains stable.

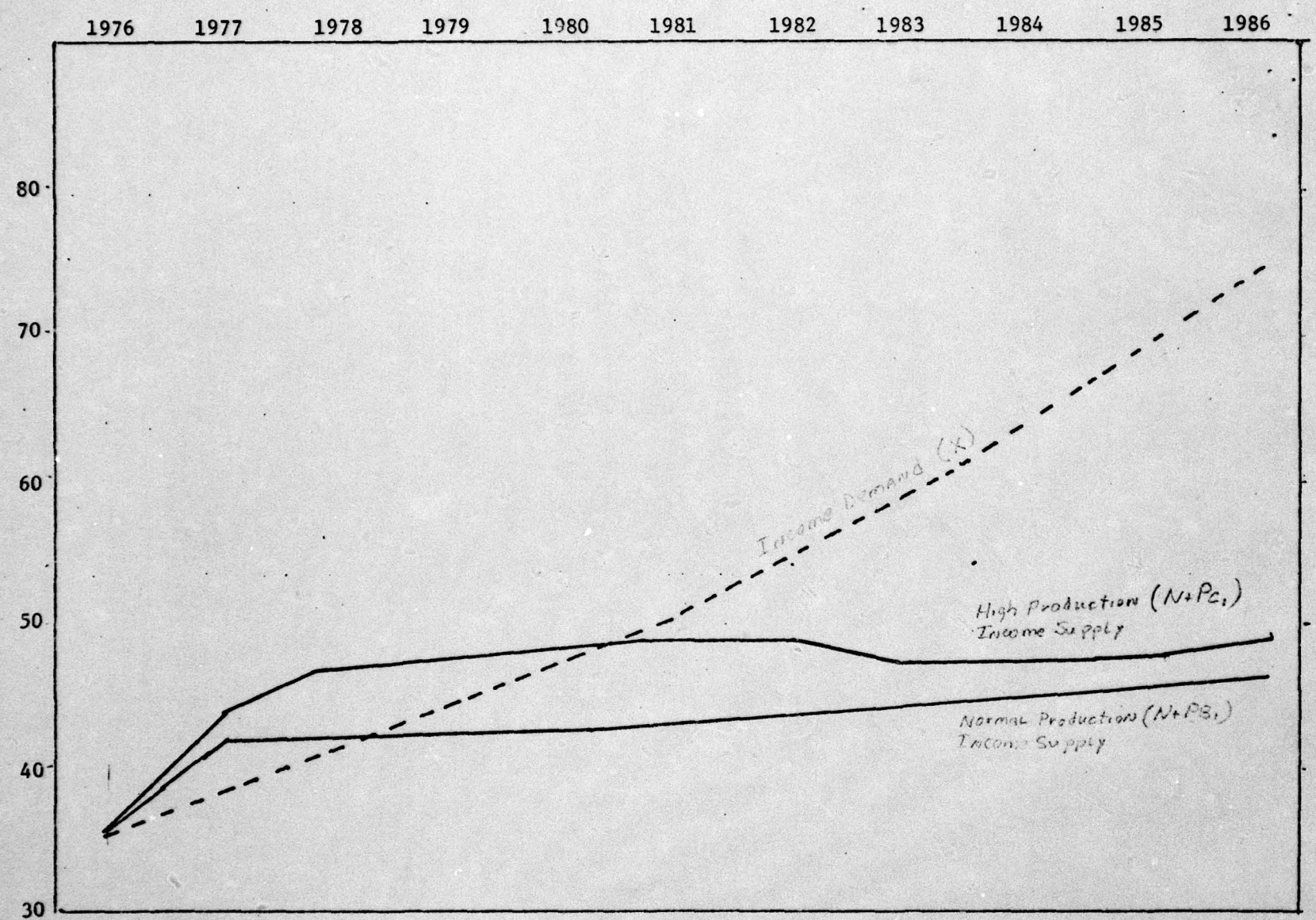
   Production: A, B, C, as indicated, in million barrels per day.

TABLE I

Income Demand and Supply Profiles, 1976-1986
(In billions of 1975 bolivares)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Income Demand											
(5%) X	33.17	34.83	36.57	38.4	35.3	37.1	38.95	40.88	42.92	45.07	47.32
*(8%) Y	33.17	35.82	38.69	41.78	45.12	48.73	52.63	50.84	61.39	66.30	71.60
(12%) Z	33.17	37.15	41.61	46.60	52.19	58.45	65.46	73.32	82.12	91.97	103.
Income Supply											
N(Non-oil)	8.554	8.982	9.431	9.903	10.398	10.918	11.464	12.037	12.639	13.271	13.935
(Price) 1	34	34	34	34	34	34	34	34	34	34	34
2	34	32.3	30.68	29.15	27.69	26.3	26.3	36.3	26.3	26.3	26.3
3	34	32.3	30.68	29.15	27.69	26.3	25	25	25	25	25
Prod A	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Price 1	24.820	24.820	24.820	24.820	24.820	24.820	24.820	24.820	24.820	24.820	24.820
Price 2	24.820	23.579	22.396	21.279	20.214	19.199	19.199	19.199	19.199	19.199	19.199
Price 3	24.820	23.579	22.396	21.279	20.214	19.199	18.250	18.250	18.250	18.250	18.250
Prod B	(2)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)
Price 1	24.820	29.784	29.784	29.784	29.784	29.784	29.784	29.784	29.784	29.784	29.784
Price 2	24.820	28.295	26.876	25.535	24.256	23.039	23.039	23.039	23.039	23.039	23.039
Price 3	24.820	28.295	26.876	25.535	24.256	23.039	21.900	21.900	21.900	21.900	21.900
Prod C	(2)	(2.6)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)	(2.6)	(2.6)	(2.6)	(2.6)
Price 1	24.820	32.266	34.748	34.748	34.748	34.748	34.748	32.266	32.266	32.266	32.266
Price 2	24.820	30.653	31.355	29.791	28.299	26.879	26.879	24.89	24.959	24.959	24.959
Price 3	24.820	30.653	31.355	29.791	28.299	26.879	25.550	23.725	23.725	23.725	23.725
					Total						
N + PA 1	33.374	33.802	34.251	34.723	35.218	35.738	36.284	36.857	37.459	38.091	38.755
PA 2	33.374	32.561	31.827	31.182	30.612	30.117	30.663	31.236	31.838	32.470	33.134
PA 3	33.374	32.561	31.827	31.182	30.612	30.117	29.714	30.287	30.889	31.521	32.185
*N + PB 1	33.374	38.766	39.215	39.687	40.182	40.702	41.248	41.821	42.423	43.055	43.719
PB 2	33.374	37.277	36.307	35.438	34.654	33.957	34.503	35.076	35.678	36.310	36.974
PB3	33.374	37.277	36.307	35.438	34.654	33.957	33.364	33.937	34.539	35.171	35.235
*N + PC 1	33.374	41.248	44.179	44.681	45.146	45.666	46.212	44.303	44.905	45.537	46.201
PC 2	33.374	39.64	40.786	39.694	38.697	37.797	38.343	36.996	37.598	38.230	38.894
PC 3	33.374	39.635	40.786	39.694	38.697	37.797	37.014	35.762	36.364	36.996	37.660

INCOME SUPPLY AND DEMAND: 1976-1986



Source: Table I

NOTES

[1]See Daniel Levine, Conflict and Political Change in Venezuela (Princeton, N.J.: Princeton University Press, 1973), and David Blank, Politics in Venezuela (Boston, Mass.: Little, Brown, 1973), for more on the evolution of the democratic system.

[2]Gene E. Bigler, "Armed Forces Professionalization and Patterns of Civil-military Relations in Venezuela," forthcoming in John D. Martz and David J. Myers (eds.), The Democratic Experience in Venezuela (Princeton, N.J.: Princeton University Press).

[3]For comparative background, see the study by Alfred Stepan and Luigi Einaudi: Rand document R-586-DOS, prepared for External Research, DOS.

[4]See Bigler, cited, p. 68.

[5]Of some interest in this respect is the fact that, as Bigler (cited, pp. 62-3) points out, the recent increase in oil funds "has enabled the Carlos Andrés Pérez government to increase military spending absolutely, while cutting the defense share of the total budget in half. Thus the Bs. 1.4 billions spent on defense in 1973 were 10 per cent of the total budget of that year, but the slightly more than Bs. 2 billions spent or budgeted for defense in 1974 and 1975 are only about five per cent of the new totals."

[6]A recent comment in the Latin American Economic Report (Oct. 17, 1975) exemplifies this: "Despite the drop in the overall budget from this year's 40,692 million bolívares to 33,167 next year, current expenditure has gone up from the 15,947 million bolívares to 17,088 million, for the first time exceeding half the total at 51.7%. Capital expenditure is down from 14,291 million bolívares to 13,409 million bolívares, amounting to 40.6% with the public debt servicing filling the remaining 7.7%."

[7]This point is stated more fully in my study The Politics of Oil in Venezuela (Stanford, Calif.: Stanford University Press, 1975), passim.

[8]See The Politics of Oil in Venezuela, cited, for further details.

[9]For more on the nationalization process at its end, see the recent paper by John D. Martz, "Public Policy and the Politics of Consensus: Nationalizing Venezuelan Petroleum," delivered to the Pacific Coast Council on Latin American Studies at Fresno, California, Oct. 24, 1975.

[10]One of the most articulate statements of this problem is a study prepared in 1971 for the national planning agency, CORDIPLAN, by a UN team of experts that was asked to assess the performance of the economy, especially in the export sector. The team was headed by Meir Merhav.

[11]Government income jumped from 12.2 billion bolívares in 1972 to 42.5 billion bolívares in 1974.

[12]The FIV is controlled by a special board under the Minister of Finance.

[13]Given current reserves, and an excellent credit rating, this borrowing should be easy.

[14]As noted by Bigler, cited, footnote 3, specific references to this warning can be found in Allan-Randolph Brewer-Carias, Cambio Político y Reforma del Estado en Venezuela (Madrid: Editorial Tecnos, 1975), p. 304 nn., 87 and 88.

[15]On the policy-making process, see the essay by Eva Josko de Gueron, "La Política Burocrática y la Formulación de la Política Exterior en Venezuela," presented at the Conference on National Styles of Policy Formation, held at the Instituto de Estudios Superiores de Administración, Caracas, March 26-April 3, 1976.

[16]Actually, much of the public discussion in Venezuela that surrounded the nationalization process and the drafting of the controversial Article Five (allowing foreign participation with the state) was unrealistic in this respect, suggesting that in a short time the government should plan to save its "regular oil" for domestic future uses and instead use the "heavy" Orinoco oil for export. As indicated above, heavy oil is unlikely to replace regular oil; as far as fiscal income is concerned, it will just not bring in enough after costs.

[17]See The Politics of Oil in Venezuela, cited, chapter 3.

[18]Latin American Economic Report, Oct. 3, 1975.

[19]The Tax Reference Values, higher price reference levels upon which taxes were paid, are still in effect, and PETROVEN will have to pay its taxes according to them. These will place a kind of price floor under PETROVEN deals, much as it was intended to do for the concessionaires. However, since the nationalization, these have come under attack and the system may be changed before the end of the year—if only to avoid the inevitable accounting losses PETROVEN and the operating companies will surely suffer if it is not changed.

[20]"Survey of Venezuela," Financial Times (London), byline: Hugh O'Shaughnessy. In the same issue, Alirio Parra says that: "Petróleos is the only major state company that must face and resolve marketing problems covering over 60 crudes or segregations of crudes and some 80-100 specifications of refined products."

[21]Mexico recently applied for OPEC membership, and its application was received in Kuwait, but changed its mind, apparently in response to the threat written into the 1974 Trade Act.

[22]John D. Martz, "Venezuelan Foreign Policy Toward Latin America: Enlightened Leadership or Economic Imperialism?" paper presented to the International Studies Convention, Toronto, Canada, Feb. 25, 1976.

[23]See, for further comments on key regional trends, among others: Riordan Roett, "The Changing Nature of Latin American International Relations: Geopolitical Realities," in Kalman Silvert, et al., The Americans in a Changing World (New York: Quadrangle, 1975), pp. 95-111; and Kalman H. Silvert, "The

Kitsch in Hemispheric Realpolitik," Ch. 2 of R. Hellman and H. J. Rosenbaum (eds.), Latin America: The Search for a New International Role (New York: Wiley, 1975).

[24]Some of the stated objectives of SELA, as reported in Latin America (London), Aug. 8, 1975:

a) maintain the price of raw materials;
b) establish new Latin American multinational corporations;
c) create a unified regional policy against decisions by industrialized countries or companies outside the region;
d) finance national development schemes.

[25]Relations with Brazil, with the English Caribbean, and with the Dutch Antilles, have been conducted primarily on a bilateral basis, and have mainly to do with oil, bauxite or other economic matters, as well as borders. With Argentina there is hardly any relationship at all.

[26]There is an inevitable artificiality in speaking of the "United States" response, especially in view of the fragmented nature of American energy policy. Here I refer principally to the President and Secretary of State, as well as the major national security administrators, as evidenced in public statements and positions. For more on this problem, see G. Allison and M. Halperin, "Bureaucratic Politics: A Paradigm + Some Policy Implications. World Politics (Supplement) (Spring, 1972).

[27]Private messages of reassurance such as that sent by Secretary Kissinger to Carlos Andrés Pérez following the Brazilian-U.S. consultation agreement are unlikely to change this outcome.

[28]See, for further details, The Politics of Oil in Venezuela, cited, pp. 67-106.

[29]United States Cabinet Task Force on Oil Import Control, The Oil Import Question: A Report on the Relationship of Oil Imports to the National Security (Washington, D.C.: U.S. Government Printing Office, 1970).

[30]Actually a number of U.S. government energy experts did probe the Venezuelan government about possible long-range deals with respect to the Faja Bituminosa as a future source of guaranteed supply, but American diplomatic representatives immediately killed any chance of an agreement by trying to tie it to special guarantees to the U.S. companies operating—on their last legs—in the country.

[31]It should be pointed out here that there are other factors which have contributed to the recent competitive weakening of Venezuelan petroleum on the East Coast of the U.S., chiefly changing refining patterns. However, these in turn are in large part a response to public policy decisions.

[32]Latin America (London), Jan. 31, 1975.

[33]"Survey of Venezuela," Financial Times (London), p. 19.

[34]See OAS, Permanent Executive Committee of the Inter-American Economic and Social Council (CIPCIES), "Situation, Principal Problems and Prospects for the Economic and Social Development of Venezuela," 26 January, 1975, p. 91, on this question.

[35]Those familiar with Venezuela's economic and political history may find it instructive to compare the periods 1956-7 and 1960-63 to the period 1973-4 and 1978-82. Although the dictatorship clearly squandered large amounts of this earlier bonanza, I think it would be a mistake for anyone to underestimate the capacity of the Venezuelan state to spend money in ways that do not subsequently produce an income for the country. See footnote number 6 on this.

[36]There has been speculation recently that a group of OPEC members closest to the financial "margin"—in particular Iran, but soon to include Venezuela—will make one last effort to push oil prices up well beyond the increases indicated by worldwide inflation rates. While I can see pressure mounting within OPEC for such a move, and even some conflict over it, I do not feel that in the next five-year period Venezuela will be willing to support such an initiative; however I do feel it will fight hard to make sure that there is no drop in prices.

[37]See the appendix.

[38]See the report on Project Independence, revised in 1976, published by the Federal Energy Agency. Informative also is the recently published "Energy Outlook: 1976-1990" (Exxon Company, December, 1975).

[39]There are many ways in which this could be done, but discussion of these is beyond the scope of this essay.

[40]In the short run, of course, these patterns will be maintained out of necessity.

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