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Testimony for the session “Venezuela’s Tragic Meltdown”

Mr. Chairman, Ranking Members, Members of the Committee, thank you for the invitation to testify today. I appreciate your interest in this important subject. All views presented here are solely mine, and do not reflect the views of any of the institutions I am affiliated with.

To say that Venezuela is in a crisis is an understatement; its depth and reach cannot be ignored any longer. This crisis has implications not only for Venezuela and its people but also for the neighboring countries and the security of the hemisphere as a whole. It is a multidimensional disaster: political, economic, humanitarian, and of law and order. It truly is a nightmare at the door, as this session is entitled, a meltdown that begs for action.

The international community must act using its available institutional tools, its diplomatic resources and its normative architecture, as specified by international and human rights law and the regional agreements that bind us. The rights, health, safety and lives of the Venezuelan people merits nothing less. They need help, and we need to have the courage to stand up to this appalling injustice.

The Breakdown of the Constitutional Order

For quite some time, there has been a staunch effort on the part of President Maduro’s government to deviate from the constitutional procedures it is required to follow. This practice has reached a critical point today, a peak at which a complete lack of accountability renders the Constitution meaningless.

In December 2015 a midterm election gave the opposition MUD (United Democratic Table) a landslide victory, attaining its own qualified majority in the National Assembly, the Venezuelan unicameral legislative branch. Since then, the government has tried to neutralize the legislature with a sophisticated and never-ending menu of manipulation, including packing the Supreme Court with cronies and using it to rule unconstitutional virtually every piece of legislation.

As a result, a series of anomalous procedures and decisions have become routine. The Venezuelan Congress does not approve the budget nor can it appropriate resources for the Executive branch or government agencies. The government unilaterally makes these decisions via executive decree authority, in turn validated by the Supreme Court.

Congress has been stripped of its responsibility over the contracting of foreign debt, a process that the Executive has undertaken unilaterally and unconstitutionally, including the issuing of swaps, bonds and other strategies of debt restructuring by the state-owned oil company PDVSA.

Because of these anomalies, Congress is unable to oversee the other branches of government, nominate judges, confirm appointments, and supervise mining and oil concessions. Last but not least, a number of members of Congress have been arrested and denied passports to travel, in violation of their civil rights and their parliamentary immunity.

In sum, while the legislative branch remains open, it has been neutered, one may say, by the combined actions of the Executive and Judicial branches through a series of decisions that should be seen as equivalent to a coup d'état.

Individual rights are thus non-existent. The security apparatus detains people at will. The number of political prisoners has increased throughout the last year, reaching 115 today. All this while the government was carrying out a presumed—but obviously insincere—dialogue with the opposition for their release. Students, professors, journalists and political leaders, among them, several of those prisoners have been convicted with false evidence, as was recognized by their own prosecutors. Most remain detained without trial. Those in custody often report being tortured. And prisoners in need of medical care rarely receive it.¹

The sphere of political rights, that was robust until 2015, has shrunk to the point of extinction. The government has cancelled the right of the Venezuelan people to recall their president—as specified by the Constitution—and has suspended gubernatorial elections indefinitely.

The type and extent of civil and political rights withdrawn amount to a breakdown of constitutional democracy. The absence of separation of powers and the erosion of checks and balances are, in fact, defining characteristic of authoritarianism. Add that the ruling party has been in office for eighteen consecutive years and that indefinite reelection is legal. Plain and simple, Venezuela is under a dictatorship.

Economic and Social Crisis

Venezuela has one of the most abundant geological endowments in the world. The state-owned oil company PDVSA represents over 90% of total exports and 12% of its GDP. During the last decade of very high prices, the country wasted a unique opportunity to increase investment and production. Instead, production steadily declined due to lack of investment, incompetence, and corruption.

Oil production decreased 253 kbpd (thousand barrel per day) or 8% between 2010 and 2015. In particular, production fell 24.3% and 15.8% in the traditional East and West regions (light, medium-grade crude), and only rose 12.0% in the Orinoco Oil Belt (heavy, extra-heavy crude). Production in

¹ Foro Penal Venezolano <https://foropenal.com>

fields solely operated by PDVSA declined 27.5% while fields operated by joint ventures increased 42.3%.²

PDVSA's debt service increased almost tenfold to \$10.2bn in 2010-2015 while total financial debt rose 75% to roughly \$45bn. PDVSA was noted to have an ongoing struggle to raise capital expenditures to halt the decline in production, let alone meet production targets. Its numerous operational challenges should also be considered to explain this decline: input shortages, drilling inefficiencies, inadequacy of gas and energy facilities, insufficient downstream infrastructure (refiners, upgraders, etc), safety, environment and crime related risks, and deficits related to corporate governance and industrial policy.

Having exhausted foreign and domestic debt issuance and choosing to forego international assistance, the government has consistently relied on deficit monetization. Between 2013 and 2015 average deficit monetization sat at 13% of GDP. In 2016 the monetary financing of the deficit was associated to an increase in the monetary base of 236%. It should be noted that the total increase in "direct loans" to PDVSA outlined above was 22% larger than the total increase in the monetary base, which speaks to the reliance on monetary financing.

Debt service appears unsustainable given the lack of access to international finance. Public external debt is at least \$130 billion, equivalent to 5.8 years of exports under reasonable assumptions for oil prices in the short term. The Government continues to sustain major regressive implicit subsidies for gasoline, utilities and foreign exchange. Conservative estimates put these subsidies at \$14 to \$19 billion. Additionally, the combined pressures of recession and inflation are generating a significant collapse in tax revenues.

So far the government managed to stay in good terms with its creditors. It negotiated new conditions on oil payments with China, its largest foreign creditor. It has swapped \$3 billion in PDVSA bonds for longer maturities and has raised \$1.5 billion from Russia's oil company Rosneft. It has also issued additional \$5 billion for undisclosed buyers. Without a dramatic increase in oil price, Venezuela's capacity to service its debt will continue declining. For several financial analysts, default is inevitable.

At the same time, Venezuela's reserves are crashing to a new low below \$10.5 billion. The Central Bank reports that they closed 2016 with \$7.7 billion in gold reserves, using their pricing methodology of \$1,272.42 an ounce. That level is down \$2.3 billion from the \$10.04 billion in gold reported in Venezuela's 2015 financials, which used a lower gold price of \$1,140.43. Venezuela's gold has now fallen to almost half of what it was in just two years, as Venezuela reported that it started 2015 with \$14.6 billion in gold.³

² Economic Data from "Weathering Collapse: An Assessment of the Financial and Operational Situation of the Venezuelan Oil Industry," Hernandez, I. & Monaldi, F, Center for International Development at Harvard University, November 2016, http://growthlab.cid.harvard.edu/files/growthlab/files/venezuela_oil_cidwp_327.pdf and "Microeconomic Binding Constraints on Private Investment and Growth in Venezuela," Richard Obuchi, Bárbara Lira and Daniel Raguá, Center for International Development, Harvard University, October 2016, http://growthlab.cid.harvard.edu/files/growthlab/files/microconstraints_venezuela.pdf

³ Barron's: 2 Experts Question Venezuela's Gold, Cash Stats, <http://www.venezuelaopportunityfund.com/tag/russ-dallen/>

The country is plagued by the world's highest inflation, an annual 800%. The 100-bolivar note, worth less than 10 cents, was replaced last December. Venezuelans waited in long lines to exchange their soon-to-be-worthless notes, but they went out of circulation before the replacement bills had arrived at banks or ATMs. People were forced to rely on credit cards or bank transfers, out of reach for the very poor, or to try to make purchases with bundles of hard-to-find smaller bills often worth less than a penny each.

Venezuela is thus a nation of broke millionaires, a result of the misguided fiscal and monetary policy of an abusive government. Given these conditions, the country's population is facing a critical situation, bordering a humanitarian crisis that demands urgent response. Recent independent studies put the share of population under the poverty line at 82% and the share of population under extreme poverty at 52%. These are alarming figures that represent historic highs.

These same studies report that existing social programs are poorly targeted. 72% of the population mention that they are not covered by any social program, and out of the 28% that claim they are benefited by a social program only 40% are poor.⁴

The complete collapse of the social safety net is particularly worrisome given the complex fiscal outlook, the absence of timely reforms that could trigger an economic recovery and the decision to prioritize the fulfillment of potentially unsustainable debt service over other policy goals.

A Humanitarian Catastrophe

Access to food and health care has worsened dramatically in Venezuela, a situation that must be deemed alarming if not tragic. Urgent action on the part of the government, international organizations, and relief institutions is needed.

In January 2017, the basic food basket had increased 14% in relation to December 2016, and 481% from a year before. The purchase of the basic basket is worth 15.3 minimum wages.⁵

In addition to high inflation, access to food has been compromised by shortages and undersupply of a long list of staples. From dairy products to beef, from oil to flour, deodorant, soap, tooth paste and many more, present a situation of scarcity.⁶

Venezuelans who reside overseas pack their suitcases with basic need products for their families when they visit. Food security is a luxury that only 6.7% of households enjoy. About 9,6 million people eat two or less meals a day. The nutritional pattern has experienced a dramatic change: garden produce and tubers have displaced foods with higher protein content. This is consistent with

⁴ ENCOVI 2016: <http://www.rectorado.usb.ve/vida/sites/default/files/encovi/2016/UCV-UCAB-USB.%20ENCOVI%202016.%20Pobreza.pdf>

⁵ Centro de Documentación y Análisis Social de la Federación Venezolana de Maestros, <https://www.derechos.org.ve/actualidad/cendas-fvm-el-precio-de-la-canasta-alimentaria-supero-los-seiscientos-mil-bolivares>

⁶ Ibid.

the report that 73% of the population have experienced weight loss averaging 8.7 kilograms (20 pounds) during the past year.⁷

Faced with a food basket that has become gradually unavailable, Venezuelans in poverty have been substituting products for cheaper ones and the very poorest increasingly looking for food in garbage cans. There has been a number of stories reported by the press about children dying by ingesting cassava without supervision. *Yuca* in Venezuela, the tuber has a sweet but also a bitter, poisonous, variety that can be deadly.⁸

Social media performs many functions in the world: information, entertainment, political debate, and many more. In Venezuela, Twitter, Facebook and other platforms have also become a virtual pharmacy, where people implore for undersupplied drug and others offer to even donate it. Shortages range from expensive drugs for cancer treatment to more routine antibiotics and regular painkillers. Many people have died of an untreated cancer or an unmedicated infection.

According to the medical profession, hospitals and clinics only possess about 3% of the medical supplies needed. Thus, to be treated patients must bring the materials themselves: drugs, gauze, intravenous serum, and the like, in addition to the food for their stay.⁹ Others reported that hospitals lack supplies, water, and cleaning materials. They experience power outages and their equipment is damaged, often to a point of no return.¹⁰

Infant mortality has increased rapidly. According to journalistic reports the rate of infant mortality is 18.6 per one thousand children born alive. That number is above the indicator of 15.4 that UNICEF estimates for Syria, a country vastly damaged by war. In the first five months of 2016, 4,074 babies died before turning one year old, 18.5% more than in the same period for 2015, and 50% higher than the same interval of time in 2012.¹¹

Diseases once controlled or eradicated have made an alarming comeback. Experts project for this year about 250 thousand cases of malaria, and between 350 and 500 hundred cases of diphtheria, which had been eradicated in the past. In what amounts to a total collapse of the public health system, the situation has been much worsened by the incompetence of the government and its criminal refusal to accept international humanitarian aid.¹²

⁷ Encuesta sobre Condiciones de Vida Venezuela 2016 Alimentación. <http://observatoriodeviolencia.org.ve/wp-content/uploads/2017/02/UCV-UCAB-USB.-ENCOVI-2016.-Alimentaci%C3%B3n.pdf>

⁸ <http://www.panorama.com.ve/experienciapanorama/Consumo-de-yuca-amarga-ha-matado-a-12-personas-en-los-ultimos-siete-meses-20170125-0006.html>

⁹ <http://www.cnn.com/videos/spanish/2017/03/11/cnnee-pkg-osmary-venezolanos-comen-de-la-basura-crisis-escasez.cnn>

¹⁰ <http://www.el-nacional.com/noticias/salud/federacion-medica-red-publica-hospitales-esta-bancarrotada-43955>

¹¹ <http://www.infobae.com/america/america-latina/2017/02/07/trabajadores-de-la-salud-protestaron-en-venezuela-contra-el-abandono-estatal/>

¹² <http://lat.wsj.com/articles/SB12736863293049773839404582380761769452758>

¹³ <http://www.el-nacional.com/noticias/columnista/ano-2016-colapso-salud-venezuela-72770>

Corruption and Crime

While many Venezuelans go hungry because they cannot find or pay for basic foodstuffs, the Venezuelan military profits from trafficking in food, as it has been in charge of food distribution since July 2016. “Lately, food is a better business than drugs,” said retired Gen. Cliver Alcalá, who helped oversee Venezuela's border security. “The military is in charge of food management now, and they're not going to just take that on without getting their cut.”¹³

By comparison, however, this would qualify as petty corruption. Precisely, the larger picture is that, according to the US Department of State's 2016 International Narcotics Control Strategy Report, Venezuela is one of the preferred trafficking routes for illegal drugs, predominately cocaine from South America and to a variety of destinations, all facilitated, encouraged, and carried out by its governing elite.¹⁴

In fact, involvement in drug trafficking reaches the very top of the Venezuelan government. Only so could be explained that Venezuela ranks 7th in private jet ownership.¹⁵ Last February, the U.S. Department of the Treasury designated the Vice-President of Venezuela, Tareck El Aissami, as a “Kingpin Narcotics Trafficker”. His primary front-man, Venezuelan national Samark Jose Lopez Bello, was also included in the designation for providing material assistance and financial support, and acting for, or on behalf of, El Aissami.

The Treasury Department further identified and froze assets of 13 companies owned or controlled by Lopez Bello or other designated parties that comprise an international network spanning the British Virgin Islands, Panama, the United Kingdom, the United States, and Venezuela.¹⁶ The freezing of assets blocks the Vice-President from accessing a fortune estimated at \$3 billion.¹⁷

El Aissami is the most recent senior figure in the Venezuelan government to be accused of drug trafficking, but by no means the only one. In August 2016, U.S. prosecutors announced an indictment against two former top officials at Venezuela's anti-narcotics agency. One of those officials, Nestor Reverol, was the former general director of the anti-narcotics agency and onetime commander of Venezuela's National Guard.¹⁸ He was appointed Interior Minister by President Maduro the next day, an obvious move to grant him immunity.

¹³ Venezuelan Military Trafficking Food as Country Goes Hungry, The Associated Press, December 28, 2016, <http://bigstory.ap.org/article/64794f2594de47328b910dc29dd7c996/venezuela-military-trafficking-food-country-goes-hungry>

¹⁴ 2016 International Narcotics Control Strategy Report, US Department of State, Bureau of International Narcotics and Law Enforcement Affairs, <https://www.state.gov/j/inl/rls/nrcrpt/2016/vol1/253323.htm>

¹⁵ <https://www.forbes.com/forbes/welcome/?toURL=https://www.forbes.com/sites/niallmccarthy/2017/03/02/the-countries-where-private-jet-ownership-is-soaring-infographic/&refURL=https://t.co/YZGn09s7lc&referrer=https://t.co/YZGn09s7lc#33bb8302539e>

¹⁶ Treasury Sanctions Prominent Venezuelan Drug Trafficker Tareck El Aissami and His Primary Frontman Samark Lopez Bello, United States Department of the Treasury, February 13, 2017, <https://www.treasury.gov/press-center/press-releases/Pages/as0005.aspx>

¹⁷ US sanctions Venezuelan Vice-President and accuses him of being a drug kingpin, Miami Herald, February 13, 2017, <http://www.miamiherald.com/news/nation-world/world/americas/venezuela/article132494809.html>

¹⁸ U.S. indicts ex-Venezuelan anti-narcotics agency leaders on drug charges, Reuters, August 1, 2016, <http://www.reuters.com/article/us-venezuela-usa-indictment-idUSKCN10C378>

In addition, El Aissami appears to be a key contact in Latin America for extremist organizations. Last February CNN and CNN en Español published a report on an organization created to sell Venezuelan passports. According to CNN, intelligence links Vice President El Aissami to 173 Venezuelan passports and ID's that were issued to individuals from the Middle East, including people connected to the terrorist group Hezbollah.¹⁹

In November 2015, Efraín Campos and Francisco Flores, nephews of the First Lady, were arrested by DEA agents in Haiti for conspiring to smuggle as much as 1,700 pounds of cocaine into the United States. A year later they were found guilty by a jury in Federal District Court in Manhattan. They each face 10 years in prison.²⁰ According to news sources, piloting the jet that took the President's nephews to Haiti were members of the presidential security and transportation unit, the Casa Militar.²¹ In sum, in Venezuela the ruling elite should be seen as no more than a criminal organization that has managed to capture the state apparatus.

Inevitably, lawlessness from above breeds lawlessness from below. Venezuela experienced 28,000 killings in violent acts throughout the country in 2015, with a rate of 91 murders per 100,000. Since 2014, Caracas has been the most violent city on earth, with a murder rate of 120 per 100,000. Because of this the capital city has a natural curfew, with empty streets after dark.²²

Regular people fear common criminals as much as law enforcement agents. The latter because either they are themselves engaged in crime—as shown above, smuggling, drug and food trafficking—or because when they do fight urban crime they abuse their power. As reported by a number of human rights organizations, members of the security forces have committed grave violations, including extrajudicial killings, and arbitrary detentions and deportations. As an indicator, from January to June of 2016 extrajudicial killings increased by 66%.²³

At the same time, 2016 witnessed the highest number of murdered security forces in the past five years with 414 cases, according to a report by the human rights Due Process Foundation (*Fundación para el Debido Proceso - FUNDEPRO*). The report was published in January 2017 and it compiled data from news coverage and interviews with security forces.²⁴ It has also been documented by other sources that clashes between different smuggling and trafficking gangs formed by members of the security forces also account for some of these killings.

A Call for Action

The Venezuelan regime represents a risk for its own people and the region. Widespread collusion between government officials and criminal organizations—a *narco-state*, we hear often—is a threat

¹⁹ <http://www.cnn.com/2017/02/08/world/venezuela-passports-investigation/>

²⁰ *2 Nephews of Venezuela's First Lady Convicted on Drug Charges in U.S. Court*, New York Times, November 18, 2016, <https://www.nytimes.com/2016/11/19/world/americas/nephews-of-venezuelas-first-lady-convicted-in-us.html>

²¹ *Venezuela Military Officials Piloted Drug Plane*, Insight Crime, November 20, 2015,

<http://www.insightcrime.org/news-briefs/venezuela-military-officials-piloted-drug-plane>

²² *Caracas World's Most Violent City: Report*, InSight Crime, <http://www.insightcrime.org/news-briefs/caracas-most-violent-city-in-the-world-2015-report>

²³ <https://www.derechos.org/ve/actualidad/cofavic-procedimientos-de-seguridad-ciudadana-ejecutados-por-el-estado-venezolano-estan-incurriendo-en-crmenes-de-lesa-humanidad>

²⁴ <http://www.insightcrime.org/news-briefs/venezuela-security-forces-killed-record-numbers-2016>

that the countries of the Americas can no longer ignore. Intelligence and journalistic reporting shows that Colombia's ELN (National Liberation Army) and FARC (Revolutionary Armed Forces of Colombia) also operate in Venezuela in coordination with drug cartels. The country has become a smuggling route as much as a safe haven for guerrillas-turned-drug dealers.

The United States has used and should continue to use targeted sanctions against individuals involved in corruption, drug trafficking, money laundering, and human rights violations. The United States should also renew its efforts to build a larger coalition in the region, to persuade governments in Latin America and the Caribbean to cooperate more actively. In July 2014, the government of Aruba released and sent back to Venezuela General Hugo Carvajal, head of military intelligence between 2004 and 2008, after initially detaining him over United States accusations of drug trafficking activities. This was unfortunate. The nations of the hemisphere have to understand that their own national security, public health and financial stability are also at stake.

The claim made by the Maduro regime that these are sanctions against the Venezuelan people is preposterous to say the least. The only sanctions against the people of Venezuela have been issued by the government of Venezuela; namely, by its continuous abuses and its refusal to accept international humanitarian aid to mitigate the effects of dramatic food and medicine shortages. This is a government at war with its own people.

The hardship endured by the Venezuelans also entail the risk of a massive refugee crisis, equivalent to those typically following a war, a natural disaster, or a famine. A large proportion of the country's citizens are already suffering hunger and are victimized by disease and lack of medical attention. Venezuela is a large country in the region—30 million people—bordering Colombia, Brazil and Guyana. Six million Colombians live in Venezuela, many of them having fled from guerrilla and drug trafficking violence in their country of origin.

While there has already been instances of migration, a massive exodus would be a destabilizing factor for Venezuela's neighbors and represent an even larger risk for those—much smaller—countries in the Caribbean basin and Central America. Consider the fact that Panama is already denying visas to Venezuelans, who had been settling there in large numbers over the last few years. This is a collective problem that requires a collective solution.

The Venezuelan government's protracted authoritarianism is a very negative example in the hemisphere. On March 2, 2017 a United States Senate Resolution introduced earlier in February and expressing concern about Venezuela was unanimously approved. That resolution "urges the President of the United States to provide full support for OAS efforts in favor of constitutional and democratic solutions to the political impasse, and to instruct appropriate Federal agencies to hold officials of the Government of Venezuela accountable for violations of United States law and abuses of internationally recognized human rights".²⁵

It also "affirms its support for OAS Secretary General Almagro's invocation of Article 20 of the Inter-American Democratic Charter and urges the OAS Permanent Council, which represents all of the organization's member states, to undertake a collective assessment of the constitutional and democratic order in Venezuela".

²⁵ <https://www.congress.gov/115/bills/sres35/BILLS-115sres35is.xml>

The Inter-American Democratic Charter is an agreement that 34 nations of the Americas signed freely and voluntarily. Doing so, they entered into a commitment to choose plural, constitutional democracy as the only legitimate form of government. The Democratic Charter—*la Carta Democrática*—is binding. It specifies mechanisms for collectively evaluating deviations from the principles of constitutional democracy and collectively choosing paths to restore them.

The government of Venezuela has indeed deviated from those principles. For over a year now, OAS Secretary General Luis Almagro has been delineating a course of action and proposing different steps to do exactly that, all in accordance with Article 20 of the Charter which calls for the “convocation of the Permanent Council to undertake a collective assessment of the situation and to take such decisions as it deems appropriate,” including the necessary diplomatic initiatives.

Article 21, in turn, specifies that “when the special session of the General Assembly [of the OAS] determines that there has been an unconstitutional interruption of the democratic order of a member state, and that diplomatic initiatives have failed, the special session shall take the decision to suspend said member state from the exercise of its right to participate in the OAS by an affirmative vote of two thirds of the member states in accordance with the Charter of the OAS.”²⁶

In other words, when a government ceases to be accountable to its own people, the Democratic Charter holds that government accountable. The Inter-American system has an obligation to hold Maduro accountable on behalf of the Venezuelan people.

We need to put words and actions together. Those sitting on the fence, OAS member states that have been timid and even willing to defer to the whims of the Venezuelan dictatorship, must understand that its constitutional breakdown is a hemispheric security threat. It also sets a bad example, one that would empower other would-be dictators in the region. We should join forces around the Democratic Charter, the most important institutional tool for the collective defense of democracy in the Americas.

²⁶ http://www.oas.org/charter/docs/resolution1_en_p4.htm