WHORM Subject File Code: CO171
(Countries: Venezuela, Republic of)
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98739	PAPER	VENEZUELA: EXTERNAL DEBT SITUATION	2	ND	B1
		R 7/17/2023 DEPT. OF STATE/TREASURY WAIVERS			

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

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B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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C. F.

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THE WHITE HOUSE

WASHINGTON

March 24, 1986

PY

Dear Mr. Meese:

Attached, for your information, is a cable I received from Kim Flower, the DCM at the American Embassy in Caracas, Venezuela. The cable discusses the upcoming visit to the Untied States of Venezuelan Justice Minister Jose Manzo Gonzalez.

When I visited Venezuela last year, I met with Justice Minister Manzo. He is very supportive of U.S. policies on narcotics abuse and trafficking and I believe he will be a prominent figure in Venezuelan drug control efforts for some time. Minister Manzo is also the person who could bring together the Justice Ministers of the hemisphere to meet with you.

During our meeting, Minister Manzo asked about the possibility of meeting you when he next visited the United States. He will be here the week of May 18 and I would like to recommend, if your schedule permits, that you agree to a meeting.

Please let me know if you would like any additional information or would like to discuss this further.

Best wishes,

Sincerely,

Carlton E. Turner, Ph.D.
Deputy Assistant to the President
for Drug Abuse Policy

The Honorable Edwin Meese III
Attorney General
Department of Justice
Washington, D.C.

UNCLASSIFIED
With Confidential Attachment

WHITE HOUSE SITUATION ROOM

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TO WHITEHOUSE WASHDC IMMEDIATE

INFO SECSTATE WASHDC Ø653

~~C O N F I D E N T I A L~~ CARACAS Ø2454

WHITEHOUSE FOR DR. TURNER FROM CHARGE FLOWER

E.O. 12356: DECL:OADR
TAGS: OVIP (MANZO GONZALEZ, JOSE), VE
SUBJECT: VISIT OF JUSTICE MINISTER JOSE MANZO GONZALEZ

1. ~~(C-ENTIRE TEXT)~~.
-

2. BEGIN TEXT:

- MARCH 12, 1986
-

DR. CARLTON E. TURNER
DEPUTY ASSISTANT TO THE PRESIDENT
- FOR DRUG ABUSE POLICY
THE WHITE HOUSE
WASHINGTON, D.C. 2Ø5ØØ
-
-

DEAR CARLTON:

DURING YOUR VISIT HERE LAST YEAR, YOU ASKED ME TO KEEP IN TOUCH REGARDING JUSTICE MINISTER JOSE MANZO GONZALEZ' TRAVEL PLANS TO WASHINGTON, D.C., CURRENTLY PLANNED FOR THE WEEK OF MAY 18. AS MINISTER MANZO CONTINUES TO BE OUR KEY INTERLOCUTOR IN PRESIDENT JAIME LUSINCHI'S CABINET ON NARCOTICS MATTERS, YOUR ASSISTANCE IN ARRANGING A MEETING FOR HIM WITH ATTORNEY GENERAL ED MEESE AS WELL AS OTHER WASHINGTON PROGRAM ELEMENTS WOULD BE ESPECIALLY USEFUL AND APPRECIATED.

YOUR ATTENTION TO GEN. SANDOVAL'S U.S. PROGRAM WAS CRUCIAL AND VERY MUCH APPRECIATED BY HIM AS WELL AS OUR MISSION. I HOPE THAT YOU CAN ALSO GIVE A HELPING HAND TO OUR PROGRAM FOR MINISTER MANZO. JON THOMAS AT STATE AND DEA HAVE BOTH BEEN APPRISED OF MINISTER MANZO'S PLANS.

JUSTICE MAY HAVE ALREADY ADVISED YOU OF MINISTER MANZO'S MOST RECENT INITIATIVE ON THE NARCOTICS FRONT IN VENEZUELA. AT HIS REQUEST, JUSTICE'S CRIMINAL DIVISION AND DEA SENT A TEAM OF ATTORNEYS TO CARACAS TO DISCUSS ANTI-MONEY LAUNDERING MEASURES WHICH THE MINISTER HOPES TO INTRODUCE FOR PRESIDENTIAL AND CONGRESSIONAL ACTION.

AS FOR THE EXTRADITION TREATY, FINAL NEGOTIATIONS REMAIN ON TRACK WITH THE NEXT SCHEDULED MEETING TO TAKE PLACE IN CARACAS IN MID-MARCH.

ALTHOUGH AMBASSADOR REICH'S EXPECTED ARRIVAL IN EARLY APRIL WILL PROBABLY PREVENT MY ATTENDANCE AT THE ARA NARCOTICS CONFERENCE IN PANAMA THIS YEAR, I LOOK FORWARD TO SEEING YOU AGAIN SOON, PERHAPS IN WASHINGTON.
-

SINCERELY,

LUDLOW FLOWER III
CHARGE D'AFFAIRES A.I.

END TEXT. FLOWER
BT

RO/

410748PD
CO171
FG006-07

[redacted]

THE WHITE HOUSE

WASHINGTON

February 24, 1986

MEMORANDUM TO ANTHONY SIERRA

FROM: CARLTON TURNER

SUBJECT: Letter Translation

Enclosed is a copy of a letter I received from General Alfredo Sandoval. - Venezuela

Your assistance in translating this letter is appreciated.

Thank you.

[redacted]

REPUBLICA DE VENEZUELA
MINISTERIO DE LA DEFENSA
FUERZAS ARMADAS DE COOPERACION

GENERAL DE DIVISION
COMANDANTE GENERAL

Caracas, 21 de Enero de 1986

Señor
CARLTON TURNER
The White House
WASHINGTON

Apreciado amigo:

Su breve misiva del 12NOV85, es un excelente testimonio de lealtad que aprecio altamente por cuanto reconforta el espíritu al sa - berse acompañado en el duro trajín de la vida.

Me complace mucho el valor que asigna al modesto presente- que le llevé y sobretodo, la intención de mantenerlo de por siempre, pues si este es el tratamiento otorgado a las cosas materiales, las espiritua les tendrán algo superior.

Mucho agradezco la oferta de techo que me hace, pudiendo a segurarle que en tales casos no me agrada desairar al oferente; por ello puede estar seguro que tarde o temprano allí recalaremos, oportunidad - que nos permitirá saber lo mucho que nos falta por hacer.

REPUBLICA DE VENEZUELA MINISTERIO DE LA DEFENSA FUERZAS ARMADAS DE COOPERACION COMANDANCIA GENERAL AYUDANTIA GENERAL

Atentamente,

ALFREDO SANDOVAL HERNANDEZ

ASH/NSC/aog.-

2

411121PD
1150
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FG006-07

THE WHITE HOUSE

WASHINGTON

CJ

December 18, 1985

Dear Kim:

Enclosed are letters to General Sandoval and his wife, Virginia. Please forward them for me.

For your information I am also enclosing copies of the letters.

Best wishes to you and your staff for a happy holiday season.

Sincerely,

Carlton E. Turner, Ph.D.
Deputy Assistant to the President
for Drug Abuse Policy

Mr. Ludlow Flowers, III
American Embassy
Caracas, Venezuela
APO Miami 34037

411122PD
1160
CO171
FG006-87

CJ

THE WHITE HOUSE

WASHINGTON

December 18, 1985

Dear ~~Colonel~~ Mike Garcia:

Enclosed, for your information, are copies of notes I wrote General Sandoval and his wife, Virginia.

Best wishes,

Sincerely,

Carlton E. Turner, Ph.D.
Director, Drug Abuse Policy Office

[redacted]

Commandant Miguel Garcia
United States Army
School of the Americas
ATTN: MOLA-SC-S
Ft. Benning, GA 31905

- Venezuela

[redacted]

411123PD
1150
CO171
FG006-07

CJ

THE WHITE HOUSE

WASHINGTON

January 31, 1986

Dear Allen:

Thank you for seeing that the pewter cups were delivered to General Sandoval for me.

I knew I could trust you to take care of this for me as I saw the excellent way you handled details during my trip to Venezuela.

Best wishes,

Sincerely,

Carlton E. Turner, Ph.D.
Deputy Assistant to the President
for Drug Abuse Policy

[redacted]

Mr. Allen Yale
Second Secretary
U.S. Embassy
Caracas, Venezuela

THE WHITE HOUSE

WASHINGTON

August 4, 1986

NOTE FOR SHERRIE COOKSEY

FROM: TOM DAWSON TD

Mr. Regan noticed the other day a reference to Venezuelan trade credits being cut off. Can you ask OASIA to provide an update of the Venezuelan debt situation?

Thank you.

98739

1

Venezuela: External Debt Situation

Venezuela's external debt exceeded $35 billion at the end of 1985, of which $26 billion was M-L public sector debt and $7 billion was rescheduled private sector debt. Over $27 billion of Venezuela's external debt is owed to foreign commercial banks. The bulk of this debt is included in the public sector and private sector rescheduling agreements. Since the decline in petroleum prices, the GOV has attempted to conserve foreign exchange through various administrative measures, including unilateral actions to limit debt service payments.

Public Sector Debt

In May 1985, Venezuela and its Bank Advisory Committee (BAC) reached agreement to reschedule $21.2 billion in public sector debt. The Multi-Year Rescheduling Agreement (MYRA) covers essentially all public debt to banks maturing between 1983-88. Principal repayments were to be stretched out from late 1985 through 1997 with an initial down payment of $750 million.

Last December, the BAC agreed to postpone amortization payments coming due in 1985-86 and gave Venezuela the option of postponing 1987 payments if oil prices remained weak. The BAC also agreed to a contingency clause which allowed Venezuela the right to negotiate with the banks concerning the terms of the MYRA, should the economic environment deteriorate.

Venezuela is expected to make the down payment within the next three months. However, the government will seek to further postpone amortization payments. We expect that the GOV will request postponing 1987 through 1989 principal repayments and will seek to extend the repayment period from 1997 to 2000.

We expect the GOV will also request a reduction in the interest, which is 1.125 percentage points over LIBOR.

Although the commercial banks are expected to resist an interest reduction, we believe the banks are willing to extend the maturity and grace period, provided Venezuela comes to terms with the banks over the private sector debt.

Private Sector Debt

As a condition for obtaining the public sector rescheduling agreement, the GOV agreed in 1984 that certain private debts that were validated by the Exchange Differential Office (RECADI) would have access to the bolivar 4.3 exchange rate for amortization payments and the bolivar 7.5 exchange rate for interest payments (the free market rate is currently about 18 to the dollar).

About $6.9 billion of private sector debt was approved by RECADI. Access to the preferential rates was conditioned upon the debtors

2

obtaining a rescheduling of seven years with two years grace. These debts started to mature in April 1986.

However, on July 7, President Lusinchi signed into law a measure that gives the Exchange Compensation Fund (FOCOCAM) the right to convert this debt into public bonds with a minimum maturity of 15 years and a maximum interest of 5%.

Under the law, as principal comes due, the debtors would purchase bonds from FOCOCAM at the 7.5 exchange rate instead of the 4.3 rate and would then give the bonds to the banks.

Foreign commercial banks are furious over the measure. It constitutes a unilateral rescheduling of debts, forcing banks to take bonds with a discounted present value of less than 50% of current assets. These debts would probably be classified as value-impaired by U.S. regulators and require substantial reserving. Many private debtors are also in poor financial shape and unable to purchase the bonds at the 7.5 exchange rate.

Several major commercial banks have told the GOV that unless the GOV changes the law to make the bonds more acceptable to the banks, the banks will refuse to grant further concession on the public sector MYRA and will cut their trade lines with Venezuela (Some large U.S. banks have already cut back their trade lines, but the amount is not substantial).

Recent Developments

During the week of July 21, Finance Minister Azpurua met with Treasury, the Federal Reserve, and major foreign commercial banks to discuss the conversion of private sector debt into public bonds. Based on these meetings, Azpurua has requested a meeting with the full BAC for August 7 to discuss changes that would make the bond conversion scheme acceptable to the banks.

The GOV has indicated that it will call a special session of Congress on August 18 in which the cabinet will introduce legislation altering the bond conversion measure. We do not know to what extent the GOV will go in changing the law.

Outlook

Venezuela's balance of payments situation has deteriorated substantially due to the decline in petroleum prices. However, if the GOV can further postpone amortization payments under the public and private sector rescheduling agreements, which is likely provided an agreement is reached on the private sector debt, Venezuela's substantial level of reserves (over $13.5 billion) should enable the country to weather current oil prices for at least the next 3 years.

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Current Status	None
User Name	dbarrie
Status Date	2010-09-13
Case Number	
Notes	Transferred to CO071

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No.	Status	Date	User	Case Number	Notes
1	None	2010-09-13	dbarrie		Transferred to CO071

ID# 472618

C0171

THE WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

INCOMING

DATE RECEIVED: MARCH 24, 1987

NAME OF CORRESPONDENT: DR. RENE DUPOTE MENENDEZ

SUBJECT: IN SPANISH

ROUTE TO: OFFICE/AGENCY	(STAFF NAME)	ACTION: ACT CODE	ACTION: DATE YY/MM/DD	DISPOSITION: TYPE RESP	DISPOSITION: C D	DISPOSITION: COMPLETED YY/MM/DD
FRANK CARLUCCI		ORG	87/03/25		C	87/03/26
REFERRAL NOTE:						
DOS		A	87/03/27		A	87/06/16
REFERRAL NOTE: (TRANSLation OR Response						
			/ /			/ /
REFERRAL NOTE:						
			/ /			/ /
REFERRAL NOTE:						
			/ /			/ /
REFERRAL NOTE:						

PY

COMMENTS: We have no translation capability
If it worth it - you will have to
task DOS

ADDITIONAL CORRESPONDENTS: MEDIA:L INDIVIDUAL CODES:

MI MAIL USER CODES: (A) (B) (C)

*ACTION CODES:	*DISPOSITION	*OUTGOING CORRESPONDENCE:
*A-APPROPRIATE ACTION	*A-ANSWERED	*TYPE RESP=INITIALS OF SIGNER
*C-COMMENT/RECOM	*B-NON-SPEC-REFERRAL	CODE = A
*D-DRAFT RESPONSE	*C-COMPLETED	*COMPLETED = DATE OF OUTGOING
*F-FURNISH FACT SHEET	*S-SUSPENDED	
*I-INFO COPY/NO ACT NEC		
*R-DIRECT REPLY W/COPY		
*S-FOR-SIGNATURE		
*X-INTERIM REPLY		

REFER QUESTIONS AND ROUTING UPDATES TO CENTRAL REFERENCE (ROOM 75,OEOB) EXT-2590
KEEP THIS WORKSHEET ATTACHED TO THE ORIGINAL INCOMING LETTER AT ALL TIMES AND SEND COMPLETED RECORD TO RECORDS MANAGEMENT.

UNCLASSIFIED
(CLASSIFICATION)

DEPARTMENT OF STATE
EXECUTIVE SECRETARIAT
TRANSMITTAL FORM

S/S 8708813

DATE June 16, 1987

FOR: MR. GRANT GREEN
EXECUTIVE SECRETARY
NATIONAL SECURITY COUNCIL
THE WHITE HOUSE

REFERENCE:

TO: President Reagan FROM: Dr. Rene Dupote Menendez

DATE: March 15, 1987 SUBJECT: In Spanish

REFERRAL DATED: March 30, 1987 ID# 472618
(IF ANY)

______ THE ATTACHED ITEM WAS SENT DIRECTLY TO THE DEPARTMENT OF STATE

ACTION TAKEN:

______ A DRAFT REPLY IS ATTACHED.

______ A DRAFT REPLY WILL BE FORWARDED.

______ A TRANSLATION IS ATTACHED.

xxx AN INFORMATION COPY OF A DIRECT REPLY IS ATTACHED.

______ WE BELIEVE NO RESPONSE IS NECESSARY FOR THE REASON CITED BELOW.

______ THE DEPARTMENT OF STATE HAS NO OBJECTION TO THE PROPOSED TRAVEL.

______ OTHER (SEE REMARKS).

REMARKS:

Sondra Sullivan
DIRECTOR
SECRETARIAT STAFF

(CLASSIFICATION)

WHITE HOUSE

87 JUN 17 A2:26

SITUATION ROOM

87 JUN 17 A7:09

United States Department of State

Washington, D.C. 20520

June 16, 1987

Dr. Rene Dupote Menendez
President
Associacion de Cubanos Asilados or
Refugiados en Venezuela
Quinta Susana
Ave. Augustin Codazzi No. 32
San Bernardino, Caracas Venezuela

Dear Dr. Dupote:

The White House has referred to me for response your letter of March 15 conveying the views of The Association of Cuban Exiles in Venezuela regarding the vote of the Government of Venezuela at the United Nations Human Rights Commission in Geneva last March and your desire to emigrate to the United States as a result of that vote.

We have made known our disappointment about the decision of the Government of Venezuela to support a resolution introduced by the Indian delegation to the UNHCR in Geneva to refrain from considering a United States resolution calling for a study of human rights violations in Cuba. We intend to raise the issue again and hope that Venezuela will reconsider its position next year, especially given its long and rightfully proud history of democracy and respect for human rights and the fact that a number of Cubans have been killed seeking asylum at the Venezuelan Embassy in Havana.

We appreciate your suppport in our efforts to bring Cuba's human rights record to the attention of the world community. We have no reason to assume, however, that Cubans who are resident in Venezuela are in danger because of Venezuela's vote in Geneva. We have no reason to assume that the appropriate Venezuelan authorities are not ready to fulfill their responsibilities for the security of all persons in Venezuela.

Sincerely,

Kenneth N. Skoug

Kenneth N. Skoug, Jr.
Coordinator for Cuban Affairs

T H E   W H I T E   H O U S E   O F F I C E

REFERRAL

MARCH 30, 1987

TO: DEPARTMENT OF STATE

ACTION REQUESTED:
APPROPRIATE ACTION

REMARKS: ***FOR TRANSLATION OR RESPONSE***

DESCRIPTION OF INCOMING:

ID: 472618

MEDIA: LETTER, DATED MARCH 15, 1987

TO: PRESIDENT REAGAN

FROM: DR. RENE DUPOTE MENENDEZ
PRESIDENT
ASSOCIACION DE CUBANOS ASILADOS OR
REFUGIADOS EN VENEZUELA
QUINTA SUSANA
AVE. AUGUSTIN CODAZZI NO. 32
SAN BERNARDINO, CARACAS VENEZUELA

SUBJECT: IN SPANISH

PROMPT ACTION IS ESSENTIAL -- IF REQUIRED ACTION HAS NOT BEEN TAKEN WITHIN 9 WORKING DAYS OF RECEIPT, PLEASE TELEPHONE THE UNDERSIGNED AT 456-7486.

RETURN CORRESPONDENCE, WORKSHEET AND COPY OF RESPONSE (OR DRAFT) TO:
AGENCY LIAISON, ROOM 91, THE WHITE HOUSE, 20500

SALLY KELLEY
DIRECTOR OF AGENCY LIAISON
PRESIDENTIAL CORRESPONDENCE

DEPARTMENT OF STATE
DIVISION OF LANGUAGE SERVICES

(TRANSLATION)

LS NO. 121813
RHC
Spanish

Association of Cuban Exiles or Refugees in Venezuela

Caracas, March 15, 1987

President Ronald Reagan
The White House
Washington, D.C.

Mr. President:

We Cuban former political prisoners and political exiles residing in Venezuela turn to you as the representative of the nation that defends human rights, since we have no nation, government, or embassy to represent us before the Venezuelan authorities, and since the Venezuelan government is uniting with the Sandinistas and Cuban Communists by alleging that in our suffering homeland (where tens of thousands of our brothers and sisters have been shot and massacred in the dungeons of the regime and more than two million Cubans like ourselves have had to go into exile) "human rights are not being violated," thus becoming accomplices to this crime. Therefore we ask you and the Department of State to act as the diplomatic representation of the United States of America and represent us, since our lives are in danger in this country. The Venezuelan government, by supporting the tyrannical regime of Fidel Castro, is creating special conditions for anti-Castro Cubans living here, so we do not enjoy the minimum guarantees recommended by the United Nations Charter and the Declaration of the Rights of Man. For this reason we ask you to allow us to enter the United States until we succeed in overthrowing the Communist Cuban tyrant. We would not be an expense or burden to the U.S. government, since we have relatives and compatriots who will receive us as compatriots who have fought untiringly for our safety and international freedom, for the liberation of our homeland and also for freedom and democracy in America.

We are hoping for a prompt reply in view of the difficult position in which the Venezuelan government has placed thousands of Cubans living in Venezuela.

We have full confidence in you and your government, and respectfully anticipate a humane reply "because you have fought untiringly."

Note: More than two million Cubans have requested to leave Cuba. Some have visas and other money, but all have passports, and they are not allowed to leave.

Certified copies to: Diario de Las Americas, Miami Herald, Senado Americano, Radio Martí, Vox del Cid.

[Signature] [Signature]

Dr. Rene Dupote Mendenez
Chairman

Dr. Bilbain Milan
Legal Advisor

[Signature]

Ramon Mendenez
Vice Chairman

[Signature]

Pedro I. Medina Mayor
Secretary
of the Organization

[Signature]

Mercedes Pardiñas de Alin
Recording Secretary

[Signature]

Eduardo Medina Dieppa
General Administrator

[Signature]

Fructuoso J. Mesa Luna
Delegate for Caracas

[Signature]

Emelina Lopez Fernandez
Delegate for Caracas

[Signature]

Antonio Alvarez López
Delegate for Caracas

[Signature]

Lazaro G. Arozarena
Alternate Vice Chairman

[Signature]

Francisco Suferry
Assistant Secretary
of the Organization

[Signature]

Efrahin Hernandez
Assistant Recording Secretary

[Signature]

Manuel Díaz Galazo
Asst. General Administrator

[Signature]

Adela Castro
Delegate for Valencia

[Signature]

Jorge González Blanco
Delegate for Caracas

[Signature]

Pedro Peraza Amaran
Delegate for Valencia

ASOCIACION DE CUBANOS ASILADOS O REFUGIADOS EN VENEZUELA A.C.

Caracas 15 de Marzo de 1987

Mr. Ronald Reagan
The White House "CASA BLANCA"
Washington D. C. U. S. A.

MUY HONORABLE SEÑOR PRESIDENTE:-

Nosotros, Ex-Presos Politicos Cubanos y Exilados politicos que tambien residimos en Venezuela, acudimos a Ud. como representante - de la Nación Defensora de los derechos Humanos, ya que nosotros no contamos con un Pais, Gobierno o Embajada que nos represente ante las autoridades de este Pais, y toda vez que este gobierno se unio a los sandinistas y Comunistas Cubanos alegando que en nuestra sufrida Patria (donde decenas de miles de hermanos nuestros han sido fusilado y masacrados en las mamorras del régimen y mas de dos millones de Cubanos nos hemos tenido que asilar) "NO SE VIOLAN LOS DERECHOS HUMANOS", haciendose complices de este crimen por lo que pedimos a Usted y al Departamento de Estado, que sea la representación Diplomatica de los Estados Unidos de America quien nos represete ya que nuestras vidas corren peligro en este Pais pues este Gobierno al respaldar el Regimen Tiranico de Fidel Castro, nos crea esta condiciones especiales a los Cubanos Anti-Catristas que aqui radicamos no contando por tanto con el minimo de garantias que recomienda la Carta de las Naciones Unidas y la Declaración de los Derechos del Hombre Solicitamos asi mismo por tal motivo se nos conceda la Entrada a los Estados Unidos hasta que logremos derrocar al Tirano Comunista de Cuba, sin hacerle gastos ni carga al Gobierno que usted preside, ya que tenemos familiares y compatriotas que nos recibiran como compatriotas que luchan incansablemente por nuestra seguridad y Libertad Internacional, en bién de la Liberación de nuestra Patria y también la Libertad y la Democracia en America.-

Esperamos su mas pronta repuesta ante la dificil situación que el Gobierno de este Pais ha puesto a los miles de Cubanos radicados en Venezuela .-

Depositando toda confianza en usted y su Gobierno quedamos muy Respetuosamente en una repuesta muy humana "POR LA QUE USTED HA LUCHADO INCANSABLEMENTE.-

NOTA: Más de dos millones de Cubanos que han solicitado su salida de Cuba, Unos tienen Visas otros dinero pero todos si tienen pasaporte y no lo dejan salir .-

P.D. COPIAS CERTIFICADAS A:

Diario de Las Americas, Miami Herald, Senado Americano, Radio Martí, Voz del Cid.

Dr. René Dupote Menendez.
Presidente.

Dr. Bilbain Milan
Acesor Legal.

Sr. Ramón Menendez.
Vic. Presidente.

Sr. Lazaro G. Arozarena.
Vic. Presidente por Sustitución

Sr. Pedro I. Medina Mayor
Sec. de Organización.

Sr. Francisco Suferry.
Vice Sec. de Organización.

Sra. Mercedes Pardiñas de Alin
Secretaria de Actas.

Sr. Efrahin Hernandez.
Vic. Sec. de Actas.-

Sr. Eduardo Medina Dieppa.
Administrador General

Sr. Manuel Díaz Galazo
Vic. Administrador General.

Sr. Fructuoso J. Mesa Luna.
Delegado por Caracas.

Adela Castro
Sra. Adela Castro.
Delegada por Valencia.

Sra. Emelina López Fernández
Delegada Por Caracas.

Jorge González Blanco.
Delegado Por Caracas.

Antonio Alvarez López
Delegado por Caracas.

Sr. Pedro Peraza Amaran
Delegado Por Valencia.

485227 PD

EMBAJADA DE VENEZUELA
WASHINGTON, D. C.

March 3, 1987

Mr. Gary Bauer
Assistant to the President for Policy
Development
2nd Floor West Wing
The White House
Washington, D.C. 20500

Dear Mr. Bauer:

I take this opportunity to forward, for your information, the attached document which reflects the views of the government of the Republic of Venezuela on "Oil and United States National Security: The Key Position of Venezuela." This report has been presented for the consideration of the government of the United States as a contribution to the President's Energy Security Task Force in its study of the implications of the United States' reliance on imported oil, as well as a general statement of Venezuela's position on certain bilateral oil issues of importance.

The report reiterates and supports concepts which have been expressed on many occasions to the government and Congress of the United States and sets forth the facts underlying our belief that Venezuela can play an important and positive role in the long-term energy security of the United States. Venezuela has a long history as a reliable, secure, and stable supplier of oil to the United States, and is prepared to continue in that role as our relatively small population and domestic energy needs, coupled with our enormous oil resources located in the Western Hemisphere, and our abundant non-oil energy resources, will permit Venezuela to continue to supply the United States with significant volumes of oil in the future.

Venezuela ranks fourth among all oil producing countries with official proved reserves of 55 billion barrels. Currently, our total recoverable crude oil resource base is on the order of 320 billion barrels. The combination of oil resources such as these, our excess production and refining capacities, our oil industry's proven technical and managerial capabilities, Venezuela's recent decision to invest in United States refining and distribution companies, and the close friendship between our two democratic countries are factors which we believe are extremely significant in the United States' assessment of its energy policies, particularly as they relate to national security.

The United States has been a net importer of oil since 1948. Moreover, it is widely understood that the United States will have to rely increasingly on oil imports to meet its future needs. Venezuela has the capability to help meet these needs and has made commitments to maintain its role as a long-term supplier of oil to the United States and the world. It is our hope that, in assessing its long-term energy security, the United States fully recognizes Venezuela's oil resources, reserves, and technical abilities, as well as the long-term history of bilateral cooperation between our nations, and that no measure be adopted that could jeopardize Venezuela's ability to continue to supply significant quantities of oil to the United States in the future.

I appreciate your interest in the views of Venezuela on this important matter.

Sincerely,

Luis Berrizbeitia
Minister Counselor

Enclosure

EMBAJADA DE VENEZUELA
WASHINGTON, D. C.

OIL AND UNITED STATES NATIONAL SECURITY:
THE KEY POSITION OF VENEZUELA

Submitted to President Ronald Reagan's
Energy Security Task Force

V. Hernandez

Valentin Hernandez
Ambassador

February 19, 1987

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SUMMARY

- The Republic of Venezuela believes that the combination of Venezuela's enormous oil resources in the Western Hemisphere, its excess production and refining capacities, the industry's proven technical and managerial capabilities, the history of Venezuela as a reliable and stable supplier of oil to the United States, Venezuela's decision to invest in refining and distribution companies in the United States, Venezuela's geographical proximity to the United States, and the close friendship between our two democratic countries are all factors which should be taken into account by the United States Government in assessing its energy policies, particularly as they relate to national security.

- The significance of oil to the Venezuelan economy cannot be overstated. Over 90 percent of Venezuela's export and foreign exchange earnings are derived from crude oil and petroleum product sales. Oil accounts for approximately 60 percent of all government revenues and over 25 percent of the nominal gross domestic product. In 1986 alone, Venezuela's oil export revenues dropped 44 percent to $7.2 billion.

- Venezuela has continuously supplied oil to the United States for over 60 years, including during such crises as World War II, the Suez Crisis, and others.

- Nearly one-half of all Venezuelan oil exports are to the United States. During the first ten months of 1986, Venezuela was the leading exporter of petroleum products and the fifth largest exporter of crude oil to the United States; in this same period, the Western Hemisphere accounted for 50 percent of total United States oil imports. Venezuela is virtually equal to Canada as the oil producing country upon which the United States most depends to help meet its oil needs.

- Venezuela ranks fourth among oil producing countries with official proved reserves of 55 billion barrels of crude oil. Venezuela's total oil resources dwarf its official reserves by virtue of one of the largest, if not the largest, hydrocarbon deposits in the world, the Orinoco Oil Belt, which contains 1.2 trillion barrels of heavy and extra-heavy crude oil <u>in situ</u>. Venezuela's recoverable crude oil resource base is approximately 320 billion barrels which can be produced economically at today's oil prices utilizing existing technology.

- Venezuela produces 1.7 million barrels of crude oil per day but actively maintains a production capacity of 2.6 million barrels per day. Venezuela's existing production infrastructure can be upgraded within a short period of time to expand production capacity to 3.0 million barrels of crude oil per day and additional facilities could be economically built to reach higher production levels. Venezuela's refining capabilities provide it with similar flexibility to permit it to respond quickly and effectively to any oil crisis.

- In exploration alone, the Venezuelan oil industry plans to invest $1.2 billion between 1986 and 1990. Venezuela completed a $1.9 billion refinery modernization program over a year ago to provide greater refining flexibility, to permit the processing of a larger percentage of heavy and extra-heavy crude oil, and to enable the industry to better meet increased domestic demand for lighter petroleum products.

- In 1986, the Venezuelan oil industry purchased a 50 percent interest in Citgo Petroleum Corporation and is currently negotiating the purchase of a 50 percent interest in Champlin Petroleum Company. This program, known as "internationalization", will guarantee the United States preferential access to the vast oil resources of Venezuela.

- If the United States imposes oil import restrictions, such action would seriously damage Venezuela's economy and would gravely hamper the welfare and social stability of the country. Venezuela's aid programs to countries in the region would necessarily be affected. The potential for greater regional political instability would thereby increase.

OIL AND UNITED STATES NATIONAL SECURITY: THE KEY POSITION OF VENEZUELA

I. INTRODUCTION

By virtue of the importance which the Republic of Venezuela attaches to its relationship with the United States, Venezuela has followed with particular interest the current debate on United States energy policy and national security. This report is submitted to the Interagency Task Force to ensure that Venezuela's oil resource base in the Western Hemisphere, its record as a secure and reliable supplier of oil to the United States and the rest of the world, its intention to maintain a significant long-term supply capability to world markets, and the historical relationship between our two countries are considered in the formulation of United States energy policy and, particularly, its energy/security policies.

Venezuela's official proved reserves equal 55 billion barrels of crude oil, and thus, Venezuela ranks fourth in the world after Saudi Arabia, Kuwait, and the U.S.S.R. Venezuela's total recoverable oil resource base, however, is more than 320 billion barrels of crude oil. This makes Venezuela the country with the largest oil resources in the Western Hemisphere and, quite possibly, the world. Currently, Venezuela produces 1.7 million barrels of crude oil and condensates per day, but maintains a production capacity of 2.6 million barrels per day. With almost one million barrels per day of excess capacity, Venezuela is the largest short-haul petroleum source in the Western Hemisphere. Furthermore, Venezuela's existing production infrastructure could be upgraded within a short period of time to expand production capacity to 3.0 million barrels per day.

The United States has been, and continues to be, Venezuela's primary market for its oil exports. Today, Venezuela is the largest supplier of petroleum products and the fifth largest supplier of crude oil to the United States. This oil trading relationship with the United States has strengthened recently as a result of Venezuela's "internationalization" program whereby the Venezuelan national oil company now owns 50 percent of Citgo Petroleum Corporation of Tulsa, Oklahoma. In addition, the Venezuelan oil industry plans other joint ventures of this type with refining and distribution companies in the United States.

The significance of oil to the Venezuelan economy cannot be overstated. Over 90 percent of Venezuela's export and foreign exchange earnings are derived from crude oil and petroleum product sales. Oil accounts for approximately 60 percent of all government revenues and over 25 percent of the nominal gross domestic product. Venezuela is also the 17th largest market for United States goods and services in the world, and second largest in South America. Last year, fifty percent (i.e., $3.5 billion) of Venezuela's imports came from the United States.

Venezuela has the fourth largest foreign debt among developing countries, surpassed only by Brazil, Mexico, and Argentina. Of Venezuela's total foreign debt, approximately $10 billion is owed to United States banks. It is evident that Venezuela's capacity to continue to develop economically and socially, to purchase merchandise and services from abroad, and to service its large foreign debt is heavily dependent on the level of income it derives from petroleum exports.

In 1986 alone, Venezuela's oil export revenues dropped 44 percent to $7.2 billion from $12.9 billion the previous year. Because oil revenues have been declining since the early 1980s, Venezuela has been experiencing an economic decline over the past several years (unemployment, for example, is 10.5 percent). This has adversely affected Venezuela's development plans. Moreover, Venezuela successfully negotiated a rescheduling of its debt in February 1986, but the sharp drop in oil revenues has forced the country to seek a new repayment schedule from its creditors.

Venezuela has the ability to export large quantities of crude oil and petroleum products for many decades. The United States and Venezuela are close geographic neighbors with democratic forms of government. The United States will need to continue to rely on foreign sources of oil for the foreseeable future. Therefore, the oil situations of both countries are complementary and both countries' long-term energy interests are such that the United States and Venezuela should continue to be important commercial partners for many years under fair conditions of trade.

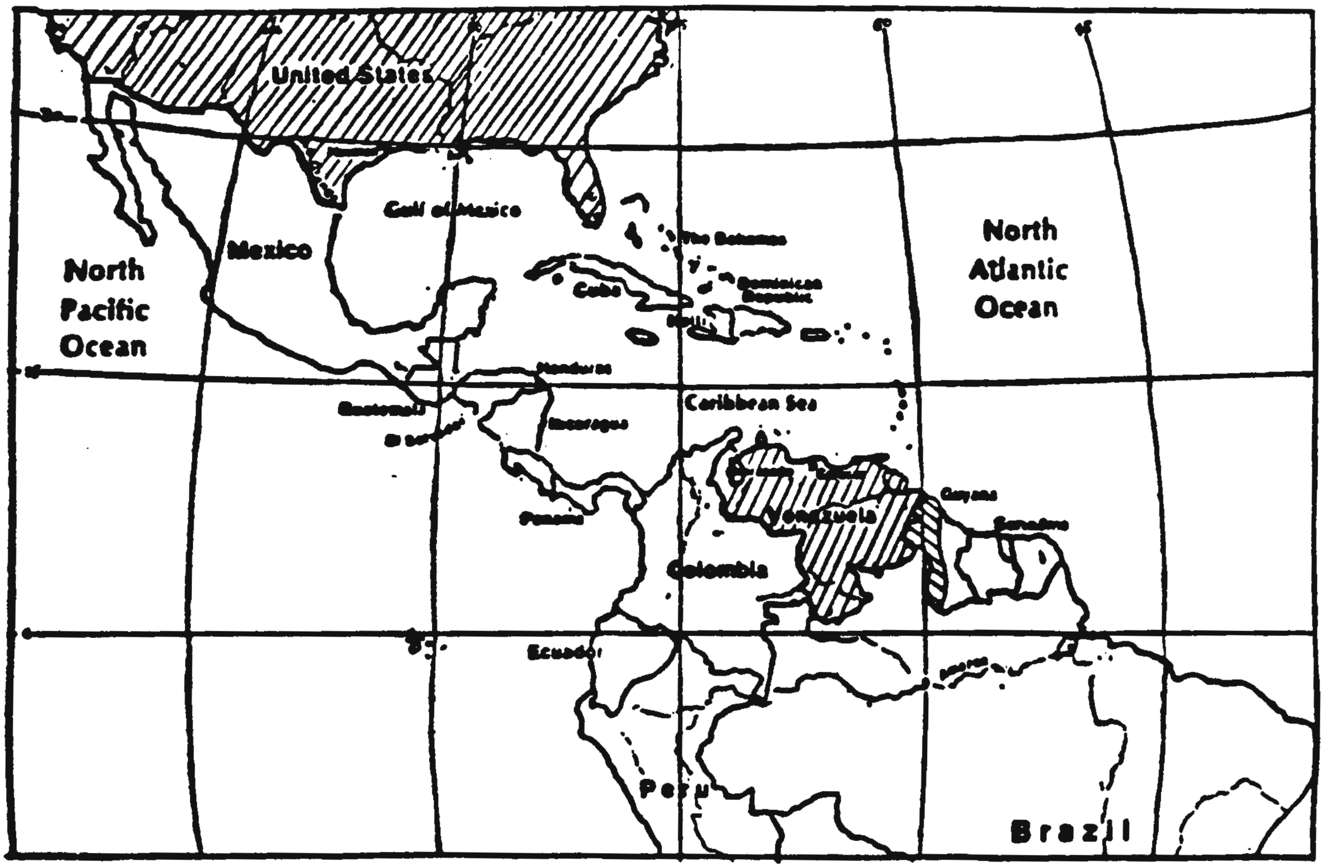
Finally, any United States policy that has the effect of further depressing Venezuela's oil industry would further erode its domestic economy and its foreign debt position as well as adversely affect its ability to serve as a substantial export market for the United States. In this sense, the imposition of oil import restrictions by the United States would have serious economic and financial consequences for Venezuela and would be interpreted by the Government, by all political parties, the business sector, the labor unions, and the Venezuelan people in general, as a gesture inconsistent with the traditional friendly relations enjoyed by both countries and contradictory with Venezuela's historic position as a secure and reliable supplier of oil to the United States and the world.

II. VENEZUELA: AN IMPORTANT, SECURE, AND RELIABLE OIL SOURCE

A. Background

Venezuela and the United States are geographically very close, making trade between the two countries economically advantageous. Only 2,250 miles lie between Washington, D.C. and Caracas, the capital of Venezuela. Ports along the East and Gulf Coasts of the United States may be reached from Venezuela much faster than from Alaska and California. East Coast ports can be reached from Venezuela almost as fast as from the Gulf Coast. By tanker, the Gulf Coast is only three and one-half shipping days from Venezuela; the East Coast, only five shipping days.

GEOGRAPHICAL PROXIMITY OF VENEZUELA TO THE UNITED STATES

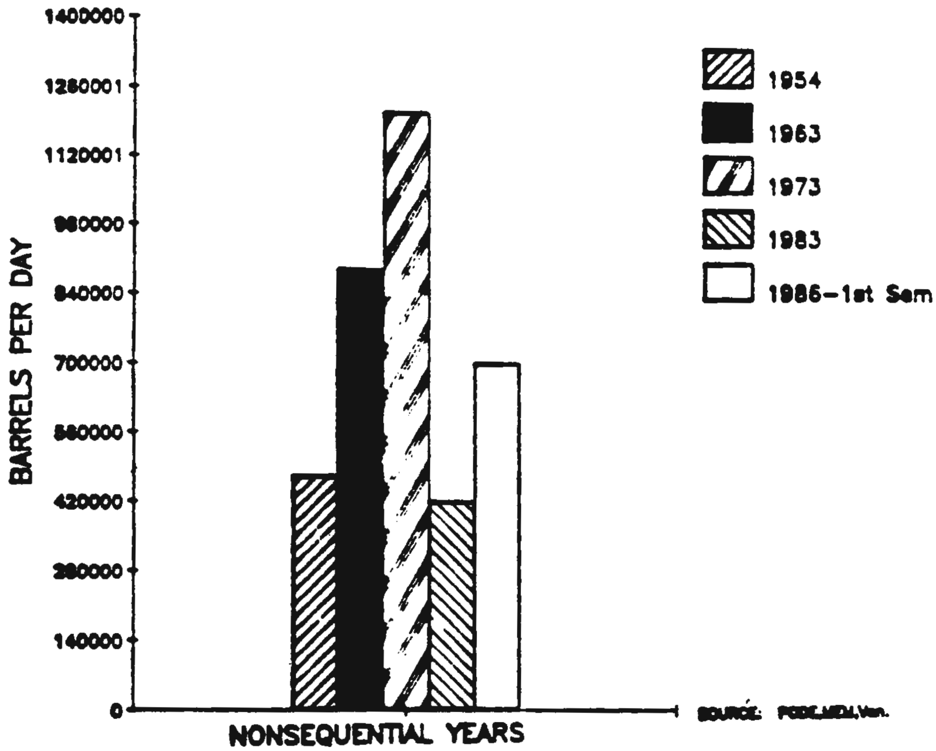


Venezuela is one of Latin America's strongest democracies. A democratic system of government was established in 1959, and since then, six presidential and congressional elections have been held and the two main political parties have alternated power four times.

B. Historical Relationship

During the past 60 years, Venezuela has continuously supplied oil to the United States, including during such crises as World War II, the Korean War, and others.

HISTORICAL LEVELS OF CRUDE AND PRODUCT EXPORTS TO USA



Although Venezuela is an oil supplier upon which the United States and the rest of the world have always been able to depend, there have been times when the United States has adopted policies that have had significant adverse consequences for Venezuela.

The Revenue Act of 1932 marked the first time the United States imposed tariffs on oil imports. The tariffs were much higher on gasoline and lubricating oils than on crude oil and residual fuel. This became a significant factor in the development of the refining pattern in Venezuela for the next 40 years, in that its refineries were oriented to produce primarily residual fuel oil, the least valuable part of the oil barrel. Indeed, the price of residual fuel oil was, until very recently, lower than the price of the crude oil from which it was made.

In March 1959, President Eisenhower implemented the Mandatory Oil Import Program ("MOIP"), ordering import controls on all petroleum products including residual fuel, which was Venezuela's principal oil export at the time. These controls came at an extremely sensitive time for Venezuela as the newly-created democracy was faced with extremist terrorism, high unemployment, and a depleted treasury. In April 1959, President Eisenhower exempted Canada and Mexico from any import restrictions on crude oil, but provided no such exemption for Venezuela. 1/

In 1974, in spite of the fact that Venezuela did not participate in the oil embargo imposed by some producing countries, the United States excluded all members of the Organization of Petroleum Exporting Countries from the benefits of the Generalized System of Preferences. It has been the stated policy of Venezuela, under the governments of both major political parties, not to participate in actions of this kind.

Just recently, the financing mechanism which Congress adopted for the toxic waste clean-up program, known as Superfund, has caused significant concern in Venezuela. One element of the Superfund financing is a tax on domestic crude oil of $.082 per barrel and a higher tax of $.117 per barrel on imported crude oil and petroleum products. Although the taxes are not substantial on a per barrel basis, the adverse psychological impact on Venezuela has been severe. The reaction in Venezuela has been one of alarm regarding the perceived principle that higher taxes are more appropriate on imported oil than on domestic oil and the possible precedent of an oil import fee as a means of raising revenue. Moreover, the concerns of the Republic of Venezuela have been expressed to the United States at the highest levels.

1/ The MOIP, together with two successive arbitrary oil price reductions instituted in 1959 and in 1960 by the "Seven Sisters" international oil cartel (the corporate cartel comprised of the seven largest multinational oil companies), were the main reasons why Venezuela was compelled to look for external support of other oil producing countries. This led to the establishment of the Organization of Petroleum Exporting Countries ("OPEC") in late 1960. Ironically, OPEC's birth was to a great extent a defensive reaction of a small group of producing countries against an existing and very effective international oil cartel comprised of the major multinational oil companies.

C. Current Supply Relationship and United States Reliance on Foreign Sources

Currently, almost half of all Venezuelan oil exports are to the United States. During the first ten months of 1986, Venezuela was the leading exporter of petroleum products and the fifth largest exporter of crude oil to the United States. Combining products and crude oil, Venezuela is virtually equal to Canada as the exporter upon which the United States most depends.

U.S. PETROLEUM MARKET SHARE
TOP TEN SUPPLIERS
JANUARY-OCTOBER 1986

TOTAL PETROLEUM

Rank	Source	Thousand Barrels	Percent of Total Imports
1	Canada	234,957	12.90 %
2	Venezuela	231,157	12.69 %
3	Mexico	213,345	11.71 %
4	Saudi Arabia	200,020	10.98 %
5	Nigeria	126,260	6.93 %
6	United Kingdom	103,774	5.70 %
7	Indonesia	96,330	5.29 %
8	Algeria	78,761	4.32 %
9	Trinidad and Tobago	37,078	2.04 %
10	Angola	30,917	1.70 %
	OTHER	469,068	25.75 %
	TOTAL *	1,821,667	100.00 %

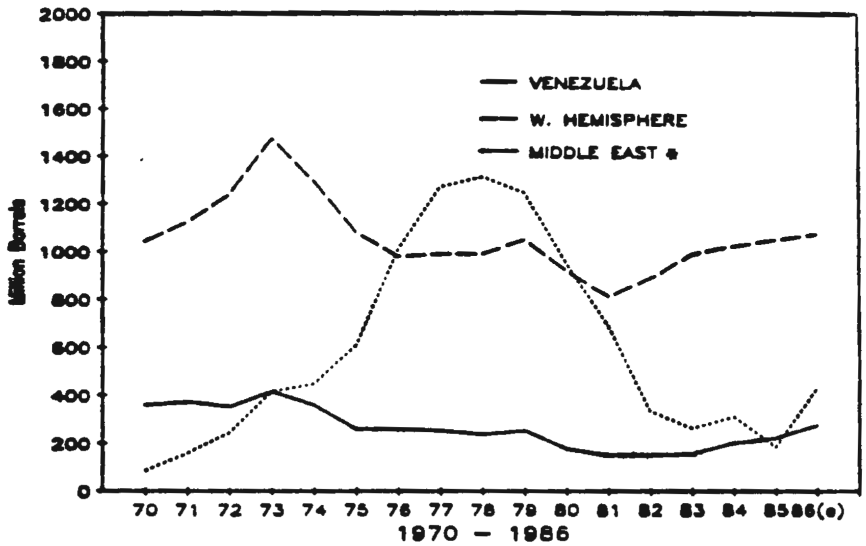
* Includes imports from U.S. Territories (Puerto Rico and the Virgin Islands).

Source: U.S. Department of Energy, Energy Information Administration, Petroleum Supply Monthly, October 1986 (November 1986).

From a peak reliance in 1977 on non-Western Hemisphere sources for foreign oil supplies (69 percent of United States total oil imports), the United States now imports much of its oil from the Western Hemisphere. During the first ten months of 1986, the

Western Hemisphere accounted for 50 percent of total United States oil imports; imports of crude oil and petroleum products from Canada, Venezuela, and Mexico have risen from 23 percent of total oil imports in 1981 to 38 percent. 2/

U.S. IMPORTS OF TOTAL PETROLEUM FROM VENEZUELA, THE WESTERN HEMISPHERE AND MIDDLE EASTERN NATIONS



SOURCE: U.S. Dept. of Energy, Energy Information Administration.

* Includes the following countries: Algeria, Bahrain, Egypt, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and United Arab Emirates.

D. The Necessity of Imported Oil

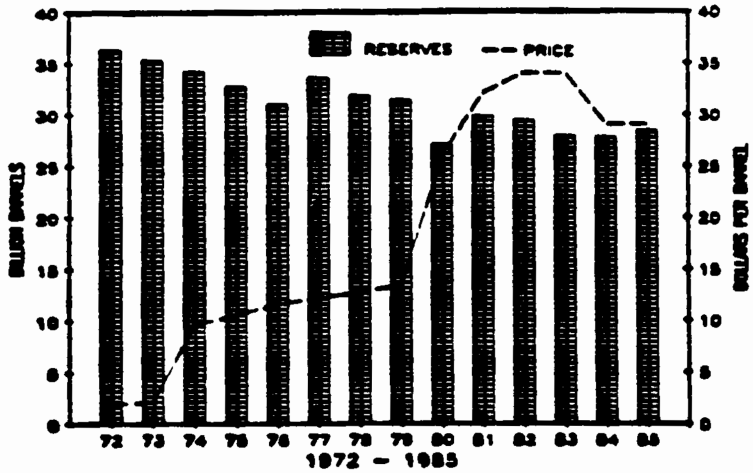
In the medium and long-term, the United States will have to rely on imported oil to help meet its total energy requirements. A recently released report on the United States' oil outlook reflects this fact, and the report discusses not whether the United States must rely on imported oil, but rather what degree of reliance on imports will result under different crude oil pricing scenarios. 3/

2/ The other 12 percent came from the Bahamas, Brazil, Ecuador, Netherlands Antilles, Peru, Puerto Rico, Trinidad and Tobago, and the Virgin Islands.

3/ U.S. Oil & Gas Outlook, An Interim Report of the National Petroleum Council, October 1986.

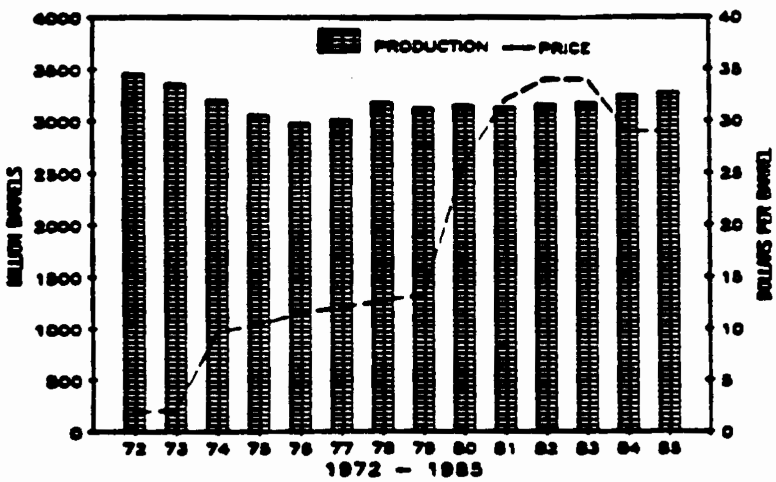
From a historical perspective, it is interesting to note that between 1973 and 1982, when oil prices rose more than twelve-fold, United States crude oil reserves actually declined, as did United States crude oil production, although not as pronounced.

U.S. ESTIMATED PROVED RESERVES OF CRUDE OIL vs WORLD OIL PRICES, 1972 – 1985



SOURCE: U.S. Dept. of Energy, Energy Information Administration.

U.S. CRUDE OIL PRODUCTION vs WORLD OIL PRICES, 1972 – 1985



SOURCE: U.S. Dept. of Energy, Energy Information Administration.

III. VENEZUELA'S OIL CAPABILITIES

A. Reserves and Resource Base

Venezuela is a country rich in oil and currently ranks fourth among oil producing nations with official proved reserves of 55 billion barrels. 4/ Venezuela's total oil resources, however, dwarf its official reserves by virtue of the existence of one of the largest, if not the largest, hydrocarbon deposits in the world -- the Orinoco Oil Belt -- which contains 1.2 trillion barrels of heavy and extra-heavy crude oil (7° - 17° API) *in situ*. 5/

Accordingly, Venezuela's future potential recoverable resource base, composed of proved and expected (*i.e.*, probable, possible, and speculative) reserves, stands on the order of 326 billion barrels which can be produced economically at today's oil

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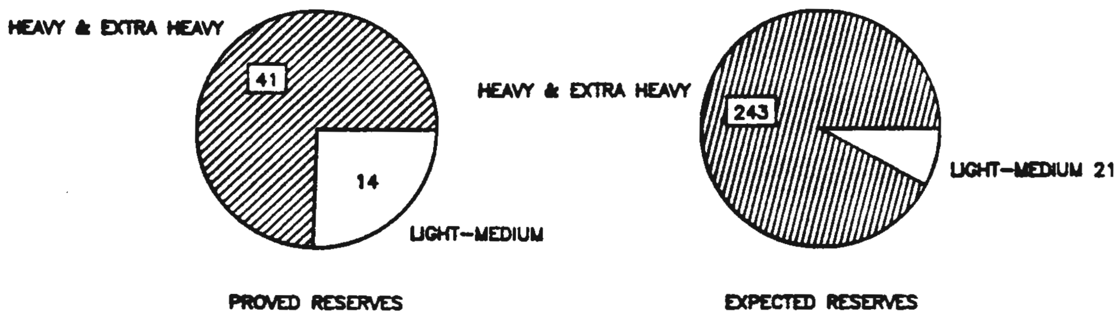
4/ Until now, Venezuela's official proved reserves have been considered to be 29 billion barrels, about the same as the United States. "Estimated Proven World Reserves of Crude Oil and Natural Gas," *World Oil*, August, 1986. In late December, 1986, the Ministry of Energy and Mines announced that Venezuela's official proved reserves had increased substantially and the country's official figures were being revised upward pursuant to universally-used geological concepts and definitions including those accepted by the Society of Petroleum Engineers ("SPE") and the American Association of Petroleum Geologists ("AAPG"). The preponderance of the numerical increase in Venezuela's official figures is the result of extensive exploration of the Orinoco Belt in eastern Venezuela. This exploratory activity, which was concluded in 1983, involved the surveying of 15,200 kms of seismic lines and the drilling of 773 exploratory and development wells. The Ministry of Energy and Mines designated a multi-disciplinary group of Venezuelan engineers and geologists to determine what volume of crude oil within the Belt could be appropriately classified as proved oil reserves. The recently-completed study has determined that 26 billion barrels of the total 1.2 trillion barrels of crude oil *in situ* in the Orinoco Oil Belt should, at this time, be considered proved reserves in accordance with the sound geological and reservoir engineering practices such as tectonics, sedimentology, core and fluid analysis, petrophysics, and individual well productivity tests. Venezuela, thus, has made a major revision in its oil reserves to conform to existing technical and economic standards.

5/ Meyer, R.F. and Schenk, C.J. (U.S. Geological Survey), cited by *Oil and Gas Journal*, January 6, 1986, at 44. *See also*, "Exploration and Evaluation of the Orinoco Oil Belt," *UNITAR* 3d Intl. Conference on Heavy Crude and Tar Sands, Long Beach, Calif., July 1985; "The Orinoco Heavy Oil Belt," RTD-3, 11th World Petroleum Congress, London, 1983.

prices utilizing existing technology. 6/ This total is distributed as follows: 1) 55 billion barrels of official proved reserves; 2) 21 billion barrels mostly from enhanced recovery techniques; 3) 9 billion barrels from yet undiscovered sources; and 4) an additional 241 billion barrels of heavy and extra-heavy crude oil in the Orinoco Oil Belt. It should be noted in this regard that the recoverable volume of crude oil currently attributed to the Orinoco Oil Belt (26 billion barrels of official proved reserves and 241 billion barrels of expected reserves) is based on a conservative recovery rate of 22 percent of the 1.2 trillion barrels of crude oil in situ.

VENEZUELA'S CURRENT AND PROJECTED RESERVES
(Billions of Barrels)

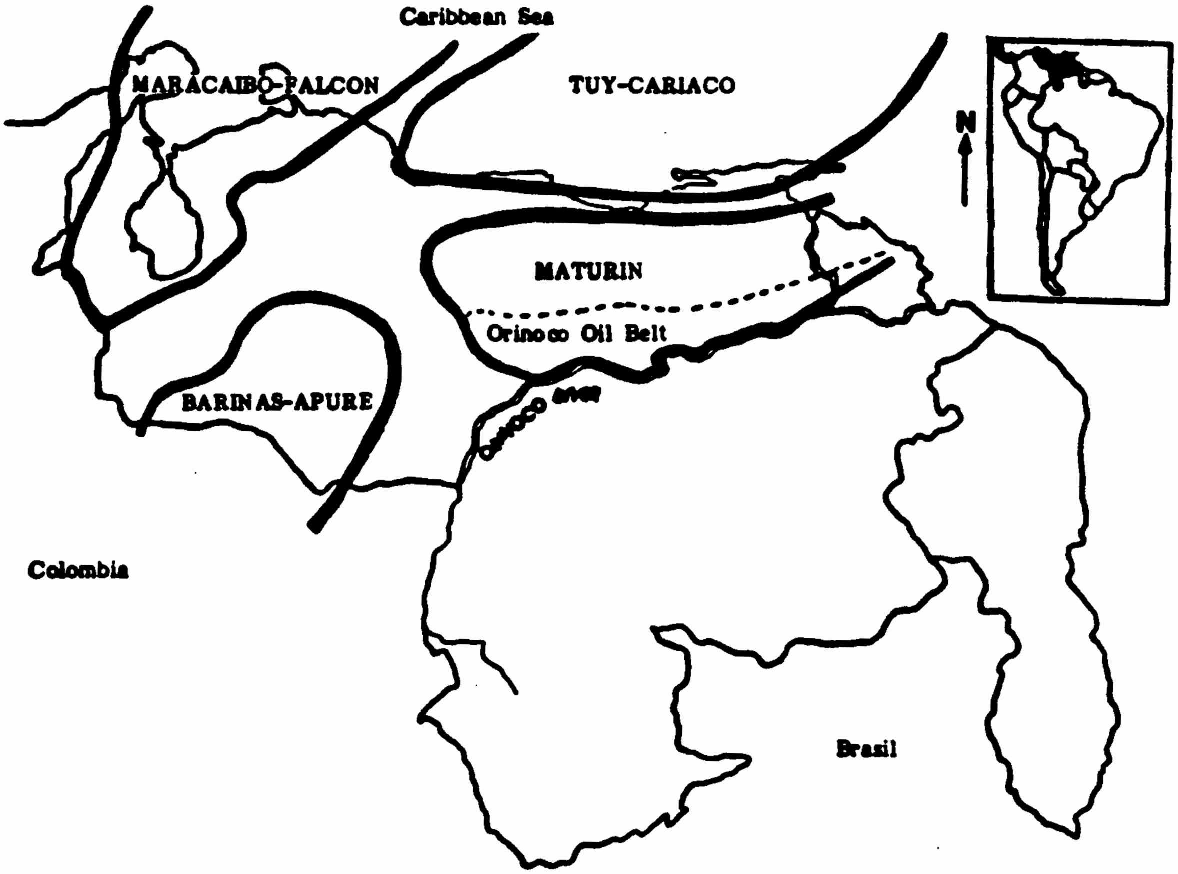


6/ Venezuela's proved and expected natural gas resource base totals 191 trillion cubic feet (10^{12} CF). Only recently has there been exploration for non-associated gas reserves, and the activity during the last five years has yielded 47 trillion cubic feet of proved and expected reserves. The current gas production capacity is associated with oil production and stands at 4.3 billion cubic feet per day. Over 38 percent of the gas production is injected into reservoirs for secondary recovery; 35 percent is utilized by the industrial and domestic market; and 23 percent is utilized by the petroleum industry itself. At the current net production rate, Venezuela's proved natural gas reserves will last 75 years.

Four percent of Venezuela's gas production is processed in absorption, refrigeration, and cryogenic plants to remove gas liquids at a current rate of 103,000 barrels per day. These liquids are exported or used in the national petrochemical complexes as feedstock.

There are four major sedimentary basins in Venezuela (Maracaibo-Falcon, Barinas-Apure, Tuy-Cariaco, and Maturin). Each of the major sedimentary basins contains oil deposits of varying quantities and densities that cover the entire hydrocarbon range, from the very light (greater than 50° API) to the extra-heavy (less than 10° API).

VENEZUELA'S SEDIMENTARY BASINS



The Maracaibo Falcon Basin in western Venezuela, until now the country's most prolific oil producing area, has been responsible for more than 30 billion barrels of crude oil in cumulative production.

The Maturin Basin, also known as the Eastern Venezuelan Basin, contains the majority of the country's oil resources with total proved and expected reserves of approximately 295 billion barrels of crude oil. The entire Orinoco Oil Belt lies within the Eastern Venezuelan Basin, and by itself constitutes 82 percent of Venezuela's recoverable crude oil resource base.

Major discoveries of light and medium crude oil in the past five years, adjacent to active oil fields in western and eastern Venezuela, have confirmed the existence of very substantial additional light and medium deposits in Venezuela. The locations of the discoveries in southern Lake Maracaibo, Ceuta, and Apure in western Venezuela, and in northern Anzoategui and Monagas in the eastern region of the country, account for approximately 7.6 billion barrels of Venezuela's proved and expected reserves.

The crude oil in the Orinoco Oil Belt is both heavy (10° - 17° API) and extra-heavy (7° - 10° API) crude oil. The reservoir conditions are such that it is a liquid in the ground and it is fully amenable to traditional recovery methods. For example, the southern-most fields in eastern Venezuela, which are part of the Orinoco Oil Belt, have been producing crude oil for many years.

Over the past five years, the Venezuelan oil industry has undertaken several pilot projects throughout the entire Orinoco Oil Belt. These pilot projects have shown, for example, that recovery of crude oil from the Orinoco Oil Belt can be greatly enhanced by applying conventional steam soak methods which are extensively applied in Venezuela and elsewhere in the world. Once produced, the crude oil can be transported in the same manner as heavy crude oil, i.e., by heating to reduce the viscosity of the oil, by blending with lighter crudes and distillates, and by creating oil/water emulsions. In addition, the Orinoco Oil Belt crude oil is perfectly suited to enhanced thermal recovery methods such as in situ combustion and steam flooding. These methods have been applied in pilot and commercial projects in Venezuela and other countries which possess heavy and extra-heavy crude oil with the extraordinary results that have raised recoveries above 50 percent. 7/

Similarly, a significant percentage of Venezuela's 21 billion barrels of probable and possible reserves of mostly light and medium crudes will be generated by secondary and enhanced recovery efforts. These projects have been successful in increasing reserves and there is every reason to expect that future projects will continue to yield similar results.

B. Production

Currently, Venezuela produces more than 1.7 million barrels of crude oil and condensate per day, and its production capacity is 2.6 million barrels per day. 8/ Venezuela's average production costs are $2.85 per barrel and the average production of its active wells is 115 barrels per day per well.

To meet the present and future needs of its customers, Venezuela plans to maintain its crude oil production capacity above actual production as part of its normal operational flexibility and to meet unforeseen contingencies. Moreover, if Venezuela were to increase its actual production on a long-term basis, the country would maintain its traditional flexibility and increase its production capacity appropriately.

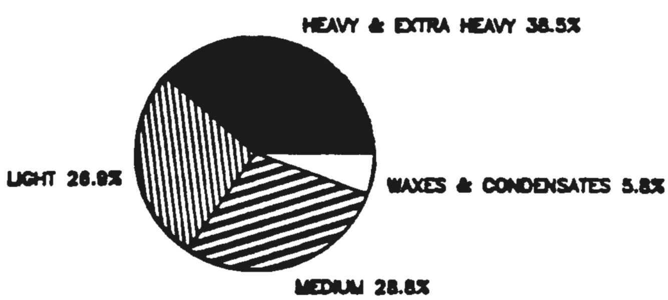
7/ The 1986 Enhanced Oil Recovery ("EOR") Project Source Book has several examples involving heavy oil fields in California: Kern River Field (60 percent), Brea Linda Field (61.1 percent), and Midway Sunset Field (80 percent).

8/ Most of Venezuela's production capacity is centered in the Maracaibo-Falcon Basin where 2.1 million barrels per day or 81 percent of Venezuela's total daily production capacity of 2.6 million barrels per day is located. Venezuela's current production capacity also includes 180,000 barrels per day in the Orinoco Oil Belt, in which 970 wells have been drilled. The new discoveries in both western and eastern Venezuela (see supra, p. 6) could contribute approximately 700,000 barrels per day to Venezuela's light and medium crude oil production capacity. (Platts Oilgram News, November 24, 1986, at 4.) Throughout all of Venezuela's producing areas, secondary recovery methods account for 650,000 barrels per day of production or about 38 percent of Venezuela's current production.

The Venezuelan oil industry can reach and sustain total production capacity, regardless of the producing area or crude oil type, very rapidly (within 90 days). This capability can best explain Venezuela's ability to maintain and satisfy a variety of customers, including its own increasing industrial requirements, as well as respond effectively and efficiently to any supply emergency, on extremely short notice. There are only a few countries in the world, such as Saudi Arabia, Kuwait, and Venezuela, with this type of excess production capacity that can be brought into use at any time. Furthermore, Venezuela has the single largest short-haul excess production capacity in the Western Hemisphere.

Although heavy and extra-heavy crude oil constitutes a large proportion of the current Venezuelan oil resource base, 62 percent of Venezuela's cumulative oil production to date has been light and medium crude oil. [9/] This disparity between the type of crude oil produced and the predominant type of crude oil which Venezuela possesses is, among other reasons, the result of market demand. For example, the Venezuelan oil industry produces and handles 51 types of crude oil which can be grouped under four generalized commercial grades (heavy and extra-heavy 7.0° - 22.2° API; medium 22.3° - 30.3° API; light 30.4° - 39.9° API; and extra-light 40° - 50°+ API). The commercial grades of Venezuelan oil, as percentages of total production capacity, are as follows:

COMMERCIAL GRADES OF VENEZUELAN OIL



9/ To date, Venezuela has produced more than 39 billion barrels of crude oil from 40,000 wells.

Combining light and medium crude oil, Venezuela's current production of crude oil and the percentages that each type constitutes of the total mix, are as follows:

VENEZUELAN OIL PRODUCTION

Crude Type	Jan. - Oct. 1986	Percent of Venezuela's Current Production
Extra-Light/Light/Medium	1.32 MMBD	74
Heavy/Extra-Heavy	.47 MMBD	26
TOTAL	1.79 MMBD*	100

* Includes condensate and natural gas liquids

MMBD = millions of barrels per day

Thus, given the distribution shown, any desired mixture of crude oils can be achieved to satisfy even the most demanding market requirements.

C. Refining

Refining capacity in Venezuela totals 1,200,000 barrels per calendar day and is as sophisticated and advanced as any in the world. 10/ Included in this capacity, which constitutes two percent of the free world's refining capacity, is one of the world's largest refineries located in Amuay, with a processing capability of 600,000 barrels per calendar

10/ In addition, Venezuela recently leased for a minimum of five years the refinery located on the island of Curacao that Shell Oil Company had planned to close. This refinery has a refining capacity of 320,000 barrels per day and is an important producer of lubricant base stocks.

day. 11/ Venezuela's refineries are currently operating at a 71 percent utilization rate. 12/

As a result of an extensive upgrading program over the past several years, 13/ Venezuela's overall product slate, which had been weighted towards the heavy end of the barrel, is now comprised predominantly of lighter products. The yield of Venezuela's refineries is as follows: 14/

Naphthas and gasoline	34 %
Distillates	31 %
Residual Fuel Oil	28 %
Others	7 %

The upgrading program was intended not only to change Venezuela's overall product slate but also to allow Venezuela's refineries to process a larger proportion of heavy and extra-heavy crude oil. The upgrading of refineries which are able to process more heavy and extra-heavy crude oil has been occurring throughout the world including in the United States.

11/ By comparison, the largest refinery in the United States, which is owned and operated by Exxon Corporation in Baytown, Texas, has a processing capacity of 400,000 barrels per calendar day.

12/ Like the rest of the world, including the United States, Venezuela has experienced a reduction in refining capacity since the beginning of this decade. Venezuela has closed four small and inefficient refineries with a combined capacity of 200,000 barrels per calendar day which constituted 13 percent of its refining capacity at the time. In comparison, the United States similarly has shut down 13 percent of its refining capacity over the same time period, while Europe has reduced its capacity by 21 percent, and Japan by 13 percent.

13/ *See*, p. 20 *supra*.

14/ Prior to the upgradings in the early 1980s, Venezuela's refinery yield was 20 percent naphthas and gasoline, 19 percent distillates, 58 percent residual fuel oil, and three percent other.

Finally, it should be noted that Venezuela's refining capacity of 1,200,000 barrels per day, or 1,520,000 barrels per day if the Curacao refinery is included, together with its recently upgraded facilities, provide Venezuela with the same type of flexibility in its refining capability as it enjoys in its crude oil production capability.

D. Investment

As a state-owned enterprise, the Venezuelan oil industry is concerned not only with maximizing profits in the short-term but also with maintaining and increasing its capabilities, when needed, in the long-term. Because investment decisions made by the industry are based on economic criteria, the conditions of the marketplace at any given time also play a fundamental role in these decisions.

1. Oil Resources and Production

Venezuela's interest in developing its resources is demonstrated by the approximately $1 billion which has been spent by the State oil corporation since 1979 to define the resource base of the Orinoco Oil Belt and to determine production, transportation, and processing feasibility of the heavy and extra-heavy crude oil located there.

During 1984 and 1985, the Venezuelan oil industry maintained a significant level of exploration and development activity throughout the country. For example:

	1984	1985
Seismic Surveys Undertaken	5,195 km	16,091 km
Development Wells	667	511
Remedial Workovers	1,267	1,349
Exploratory Wells	28	31
Investment in Wells and Infrastructure	$1.5 billion	$1.4 billion

In exploration alone, the oil industry plans to invest $1.2 billion between 1986 and 1990.

2. Refining

The industry's upgrading program of three of its refineries was completed over a year ago and cost $1.9 billion. Planned in the late 1970s, the upgrading was undertaken not to increase total refining capacity but to alter the nature of the existing capacity so as to provide greater refining flexibility, to permit the processing of a larger percentage of heavy and extra-heavy crude oil, and to enable the industry to meet increased domestic demand for lighter petroleum products like gasoline. The upgrading added 130,000 barrels per day of cat cracking capacity; 52,000 barrels per day of alkylation capacity; and most significantly, a 47,000 barrel per day deep conversion flexicoker at the Amuay refinery -- only the second of its kind ever built in the world.

It should be noted that current market conditions are such that, for the time being, the industry has decided to postpone the construction of a 69,000 barrel per day flexicoker at the Cardon refinery, which would have cost over $1 billion. Nonetheless, investments in improving refining technology are still being made. Currently, for example, the industry is involved, through Reciprocal Technical Assistance Agreements, with several European and North American firms in developing and improving refining technology for heavy and extra-heavy crude oil.

Venezuela may continue to upgrade its refining capacity, but it is unlikely that actual refining capacity in Venezuela will be increased in the foreseeable future because of Venezuela's decision to acquire equity interests in refining and distribution companies abroad. Over the past several years, Venezuela has embarked on an investment program in the downstream sectors of the world oil market. This program, known as "internationalization", began in Europe four years ago and has expanded since then. 15/

15/ Venezuela is involved in a joint venture with Veba Oel, which has an interest in four West German refineries and a joint venture with A.B. Nynas of Sweden, which provides Venezuela with a strong position in the European asphalt and lubricants market.

Recently, Petroleos de Venezuela, S.A. ("PDVSA"), the parent holding company of the State oil corporation, purchased 50 percent of CITGO Petroleum Corporation from its parent, the Southland Corporation. Under this joint venture, PDVSA will supply 130,000 barrels of crude oil per day to CITGO and eventually may supply as much as 200,000 barrels per day. This joint venture encompasses not only CITGO's 320,000 barrel per day refinery in Lake Charles, Louisiana (the United States' ninth largest refinery) but also CITGO's pipeline and distribution system.

PDVSA is also in the process of negotiating the purchase of a 50 percent interest in Champlin Petroleum Company's 160,000 barrel per day refinery in Corpus Christi, Texas. Under terms of the letter of intent signed in April 1986, PDVSA will supply between 130,000 and 160,000 barrels per day of crude oil to the Champlin facility. PDVSA is also planning additional joint ventures in the United States and other key consuming countries.

E. The Structure of the Venezuelan Oil Industry

The Venezuelan oil industry underwent nationalization in 1976 pursuant to due process of law and with appropriate compensation paid to the former concessionaires.[16/] Nationalization was an orderly process which maintained continuity in the short-term and has resulted in an ever-improving quality of operations in the long-term. For the past 10 years, the Ministry of Energy and Mines, a cabinet level department, formulates and sets policy to assure that the nation receives maximum long and short-term benefits from its oil resources. PDVSA is responsible for putting the Ministry's policies into practice, and for supervising, coordinating, and planning all aspects of the oil industry. PDVSA, one of the largest corporations in Latin America, has

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16/ A dispute involving a guarantee fund that was set aside by the private oil companies and certain tax claims which the Venezuelan Government had against these companies was resolved by agreement among all parties in the fall of 1986.

$15.3 billion in assets, excluding crude oil reserves. The Venezuelan oil industry is entirely self-financing and has not needed to borrow money in either the national or international markets. The Venezuelan oil industry has over 40,000 employees with approximately 60 percent enlisted in primary oil and gas production activities.

The State oil corporation is structured very much in the manner of major international oil companies as the Government has sought to maintain and apply universal techniques of professional management at all levels. It has three subsidiary operating companies -- Corpoven, which amalgamated several other oil companies (C.V.P., Mobil, Gulf, Texaco, Sinclair, etc.), Lagoven, which grew primarily out of Creole (Exxon), and Maraven, formerly Venezuelan Shell Oil Co. They are each fully-integrated and engage in all aspects of the oil business: exploration, development, production, refining, distribution, transportation, and marketing. Operating under a private enterprise ethos, these companies compete against each other with respect to productivity, cost effectiveness, and, in general, the achievement of corporate objectives.

The industry prides itself on its efficient management. Corporate decisions are based on purely economic and technical criteria. There is general political consensus in the country to protect the State oil corporation's financial self-sufficiency and professional management.

In addition to the three operating companies, PDVSA includes the following subsidiaries: Interven, a recently-created subsidiary which oversees the "internationalization" program; Pequiven, the national petrochemical corporation; Intevep, a research and development company for the entire petroleum industry; Bariven, the supply and procurement subsidiary; Carbozulia, in charge of developing coal reserves for export; and Refineria Isla (Curacao), which operates the leased refinery on the island of Curacao.

IV. CONCLUSION

- Venezuela, being a stable and reliable supplier of oil to world markets, ranks fourth among the world's oil producing nations with 55 billion barrels of crude oil as official proved reserves and possesses what appear to be the largest expected and potential reserves in the entire world.

- Venezuela is not only the second largest foreign supplier of crude oil and petroleum products to the United States, but also has the largest short-haul crude excess capacity in the Western Hemisphere and the third largest in the world.

- The internationalization program embarked upon by Venezuela has served to strengthen Venezuela's oil trading relationship with the United States.

- The importance of oil to Venezuela's economic health and its ability to meet its foreign debt obligations cannot be overstated. Taking into account how dangerously low oil export revenues have fallen, it is certain that a further reduction in the national income resulting from the imposition of tariffs or any other form of oil import restrictions by the United States would make it extremely difficult for Venezuela to honor its international financial commitments.

- Factors such as these, coupled with the reality that the United States will have to rely substantially on imported oil to meet its energy needs, illustrate the extent to which the respective oil and energy interests of the United States and Venezuela complement one another. This complementarity of interests should be the basis for a continued long-term and mutually beneficial oil relationship under fair terms of trade.

- The Government of Venezuela believes that the aforementioned elements should be taken into account by the United States Government in assessing its energy policies, particularly as they relate to national security.

V. EPILOGUE: THE ECONOMIC PERFORMANCE OF VENEZUELA (1984-1986)

In February of 1984, President Jaime Lusinchi took office in the midst of the worst recession since World War II. For four consecutive years, from 1980 to 1983, the real gross national product (GNP) had decreased. In 1983 alone, real GNP declined 5.6 percent. At constant 1968 prices, real GNP in 1983 was 7.2 percent below the 1979 level. Per capita income had also declined. At 13.4 percent, unemployment was exceptionally high. More than $20 billion of Venezuela's public and foreign debt matured in 1984 and 1985, and no progress had been made to reschedule that considerable liability. Oil export revenues in 1983 were almost 30 percent below the 1981 level. The national currency, the bolivar, following more than 20 years of exchange stability, was devalued for the first time, initiating a series of devaluations that took the official exchange rate from Bs. 4.30 per United States dollar at the beginning of 1983 to Bs 14.50 per dollar at the close of 1986. The free market exchange rate is currently around Bs. 23.00 per dollar.

After taking office, President Lusinchi announced a new economic policy aimed at reestablishing equilibrium in the foreign accounts and the national budget, stimulating economic growth, rescheduling the foreign debt, and containing inflationary pressures through strict austerity measures while at the same time reorienting public spending. The first two years of his Administration was a period of adjustment. After a slow down in the rate of decrease of the GNP (-1.4 percent in 1984), the economy began to recover and real GNP showed a positive 0.3 percent increase in 1985. Although oil export revenues dropped to $14.8 billion in 1984 and $12.9 billion in 1985 from a peak of $19.1 billion in 1981, the balance of payments showed a considerable improvement and foreign exchange reserves were raised to $13.75 billion at the end of 1985, $2.65 billion more than in 1983. This was made possible, among other reasons, by a sharp reduction in imports which leveled off at around $7.3-7.6 billion after having reached $13.6 billion in 1982. However, the inflation rate remained relatively high at 12.0 percent, though somewhat lower than the previous year (12.2 percent), while unemployment declined to 12.1 percent in 1985 from 13.4 percent in 1984.

The period of adjustment was courageously endured by the Venezuelan people who suffered from relatively high unemployment and inflation rates. But the sacrifice paid off: in 1986, real non-oil GNP increased by more than 3.0 percent for the first time in several years; the unemployment rate dropped to 10.5 percent and inflation was held at 11.5 percent; agricultural output went up 6 percent, the highest rate in decades; industrial production and manufacturing industries showed encouraging gains; the construction sector experienced a 12.3 percent rise; and non-traditional exports went up to $1.5 billion, 12.0 percent more than in 1984.

With economic indicators exhibiting positive results, the Lusinchi Administration was ready to apply further policies with a view to strengthening long-term economic growth as well as further lowering inflation and unemployment. However, the sharp reduction in Venezuela's average export price of oil (from $25.89 per barrel to $12.90 per barrel in 1986) forced the Government to devalue the currency by 90 percent in December 1986, after foreign exchange reserves dropped $3.9 billion and the current account balance showed a $2.2 billion deficit.

This significant drop in foreign exchange earnings, coupled with the difficulties that Venezuela is currently facing in rescheduling its foreign debt under terms that would not imperil economic growth, are issues of deep concern to the Lusinchi Administration.

It has been underscored previously that Venezuela suffered in 1986 a 44 percent drop in the value of its oil export sales and that this level of income is more than 60 percent below the peak 1981 level. In a country as heavily dependent on oil export revenues as Venezuela, the negative impact of such a reduction on all economic variables is significant enough. But the deep concern of the Venezuelan Government goes far beyond the consideration of the economic effect of deteriorating oil export revenues.

Until 1986, the Government has been relatively successful in preserving an acceptable standard of living for the Venezuelan people. It has been able to maintain social stability at a high cost. Additionally, it has paid $6.0 billion of its external debt to the foreign banking community in the last three years, at the expense of needed social programs.

If under these very severe adverse circumstances, the United States imposes oil import restrictions of any kind, the Government of Venezuela feels that such action would seriously damage its ability to manage the economy and would gravely hamper the welfare and social stability of the Nation.

Moreover, the Government is concerned with the fact that in addition to the purely domestic adverse effects mentioned above, similar consequences will result that will have an adverse impact on the financial and technical cooperation policies that Venezuela, notwithstanding the current difficult economic circumstances, has maintained towards Central American and Caribbean countries. These policies illustrate the coincident interests of Venezuela and the United States in this regard.

Venezuela's significant contributions to regional stability and well-being, by such means as its oil-related financial cooperation through the San Jose Agreement, its other financial and technical cooperation programs, and its human resource development programs are all important initiatives that would be adversely affected as a result of the establishment of oil import restrictions. In turn, this would be significantly and dangerously damaging to the economic and social sectors in those countries receiving Venezuelan aid, some of which are confronting delicate political situations, both domestic and intra-regional, as is the case in Central America. If further unfavorable factors are added to the political unrest existing in some areas of the Continent which already face a critical social and economic situation, the potential for greater regional political instability would increase. This would require a new and special consideration and evaluation of the global scenario pertaining to the notion of hemispheric security.

VENEZUELA'S KEY ECONOMIC INDICATORS

	Real GNP*	Real GNP (Excluding oil sector)*	Oil Exports	Total Exports	Central Bank Reserves	Unemployment Rate	Inflation Rate
	Percent change		Billions of Dollars			Percent	
1979	1.3	0.8	13.7	14.4	7.70	5.2	12.3
1980	-2.0	-1.6	18.3	19.3	7.00	6.2	21.6
1981	-0.3	-0.1	19.1	20.2	8.60	6.3	16.1
1982	0.7	-0.4	15.7	16.5	10.00	7.1	9.8
1983	-5.6	-5.7	13.7	14.8	11.10	10.2	6.4
1984	-1.4	-1.2	14.8	16.0	12.50	13.4	12.2
1985	0.3	+0.6	12.9	14.2	13.75	12.1	12.0
1986 **/	N.A.	+3.3	7.2	8.7	9.85	10.5	11.5

*/ Expressed in constant 1968 Bolivars.

**/ Preliminary.

Source: Banco Central de Venezuela, Anuario de Cuentas Nacionales; Anuario de Series Estadisticas 1982; Informe Economico 1984 y 1985; Declaracion de fin de año del Presidente del Banco Central de Venezuela, December 29, 1986.