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**THE GEOPOLITICS OF SOUTH AMERICA:
VENEZUELA AND BRAZIL**

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*“Nei paesi latino americani più sviluppati
l'intrinseca caratteristica di qualsiasi regime politico
è l'instabilità anche nei più autoritari”*
[Albert O. Hirschman]

*“Dicono che noi latino americani
ci siamo lasciati sfuggire l'appuntamento con la storia.
Noi arriviamo tardi a ogni appuntamento”*
[Eduardo Galeano]

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Venezuela

Geography

Located at the north of South America, Venezuela is the sixth largest country in South America (a total area of 912,050 square kilometres and a land area of 882,050 square kilometres), bordered by Colombia to the West, Brazil to the South, Guyana to the East, and the Caribbean Sea to the North. Shaped roughly like an inverted triangle, the country has a 2,800-kilometer coastline and is bounded on the north by the Caribbean Sea and the Atlantic Ocean, on the east by Guyana, on the south by Brazil, and on the west by Colombia.

Venezuela is divided in four regions: the Maracaibo lowlands in the northwest, the northern mountains extending in a broad east-west arc from the Colombian border along the Caribbean Sea, the wide Orinoco plains (Llanos) in central Venezuela, and the highly dissected Guiana highlands in the southeast.



The Maracaibo lowlands form a large spoon-shaped oval bounded by mountains on three sides and open to the Caribbean on the north. The area is remarkably flat and Lago de Maracaibo occupies much of the lower-lying territory. Areas around the southern part of Lago de Maracaibo are swampy, and, despite the rich agricultural land and significant petroleum deposits, the area was still thinly populated in 1990.

The mountains bordering the Caribbean Sea are actually the north-eastern most extension of the Andes chain, with peaks over 4,500 meters; the fertile valleys between the ranges contain most of Venezuela's population, industry, and agriculture. The discontinuous westernmost range runs along the Colombian border and is the least densely

populated part of this region. A broad gap separates this mountainous area from another rugged pair of ranges that parallel the north-central coast. The series of valleys between these two parallel ranges constitutes the core area of the country; as the site of metropolitan Caracas, this comparatively small area hosts the country's densest population, the most intensive agriculture, and the best transportation network. Another broad gap separates this area from the easternmost group of mountains, a series of dissected hills and uplands that rise steeply from the Caribbean and extend eastward almost to Trinidad.

The great expanse of lowlands known as the Orinoco plains extends westward from the Caribbean coast to the Colombian border between the northern mountains and the Orinoco river. This region is commonly known as the Llanos, although it also contains large stretches of swampland in the Orinoco Delta and near the Colombian border. The area slopes gradually away from the highland areas that surround it.

One of the oldest land forms in South America, the Guiana highlands rise almost immediately south and east of the Orinoco river. Erosion has created unusual formations in this region. Comprising over half of the country, the highlands consist primarily of plateau areas scored by swiftly running tributaries of the Orinoco. The most conspicuous topographical feature of the region is the Gran Sabana, a large, deeply eroded high plateau that rises from surrounding areas in abrupt cliffs up to 800 meters high. Above the rolling surface of the Gran Sabana massive, flat-topped bluffs emerge; many of these bluffs (referred to as *tepuis* by the Venezuelans) reach considerable altitudes. The most famous *tepu* contains Angel Falls, the world's highest waterfall.

History

Venezuela's existence as a nation can be broken down into three stages: discovery, conquest and settlement. The shoreline area of Venezuela was discovered by Cristoforo Colombo on his third voyage to the New World in 1498. Colombo, upon viewing the American mainland for the first time, named the region the "Land of Grace" because of its natural beauty. His reports of exploration of the Caribbean coast took him as far as Lake Maracaibo. Amerigo Vespucci named the area "Little Venice", or Venezuela because of the resemblance to Venice.

Throughout the South American continent, the 16th Century was a time of discovery and exploration. The first city in South America, Nueva Cadiz, on the Island of Cubagua, was discovered in 1516 and was later destroyed by an earthquake. Soon afterwards the cities of Coro, on the west, and Cumana, on the east, were settled on the mainland. Future expeditions and settlements of the territory were made with the help of the Spaniards.

In 1528, Carlos I of Spain, who was also the Holy Roman Emperor, gave the German banking house of Weiser the right to conquer and settle in the western part of Venezuela. This however did not work and was terminated in 1546. A more stable process of settlement began in 1556. This period saw the birth of most of Venezuela's cities. Caracas, today's capital, was founded by Diego de Losada in 1567.

The colonization that characterized the 17th Century, shaped Venezuela's present pattern of settlements. During the 18th century Venezuela underwent a process of administrative reconstruction. The year was 1777 when the provinces of Venezuela, Nueva Andalucia, Merida, Maracaibo and Guayana were unified in what became known as the Captaincy-General of Venezuela.

During 1786 Caracas became the administrative centre of the province and of the centre of judicial, military and educational institutions. The province was still governed by a representative of the Spanish Crown although it benefited from a significant degree of independence at the municipal level.

Venezuela was ruled by the Spanish for over three centuries and it never attained the political or economic importance which Spain thought was necessary for the administration of the provinces. Its abundance of minerals had not yet been discovered and its agriculture and climate were less adequate than those in other lands. Venezuela's population remained small and its economy was based on agricultural crops, cattle raising and small share trade.

During the 18th century there was a widespread movement towards independence because of the problems with the Spanish economic and political regime. Venezuela was one of the first territories in the New World to declare itself independent. A couple of events precipitated these actions, including Napoleon's invasion of Spain and Ferdinand VII's subsequent abdication to the crown.

In 1810, Venezuela formally declared its independence from Spain and in 1811 adopted a republican constitution. It was not until 1821, under the leadership of Simon Bolivar, that full independence was achieved following the struggle of the War of Independence.

The remainder of the 19th Century and the early part of the 20th Century were an era of political unrest and strife, characterized by continuous struggles between the local and central government, among regions and political factions. The Federal War (1859-1863) was the most devastating of these struggles.

The Constitution of Venezuela was first established in 1864 and it provided for a federal system with provincial autonomy and gave the Republic the name of the United States of Venezuela. The reforms and newly established Constitution however, did not guarantee political stability. The absence of political stability allowed for further deterioration of the economic and social climate, and gave way to a series of repressive administrations, among which that of Juan Vicente Gomez. The economy was open to industrialization and was unified under a central government. The most dramatic effect of industrialization was the basis for Venezuela's modern economy: the development and exploration of the oil industry. Oil concessions were granted in the 1910's with the first substantial quantities of oil being exported in the early 1920's.

Venezuela's transition to a modern democracy was a long and difficult process, but worth it to many of its citizens: during the twenty-three years of transition to democratic rule (1924-1947), institutions developed as the military transferred political power to civilians. However, the military was still very dominant, and the death of Gomez left a leadership vacuum that could only be filled by the old dictator's minister of war, General Eleazar Lopez Contreras.

When the riots following Gomez's death precipitated demands for liberalizing the dictatorship, Lopez quickly realized that his survival depended on his allowing some civilian political expression: the first mass political organizations in the nation's history were established, the most important of which was the Venezuelan Organization (Orve) and the Marxist-oriented Venezuelan Student Federation (FEV); the Venezuelan Communist Party (PCV) was also reorganized, although it remained banned from political activities in the revised constitution of 1936. In a related area, liberalized labour legislation encouraged the organization of the nation's first modern labour syndicates.

A highly effective general strike in June 1936, however, led the Lopez regime to the conclusion that the proper boundaries of reform had been crossed. Accordingly, the Lopez government brutally suppressed a strike by oil workers the following month. The regime justified the outlawing of the nascent labour unions in 1937 by claiming that they had engaged in illegal political activities. Soon thereafter, the regime proscribed virtually all organized political opposition.

Lopez decided instead to concentrate his reform efforts in the relatively non controversial sphere of economic modernization. The government established a central bank, along with state, controlled industrial and agricultural development banks, opened new oil fields to exploitation and, employing the slogan of "sowing the oil", launched a program for developing the national economic and social infrastructural, although at a lacklustre pace that led critics to question the program's efficacy.

In 1941 Lopez's Congress selected Isaias Medina Angarita to replace Lopez. A more ambitious economic development plan, announced by the same Medina in 1942, was interrupted during World War II when German submarines played havoc with tankers transporting Venezuela's oil. New laws governing the state's relationship with foreign oil companies in 1943 resulted in substantially increased revenues, spurring renewed development efforts in 1944. Construction activity boomed during the waning years of the war, a period that also saw the passage of Venezuela's first income tax and social security laws.

With his party thus assured of control of the 1945 Congress, which would hold indirect elections for president, Medina appeared poised to designate his successor. To the surprise of many, he chose Escalante, a liberal civilian serving as ambassador in

Washington. This choice, however, produced many tensions, thus Escalante was replaced from a colourless figure widely regarded as a puppet of Medina. But on October 18, 1945, the AD in conjunction with junior military officers suddenly overthrew Medina.

After the coup, a governing junta (members of AD) was made: AD thus controlled the government, and the UPM controlled the military. Political reform was the first item on the junta's agenda, and in March 1946, it decreed a sweeping new electoral law. Universal suffrage for all citizens over eighteen, including women, at last became law. All political parties were legalized, and the number of congressional seats was to be apportioned according to each party's percentage of the total vote.

AD's principal competitor in the October 1946 Constituent Assembly elections, held to elect a body that would draft a new constitution, was the Christian Democratic Party (COPEI), which appealed mainly to conservative Roman Catholics. Although competition among the parties was intense, AD won overwhelming majorities in the Constituent Assembly elections as well as in the presidential and congressional elections of December 1947 and the municipal elections of May 1948.

AD's wide margin of victory led its leaders to believe that they could push through a highly progressive program without considering the conservative political opposition. A new constitution was promulgated in 1947. The party's vigorous pursuit of "social justice and better conditions for the workers" engendered widespread hostility within the business community, both foreign and local. The overhaul of the 1943 petroleum law to assure the government a 50% tax on the oil industry's profits intensified the foreign oil companies' antagonism. The junta's aggressive campaign to expand public education and its regulation of both public and private education incensed the Roman Catholic Church.

The political polarization intensified following the inauguration of Gallegos as president on February 15, 1948. His signing of AD's wide-ranging land reform bill in October pitted the nation's powerful landowners against him, and his reduction of the military personnel in his cabinet and advocacy of a reduced military budget alienated the armed forces. In mid-November, after barely ten months in office, the military overthrew him and exiled him along with Betancourt and the rest of the AD leadership.

The three-man provisional military junta that assumed control of the government was headed by Colonel Delgado, and it quickly set about undoing the reforms of the AD triennium: it voided the 1947 constitution, restoring the traditionalist 1936 constitution, and outlawed AD and persecuted its militants. In November 1950 Delgado was assassinated and Pérez assumed leadership of the junta.

AD continued to be proscribed but was extremely active underground. Pérez organized a pro-government party, the Independent Electoral Front (FEI), which he mistakenly believed would be victorious and thus legitimize his rule. However when the early election results made it clear that the anti-government party (supported clandestinely by AD) was far ahead of the government one, Pérez ordered the count halted and declared himself president. The other junta members were sent abroad "on vacation," and the leaders of the URD and COPEI joined their AD colleagues in exile.

The next five years saw a brutal dictatorship in a country that by now was notorious as the almost archetypical home of Latin American dictators. A regressive new constitution reverted to indirect elections for president by a puppet legislature. Pedro Estrada headed the vast National Security Police network that rounded up any opposition, including military officers, unable to escape. Hundreds, if not thousands, were brutally tortured or simply murdered at the notorious Guasina Island concentration camp in the Orinoco jungle region. Labour unions were harassed, and the Venezuelan Confederation of Labour was abolished and replaced by a confederation under the control of the FEI. Political power concentrated around Pérez and his colonels, while much of the nation's ever-increasing petroleum revenues were used for ostentatious construction projects, including a replica of

New York's Rockefeller Centre, all of which served more as monuments to the dictator than as contributions to national development. Meanwhile, government expenditures on such human resources as health and education stagnated.

Pérez's staunch anticommunism and his more liberal policies toward the foreign oil companies (compared with the nationalistic stance of AD) won him the open support of the United States government; President Eisenhower awarded him the Legion of Merit in 1954. In mid-1957 the united civilian opposition organized an underground movement called the Patriotic Junta dedicated to overthrowing the dictatorship.

A shameless electoral farce in 1957 proved decisive in the downfall of the dictator: the obviously fraudulent result was universal among both the civilian and military opposition. Air force planes dropped bombs on the capital on January 1, 1958, to signal the start of a military insurrection. Street demonstrations as well as fighting erupted and quickly spread outside Caracas. When the navy revolted on January 22, a group of army officers, fearful for their own lives, forced Pérez to resign. The following day, Venezuela's last dictator fled the country, carrying most of what remained of the national treasury.

The provisional junta began a valiant effort to deal with the grim realities of an empty treasury and some US\$500 million in foreign debt. It immediately stopped work on most of the dictator's public works projects, and later decreed a sharp increase in income taxes. Most important, the junta increased the government's share of the profits on petroleum extraction from 50% to 60%.

In December 1958, after a hard-fought campaign, Betancourt (supported by AD) came out the victor with 49% of the total and he initiated a period of democratic, civilian rule of unprecedented length in the nation's history. Historians invariably point to Betancourt's inauguration as the pivotal point in four centuries of Venezuelan history, since its discovery by Spanish explorers in the late fifteenth century. After nearly a century and a half as perhaps the most extreme example of Latin America's post-independence affliction of caudillismo and military rule, Venezuela's political life after 1959 was defined by uninterrupted civilian constitutional rule.

This stark break with the past has been attributed most often to the government's petroleum-based wealth, which gave it the material resources to win a vast portion of the population over to the democratic consensus, and to the spirit of cooperation among the nation's various political entities. Betancourt had apparently learned from the disastrous consequences of their strident posture during their previous stint at governing: they now reversed themselves by granting concessions to a broad range of political forces. In the "Declaration of Principles and Governing Program" (1958) the different political forces agreed on a broad range of economical matters, as respecting the principles of capital accumulation and the sanctity of private property. Local industry, furthermore, was guaranteed government measures to protect it from foreign competition as well as subsidies through the state. Betancourt made other conciliatory moves as well. A new labour code granted unprecedented government guarantees of the right to association and collective bargaining. Vastly enlarged state subsidies benefited the poor in such areas as food, housing, and health care.

This thinking informed the 1961 constitution, which guaranteed a wide range of civil liberties and created a weak bicameral legislature, where partisan political conflict could be aired but would cause a minimum of damage and the president was given considerable power.

The major group excluded from the political pacts of 1958 was the extreme left. This exclusion was the result, initially, of the doctrinal anticommunism of Betancourt. The exclusion was subsequently perpetuated by the triumph of the Cuban Revolution in 1959 and the revolution's precipitous radicalization during the early 1960s: the Cuban

Revolution had a profound impact on the Venezuelan left, particularly among student groups, who saw it as a model for a successful revolutionary effort in Venezuela.

In 1961 the Betancourt government supported Cuba's expulsion from the Organization of American States (OAS), then broke diplomatic relations with the Castro government in December. In May 1962, military officers sympathetic to the left instigated two bloody uprisings, which provoked the formation of the Armed Forces of National Liberation (FALN). The FALN engaged in rural and urban guerrilla activities throughout the remainder of the 1960s. The activity reached its height in 1962 and 1963, when the FALN sabotaged oil pipelines and bombed a Sears Roebuck warehouse and the United States Embassy in Caracas.

The FALN failed, however, to attract adherents among the poor and to provoke a coup that would lead to a repressive military regime. The FALN's effect hence proved to be quite the contrary of what it intended: it actually consolidated the democratic regime by making Betancourt and AD look like the better of two alternatives.

Highly unfavourable circumstances in the external sector of the economy handicapped the Betancourt administration. Having inherited an empty treasury and enormous unpaid foreign debts from the spendthrift Pérez, Betancourt nevertheless managed to return the state to fiscal solvency despite the persistence of rock-bottom petroleum prices throughout his presidency. He also managed to continue the effort, begun during the 1930s by President López, of "sowing the oil" by initiating a variety of reform programs, the most important of which was agrarian reform.

During 1960 two institutions were founded that made important contributions toward the development of a national petroleum policy: the Venezuelan Petroleum Corporation (CVP), conceived to oversee the national petroleum industry, and the Organization of the Petroleum Exporting Countries (OPEC), the international oil cartel that Venezuela established in partnership with Kuwait, Saudi Arabia, Iraq, and Iran. During the triennium, Betancourt earned the wrath of the foreign oil firms with his proposition that the state should gradually assume control of the petroleum industry; this idea now once again became government policy.

Perhaps the greatest of all Betancourt's accomplishments, however, were the successful 1963 elections. On March 11, 1964, for the first time in the nation's history, the presidential sash passed from one constitutionally elected chief executive (Betancourt) to another (Leoni). Leoni differed little from his reformist predecessor from an ideological standpoint. Economic growth averaged a healthy 5.5% annually, aided by a recovery in petroleum prices and the relative political tranquillity as the AD program attained legitimacy. Leoni kept the Betancourt reform programs on course and also introduced a number of impressive infrastructure projects designed to open up the nation's interior to agricultural and industrial development.

In the 1968 elections, Caldera (supported by COPEI) was victorious in this fourth attempt to capture the presidency. The passing of the presidential sash from Leoni to AD's principal opposition leader in March 1969 marked yet another first in Venezuela's rapidly maturing democracy.

The major concerns of Caldera's government were not unlike those of his two predecessors: agrarian reform and increased farm production, the improvement of educational and social welfare benefits, the expansion and diversification of industrial development, and progress toward local control of the petroleum industry. With respect to the latter, the government's tax rate on the petroleum companies rose to 70% by 1971. In the same year, the Hydrocarbons Reversion Law, stipulating that all of the oil companies' Venezuelan assets would revert to the state when their concessions expired, went into effect. The key policy distinction between Caldera's government and those of his AD predecessors lay in the area of foreign policy. President Caldera restored bilateral

relations with the Soviet Union and the socialist nations of Eastern Europe, as well as with a number of South American nations that had fallen under military rule. Caldera also began to provide oil based financial aid to the nations of Central America and the Caribbean, an effort that would be greatly expanded in subsequent years.

Although the internal security situation had improved, Caldera adopted a policy of "pacification" toward the remaining armed opposition. The pacification program legalized the PCV and other leftist parties and granted amnesty to revolutionary activists.

The December 1973 election was a truly pluralistic affair, represented in the competing political parties and Pérez (AD) prevailed against the others. Between AD and COPEI, then, they captured nearly 86% of the valid presidential vote: "polarization" was the term used locally to describe the apparent transition of Venezuela's electoral contests into two-party affairs. It was yet another promising sign in the evolution of a stable system of democracy.

Venezuela had still another reason to be euphoric at the dawn of 1974. The October 1973 Arab-Israeli War had triggered a quadrupling of crude oil prices in a period of only two months. When Pérez assumed the presidency in February 1974, he was immediately faced with the seemingly enviable task of managing a windfall of unprecedented proportions. To combat the inflationary pressures that would result from the sudden addition of some US\$6 billion in annual government revenues, Pérez set up the Venezuelan Investment Fund (FIV), with the objective of exporting 35% of this unexpected income as loans to Caribbean, Central American, and Andean neighbours. The greatest portion of this aid money went to the oil-importing nations of Central America in the form of long term loans to pay for half of their oil-import bills. Venezuela also loaned out its "excess capital" through various multilateral lending institutions, including the Inter-American Development Bank (IDB).

The FIV loan program engendered considerable international goodwill on behalf of Venezuela, particularly among the recipient countries. Building on that prestige, Pérez and Mexican president Alvarez (1970-76) founded the Latin American Economic System (SELA), with headquarters in Caracas and twenty-three Latin American nations as its initial members in 1975. It was formed to promote Latin American cooperation in international economic matters such as commodity prices, scientific and technological exchange, and multinational enterprises and development projects. SELA, it was hoped, would help create the building blocks of a "new international economic order," in which the developing nations of the southern hemisphere would challenge the economic hegemony of the developed nations of the north.

Pérez's aggressive stance on behalf of the Third World helped to cool Venezuela's traditionally warm relations with the United States. Other contributing factors to this change included Venezuela's displeasure with both the revelations of extensive covert intervention by the United States against the Allende government in Chile and the reluctance of the United States to begin negotiations with Panama over future control of the Panama Canal. The major irritant, however, was OPEC's petroleum policy, marked by OPEC's 1973 price increases, and the embargo on oil shipments to the United States instigated by the Arab members of OPEC during the October War. Despite the fact that Venezuela had increased its oil shipments at that time in order to meet United States needs, the United States retaliated against the embargo by excluding Venezuela, along with the other OPEC member nations, from the 1974 Trade Act, which created the Generalized System of Trade Preferences to lower tariffs on designated imports from developing nations. Proud of never having denied the nation's oil to the United States, even during periods of war and political tensions, Venezuelans took offence at what they saw as unwarranted punitive action by the United States.

At home, President Pérez put aside his promised intention to "manage abundance with the mentality of scarcity," and embarked on a spending spree designed to distribute Venezuela's oil wealth among the citizenry. Price controls that subsidized the public consumption of food and other commodities were introduced. Government-authorized wage increases, combined with foreign exchange controls that subsidized imports, led to periodic buying binges of Japanese stereos and televisions, German automobiles and cameras, and clothing and processed foods from the United States. Per capita consumption of Scotch whiskey soared to a level among the world's highest. Government subsidies assumed a variety of other forms as well: in 1974, US\$350 million in debts owed to state agencies by the Venezuelan farming community were simply cancelled.

The Pérez administration initiated various other programs to spur employment. Although these subsidy and employment programs theoretically sought to improve the lot of the poor, in fact, the actual outcome was that a significant portion of the population continued to live in a state of misery. Income distribution was less equitable in 1976 than it had been in 1960, and one study found that fully 40% of the population nationwide were ill fed and undernourished. This contrast of widespread poverty amidst urban development and the conspicuous consumption of the middle and upper classes was particularly damaging to Pérez, who had been elected with a public image as a "friend of the people." AD's failure to address adequately the needs of the poor would plague the party during the 1978 electoral contest.

The government continued, as it had been doing for nearly four decades, to put a large portion of its petroleum revenues into building an industrial base, with the objective of generating future income after the nation's oil reserves had been depleted. In an effort to minimize the bureaucratic entanglements entailed by such a major increase in the fiscal responsibilities of the central government, funding was instead vested in autonomous and semi-autonomous entities. The four years following the 1973-74 oil boom saw the creation of no less than 163 such entities, including textile and lumber companies, a hydroelectric consortium, shipbuilding firms, and a national steamship company and airline. By 1978 the budget outlay for state-owned enterprises and decentralized agencies was 50% higher than the federal budget.

In January 1975, the government cancelled the iron ore concessions of subsidiaries of two United States-owned firms operating in the Guayana highlands. It was not an unexpected move, as local ownership of raw-material extraction had been frequently addressed during the 1973 presidential campaign. The nationalization process took place smoothly: the two companies accepted US\$101 million in compensation and agreed to sign one-year management contracts to provide continuity in the operation of the mines during the transition.

Congressional approval, the following August, of a bill nationalizing the petroleum industry had also been anticipated. The fourteen foreign oil companies involved did not object vigorously to the move; the Venezuelan government had granted them no new concessions since 1960, and their share of the profits from the petroleum they extracted had dropped to 30%. The US\$1 billion they received, though only a fraction of the replacement cost of the assets they surrendered (including 12 oil refineries with an aggregate capacity of 1.5 million barrels of oil per day, along with some 12,500 oil wells), was generally believed to be as fair and generous a compensation as possible under the circumstances. The fourteen foreign firms were consolidated into four autonomous entities, modelled after the four largest of the foreign enterprises, and placed under the administrative supervision of the Venezuelan Petroleum Corporation (PDVSA).

The Pérez administration had devised its growing plan under the assumption that rising oil prices would boost government revenue throughout the 1970s. Instead, Venezuela's oil income levelled off in 1976, then began to decline in 1978. Foreign commercial banks,

awash with petrodollars deposited by other OPEC nations, provided loans to make up the shortfall so that Venezuela's development program could proceed on schedule. On the one hand, the banks saw oil-rich Venezuela as an excellent credit risk, while on the other hand, the autonomy of Venezuela's state firms allowed them to borrow excessively, independent of central government accounting. To expedite their receipt of this external financing, the autonomous entities opted for mainly short-term loans, which carried higher rates of interest. As a result, by 1978 the public-sector foreign debt had grown to nearly US\$12 billion, a five-fold increase in only four years. An estimated 70 to 80% of this new debt had been contracted by the decentralized public administration.

Between the vast increase in oil revenues before 1976 and the immense foreign debt incurred by the government, the Pérez administration spent more money (in absolute terms) in 5 years than had all other governments during the previous 143 years combined. Perhaps inevitably, a lot of money was squandered in mismanagement and corruption. Overpayment of contractors, with kickbacks to the contracting officers, was perhaps the most rampant form of graft.

By the time of the December 1978 elections, these issues had brought serious doubts to the voters as to the competence and the probity of the AD government and Luis Herrera Campins (COPEI) won the elections. The loss had less to do with the program presented by either candidate than with the public's rejection of the free-spending, populist style of President Pérez.

Announcing during his March 1979 inaugural address that Venezuela could not continue as a "nation that consumes rivers of whiskey and oil," President Herrera promised to assume an austere posture toward government fiscal concerns. Public spending, including consumer subsidies, was ordered cut, and interest rates were increased to encourage savings. When the Iranian Revolution and the outbreak of the Iran-Iraq War caused oil prices to jump from US\$17 per barrel in 1979 to US\$28 in 1980, however, Herrera abandoned his austerity measures before they had had a chance to yield results.

Early on in his term of office, President Herrera also pledged to pursue policies aimed at reviving the moribund private sector. The first of these measures, however, the elimination of price controls, only contributed further to rising inflation. As with his commitment to austerity, the president failed to persist in his pledge to business and in October 1979 the administration approved sizable wage increases. Meanwhile, the number of those employed by state-owned enterprises and autonomic agencies, which Herrera had promised to streamline and make more efficient, proliferated instead.

The lack of confidence in President Herrera's economic management by the local business community contributed significantly to a precipitous decline in the growth of real gross domestic product (GDP) from an annual average of 6.1% between 1974 and 1978 to a sickly -1.2% between 1979 and 1983. Unemployment hovered around 20% throughout the early 1980s.

An unexpected softening of oil prices during late 1981 triggered further fiscal problems. World demand for oil (on which the Venezuelan government depended for some two-thirds of its revenues) continued to decline as the market became glutted with oil from newly exploited deposits in Mexico and the North Sea. The resumption of large-scale independent borrowing by the decentralized public administration came amidst publicly aired disagreements among various officials as to the magnitude of the foreign debt.

Compounding growing balance of payments difficulties, rumours of an impending monetary devaluation precipitated a wave of private capital flight overseas in early 1983. The government at last announced a system of foreign exchange controls and a complicated three-tier exchange system. The annual increase in consumer prices, which had hit a peak of 21.6% in 1980, fell to 6.3% for 1983.

Seeking a way out of the dismal economic situation, the Herrera administration decided to transfer a greater share of ever-growing government expenses to PDVSA. The Central Bank of Venezuela appropriated some US\$4.5 billion of PDVSA's reserves to pay the foreign debt, thereby throwing the petroleum corporation's autonomy to the wind. The rapid politicization of PDVSA drew criticism both at home and abroad and cost the government credibility as well as its good credit rating with foreign banks.

The 1983 election were won by Jaime Lusinchi (AD), followed by the former president Caldera. Although the 1983 elections again demonstrated the predominance of the two major parties, the record of ineffective government (known locally as *desgobierno*), corruption, an increasing foreign debt, and a growing list of unaddressed socioeconomic problems all contributed to a widespread disillusionment with the political process among the electorate. After twenty-five years of gradual consolidation of democracy in Venezuela, doubts had emerged as to the future stability of the much-cherished democratic political process that had proven so elusive before 1958.

Venezuela has one of the largest proven reserves of oil, over 74 billion barrels. And each year Venezuela's dependency on oil to maintain its economy was growing. So in 1997, the government announced an expansion of gold and diamond mining to reduce reliance on oil. During the 90's Venezuela was more of an antagonist to Opec, then a member. For years their policy was maximum production of oil, which usually defeated Opec's efforts to reduce production by its members. Reducing oil production drives the price up so that countries can get a higher price per barrel of oil. Soon, after Chávez took office in 1998, Ali Rodríguez Araque, who would later run Petroleos de Venezuela (PDVSA), became president of Opec. One of Chávez' biggest goals was to change PDVSA' policy of quota busting. Araque and Chávez would both make international tours of the Opec nations, shoring up relationships and getting plans in order to lower production, in an effort to raise the price of oil. This was a significant change to the prior policies regarding oil production, and would pay off. In a years time Opec brought the price of oil up from U.S.\$11.95 in March 1999, to U.S.\$20 by the end of the year.

The United States reaction to this change in production and renewed alliance with Opec is difficult to gauge. For nearly twenty years they have gotten Venezuelan oil at rock bottom prices. They do not seem to enthralled with the current government and have never been known to appreciate higher oil prices. Before long, the economy would come crashing down due to the strikes being held by the CEO's, managers, and technicians of PDVSA and other corporations and business'. Oil production was down to a few thousand barrels a day and tankers were not leaving the Venezuelan coast. Chávez stuck to his position and defeated the strike in a little over two months. Currently production is back up to pre-strike levels and the company is moving forward. Provided there are no more strikes and Chávez follows through with his pledges, the people of Venezuela could, for the first time, see some real benefit from their large oil reserves. "World demand should reach over 86 million barrels per day by 2020'

1980s collapse

Oil prices recovered considerably in 1980. President Herrera lifted price controls and raised wages and inflation rose too. The new boss, just like the old boss, spent like mad. Between 1979 and 1982 he managed to rack up a \$8 billion deficit. Real GDP declined from the past 4 year's average of 6.1% to 1.2% between 1979 and 1983. Unemployment was plus or minus 20% throughout the 80s.

Oil prices settled lower again in 1981 and the country was in debt some \$32 billion by 1983. A frenzy of capital flight occurred in anticipation of the impending devaluation of the Bolivar.

PDVSA leadership was politicized and billions of dollars of its reserves were expropriated to pay a bit of the debt ... price controls were again set.

The labor union (CTV) mounted various strikes bringing a mid-80s total of \$2.2 million work hours lost since 1960. In 1983 the nation was handed back to AD in shambles and it continued to deteriorate.

In 1989 Perez was reelected at the height of discontent ... he immediately began inflicting an IMF-sponsored neo-liberal program (El Paquete) on the country. Privatization of State-owned industry, elimination of subsidies, devaluation of the currency hit the public hard and they screamed out in protest in the form of labor strikes, student strikes, and violent urban riots.

El Caracazo

A gas price hike was the last straw, and on 27 February 1989, Caracas and other Venezuelan cities erupted. Spontaneously, the masses struck out against bus drivers who had unfairly raised their fares and shop clerks who were hoarding subsidized inventory for later sales. Joining them for 5 days of chaos were the destitute from the slums in the hills that surround Caracas who converged on the valley city looting stores, breaking windows, stealing cars, and generally wreaking havoc. The uprising was finally ended by a vicious massacre of some 2000 persons by the police and military.

The tone had been set for the next decade. The streets of the capital had become the arena for social discourse. Not only were there demonstrations, protests, and strikes by every imaginable organized group at one time or another, but also different factions of the State, such as the police and military cells began airing their grievances publicly. This practice continues today.

February 4, 1992 (then) Lieutenant Colonel Hugo Chávez Frias led an unsuccessful coup attempt. He was captured and incarcerated. But first he was allowed to address the nation on the television. During his address he admitted defeat "por ahora" (for now) and this statement became the mantra of the movement that would eventually sweep him into the Presidency.

Public displays of discontent became the norm. Choruses of banging of pots and pans out of windows were heard regularly. Violence often sprang out of protests. An attempt was made on President Carlos Andres Perez' life and the Bolivar and the Venezuelan stock market plummeted. In November there was another failed coup attempt and in December COPEI gained several governorships.

Mid-1993 Perez was accused by Congress of corruption and impeached. New elections were held in December. 40% abstained from voting and Rafael Caldera took the sash as an independent, breaking the two-party stranglehold. Caldera formed a following named Convergencia which included MAS (Movement Toward Socialism) together with La Causa R. These two peripheral leftish parties took in more votes than the two traditional parties AD and COPEI.

Chávez was released from prison in March 1994.

Because Congress was still held by the old parties, there was a stalemate and little change occurred in the next 5 years. La Causa R split with its larger faction becoming PPT which fully backed Chávez in 1998 (and still does).

At first loathsome of participating in the electoral process which Chávez considered to be a corrupt charade at the time by 1997, he began to warm to the idea of running for office. He launched the transformation of his MBR200 Bolivarian Revolutionary Movement into a political organization.

By July 1998, he had formed an official political organization which he named MVR, Movimiento Quinta Republica, or Fifth Republic Movement which incorporated PPT and La

Causa R, many smaller parties, and his own followers he was at this time receiving 45% of the votes in the polls.

Why MVR? Venezuela had had 4 Republics in its history. Two formed in 1811 and 1813 during the wars of independence, the third encompassed Gran Columbia in 1819 and the fourth was founded after the breakup in 1830. Chávez describes the 4th Republic as being built by a class of oligarchs and bankers, on the bones of Bolivar and Sucre. Chávez clearly felt the need for a new beginning. The MVR declaration states: "its Mission is to secure the well-being of the national community, to satisfy the individual and collective aspirations of the Venezuelan people, and to guarantee a state of optimum prosperity for the fatherland".

AD and COPEI scrambled to pick up candidates and promptly drop them and choose another when the polls showed little hope of their success. In the end they both backed the same candidate who brought in 39% of the vote among 4 candidates. Chávez walked away with a cool 56%.

On February 2, 1999, Chávez was sworn in as the President of Venezuela. His first Presidential address announced a national referendum would ask the people if the Constitution should be re-written for the 26th time. In April, 88% of voters answered a resounding YES. Elections were held for a Constituent Assembly in July. 119 out of 131 seats were won by Chávez supporters receiving a collective total of 91% of the vote.

The new constitution was approved by 71% of voters on 15 December. It radically restructured the judicial system to one much like that of the United States. It created a unicameral National Assembly. It bestowed rights on indigenous peoples. The Constitution also changed the name of the country to: *la Republica Bolivariana de Venezuela*.

Hugo Chávez was to become the first elected President of the new Republic and of the new millennium. Along with candidates for the new National Assembly, he subjected himself to the polls after little more than a year in office to be sure the public had stayed with him through the profound new changes.

Labor

Chávez has had a combative relationship with the nation's largest trade union confederation, the Confederación de Trabajadores de Venezuela (CTV), which is historically aligned with the Acción Democrática party. During the December 2000 local elections, Chávez placed a referendum measure on the ballot that would mandate state-monitored elections within unions. The measure, which was condemned by the International Labour Organization (ILO) and International Confederation of Free Trade Unions (ICFTU) as undue interference in internal union matters, passed by a large margin on a very low electoral turnout. In the ensuing CTV elections, Carlos Ortega declared his victory and remained in office as CTV president, while Chavista (pro-Chávez) candidates declared fraud.

The Unión Nacional de Trabajadores (UNT — "National Union of Workers"), a new pro-Chávez union federation, formed in response, and has been growing in membership; it seeks to ultimately supplant the CTV. Several Chavista unions have withdrawn from the CTV because of their strident anti-Chávez activism, and have instead affiliated with the UNT. In 2003, Chávez chose to send UNT, rather than CTV, representatives to an annual ILO meeting. At the request of its workers, Chávez nationalized Venepal, a formerly closed paper and cardboard manufacturing firm, on January 19, 2005. Workers had occupied the factory floor and restarted production, but following a failed deal with management and amidst management threats to liquidate the firm's equipment, Chávez ordered the nationalization, extended a line of credit to the workers, and ordered that the Venezuelan educational missions purchase more paper products from the company

Using Venezuela's key oil industry, Chávez ranks among OPEC's price hawks, pushing for strict production quotas and high price targets. He also broadened PDVSA's customer base, striking joint exploration deals with Argentina, Brazil, China, India, and others. Record oil prices have meant more funding for his social programs, but also left the economy increasingly dependent on Chávez's policies and PDVSA. Further, official unemployment figures at 10.7%.

Chávez attends the Arab-South America Summit held on May 5, 2005 in Brasília, Brazil. He is flanked by Qatari Emir Hamad bin Khalifa and Lebanese Prime Minister Najib Mikati (Agência Brasil). Chávez has redirected the focus of Petróleos de Venezuela (PDVSA), Venezuela's state-owned oil company, by bringing it more closely under the direction of the Energy Ministry. He has also attempted to repatriate more oil funds to Venezuela by raising royalty percentages on joint extraction contracts that are payable to Venezuela. Chávez has also explored the liquidation of some or all of the assets belonging to PDVSA's U.S.-based subsidiary, CITGO. The oil ministry has been successful in restructuring CITGO's profit structure.

After Hurricane Katrina battered the U.S. in late 2005, Chávez's administration was the first government to offer aid to its "North American brothers", offering to donate tons of food, water, mobile hospital units, medical specialists, power generators, and one million barrels of petroleum. Additionally, he proposed to sell 66,000 barrels of steeply discounted heating fuel directly to affected poor communities. The Bush administration refused this aid.

Social Structure

Before the oil era began in the mid-1920s, about 70% of the Venezuelan population was rural, illiterate, and poor. Over the next fifty years, the ratios were reversed so that over 88% of the population became urban and literate. No group has escaped the impact of this modernization process. Even the most isolated peasants and tribal Indians felt some effects of this economic growth, which opened up access to the elite stature, expanded opportunities for large numbers of immigrants, increased the size, power, and cohesiveness of the middle class, and created a sector of organized workers within the lower class.

The Elite

Although the traditional gap between rich and poor persisted in democratic Venezuela, the modern upper class was by no means homogeneous. Traditional society--rural, rigid, deeply stratified--changed rapidly during the course of the twentieth century. Perhaps ironically, the man most responsible for giving impetus to this change was the semiliterate dictator Juan Vicente Gomez. The primary catalyst of the social change that began under his dictatorship was economic, and it stemmed not from the established source of land controlled by powerful *hacendados*, but from the subsoil in the form of petroleum extracted and marketed through the efforts of technicians and technocrats. Gomez, by permitting and encouraging oil exploration, laid the basis for the emergence of an urbanized, prosperous, and comparatively powerful Venezuela from the chrysalis of a traditionally rural, agricultural, and isolated society.

The trends away from the traditional society accelerated after 1945, particularly during the decade of dictatorship from 1948 to 1958 and under the post-1958 democratic regime, which is often described as the reign of the middle class. Despite the vast social and economic changes that took place; however, the economic elite remained a small group separated both economically and socially from the rest of society by an enormous income gap and by a whiter and more Hispanicized ethnic makeup.

In general, those who considered themselves the Venezuelan elite, and were thus considered by their fellow citizens, thought of themselves as the upholders of superior values. Most claimed at least one postsecondary degree, possibly with a further specialization abroad. Concentrated in business and the professions, the Venezuelan upper class tended to disdain manual work and to patronize (in both senses of the word) members of the lower classes. In this particular sense, Venezuela was one of the very few countries in Latin America where a number of elite-supported scholarly and community welfare foundations provided support for an imaginative variety of programs and scholarships. These foundations often carried the names of elite families who prided themselves on their sense of civic duty.

The members of the elite also tended to emphasize publicly their devotion to the Roman Catholic Church and faith and to display a more stable family life than did the rest of the society. That is, although divorce did occur in this class, children were usually born within a legally constituted family union. Many of the younger women managed to combine profession and family, often with the help of servants and members of the extended family. Perhaps surprisingly for those who visit or observe Venezuelan society for the first time, the elite is not a closed and static group. Prominent politicians, even those from humble backgrounds, could easily marry into the elite. Successful professionals could also move up and find acceptance among the upper class. This relative openness of the elite may serve to mitigate to some extent the extremes that persist, particularly in economic terms, between the Venezuelan rich and those considered "marginal."

The Middle Class

Most accounts describe the Venezuelan middle class as the country's most dynamic and heterogeneous class in terms of social and racial origins, and as the greatest comparative beneficiary of the process of economic development. Consisting of small businessmen, industrialists, teachers, government workers, professionals, and managerial and technical personnel, this class was almost entirely urban. Some professions, such as teaching and government service, were traditionally associated with middle-class status, whereas newer technical professions have expanded the options and enhanced mobility within this class. Improved educational and job opportunities since the establishment of democratic government in 1958 have enabled more women to enter the labour force, thus either helping themselves and/or their families to attain middle-class status. Not surprisingly, those who passed from the lower to the middle class in Venezuela often attributed their changed status to their education, and, accordingly, many struggled to send their children to private schools so that they could move still farther up the social ladder.

A few members of the middle class moved into the elite ranks through successful business deals or by marriage. It should be noted, however, that class antagonism in Venezuela has been tempered somewhat as a result of the special efforts made by political parties to appeal to and to co-opt middle-class voters. As a result, the Venezuelan middle class had reason to feel much more politically empowered and significant than did similar groups elsewhere in Latin America. Besides the political parties, active participation in a variety of social groups and organizations further strengthened the commitment of this particular middle class to the overall socio-political system.

Constitutional provisions have helped both the middle and the poorer classes fulfil their aspirations in terms of greater personal freedom, expanded economic opportunities, and greater individual involvement in government. At the core of the 1961 constitution is a commitment to social justice; this commitment, in turn, has led to the creation and funding of government agencies designed to provide to the middle class and to the poor many services that had traditionally been reserved to the wealthy prior to the 1958 coup. The implementation of many social justice goals is all the more remarkable because it occurred

not only during Democratic Action (Accion Democratica--AD) governments, which, by definition, were centre-left, but also under Christian Democratic (Comité de Organizacion Politica Electoral Independiente--COPEI) administrations, which were more centerright in the Venezuelan spectrum.

A short list of government agencies devoted to the implementation of social justice goals sketched in the 1961 constitution would include the Ministry of Health and Social Welfare, which provided free medical care, retirement benefits, and pensions to the disabled; and the Ministry of Education, which supervised a vast array of goals and programs intended to bring literacy, technical, and professional training to all Venezuelans. The Venezuelan presidency itself offered a striking illustration of the impact of these social justice goals: since 1958 all presidents have come from the middle class, and in some cases they could claim, with reason, that they had surmounted rather lowly beginnings.

Peasants

The majority of peasants were wage labourers, sharecroppers, or squatters on private or state-owned lands, and their meager income placed them at the outer margins of Venezuela's general prosperity. Rural life has changed little since colonial times, in spite of concerted efforts by governments committed to agrarian reform. The best land still belonged to a relatively few owners, many of them absentees, while the dwindling rural population eked out a miserable subsistence on inadequate tracts of less-than-prime farmland. Even the agrarian reform, which had distributed millions of hectares of land since 1960, had not as of 1990 gone on to the essential next step of providing the peasants legal title to their parcels.

Regional variations in settlement patterns reflected geographic conditions, land-use practices, and historical traditions. In the northern mountain region, the heart of Spanish colonial influence, most peasants lived in small, dense settlements. In areas where wage labourers or sharecroppers still worked on large plantations, workers lived in small, centrally located clusters of houses. In the forests of the Orinoco plains, the pattern was usually one of isolated farms and cattle ranches.

Although most peasants were poor, there were gradations determined by such variables as land ownership or job security on a plantation or a ranch. The poorest peasants migrated from farm to farm or from crop to crop. In strict economic terms, the small number of tribal Indians represented the poorest group in Venezuelan society; this characterization, however, was misleading because Indian communities have never been fully integrated into the nation's economy, and therefore the concepts of individual earnings or the use of currency were foreign to their way of life.

For centuries, Venezuelan peasants supported rebel leaders in return for promises of reform. At the time of independence, they were much closer to their own José Antonio Pérez than to the aristocratic Bolívar. Since 1958 many have joined the peasant leagues affiliated with the AD and have become much more influential in political terms. Nevertheless, peasants continued to migrate in massive numbers to the cities to escape their poor rural conditions.

Workers and the Urban Lower Class

Massive rural-to-urban migration has resulted in the emergence of a burgeoning urban lower class, the most successful members of which have become urban workers. In the Venezuelan social view, the lower class consisted of those in low-status occupations (usually manual), the illiterate, and recent immigrants from the countryside. For many, the transition was traumatic and stressful, as epitomized by the presence of innumerable abandoned children in the streets of the capital city. Nonetheless, several studies indicated that most migrants felt that they had made the right move in spite of the hardships and

disappointments. Most were confident that the urban environment would help ensure greater prosperity and opportunity for their children.

The urban lower class has not been ignored politically. Political parties made concerted efforts to enlist urban workers into their affiliated unions, and the government has also attempted to "normalize" squatter settlements by providing legal title, utilities, and other services. Nevertheless, the 1989 food riots that shook Caracas and left an estimated 300 dead demonstrated that many of the urban poor deeply resented the socio-political system in spite of numerous partisan and government efforts in their behalf.

The inroads made among the urban poor class by Protestant evangelical and charismatic sects provided another manifestation of this sense of alienation. Perhaps sensing that its traditional hold was being challenged, the Roman Catholic Church renewed efforts during the 1980s to reach out to this group of Venezuelans. Church-sponsored neighbourhood organizations, whether Catholic or Protestant, tried to respond to the slum dwellers' immediate needs, such as gaining title to their ranchos. The churches also sought to improve the future opportunities for the children of the lower class. For many migrants, the expectation of greater opportunities for children was the major reason for coming to the barrio in the first place. Barrio residents also benefited to a limited extent from programs sponsored by political parties. Despite the hardships imposed by poverty and the alienation produced by a consumer culture, Venezuelan barrios were surprisingly stable. These communities were socially and politically integrated into the local and national systems, and their inhabitants generally perceived even the mean circumstances of urban slum life as representing improvements over their previous living conditions.

Modernization, Social Values, and Religion

Venezuelan society of the late twentieth century was clearly in transition. After centuries of isolation as a rural backwater in Latin America, Venezuela has become a respected voice in world councils because of its oil riches. Most of its population has moved to the cities, and well-to-do Venezuelans have travelled around the world in search of recreation and diversion. Economic growth, urbanization, industrialization, improved education, and expanded opportunities for women have changed the nation's character dramatically. Improved transportation, widespread radio and television access, the availability of numerous national newspapers, and the delivery of government services even in remote areas combined to make regionalism largely a thing of the past. Caracas was greatly influenced by developments in Miami and other foreign commercial and cultural centres; the rest of the country, in turn, felt the reverberations of the capital's growth and change.

The rapid pace of change has had a tremendous impact in such areas as the emerging role of women in Venezuela. Women have occupied positions in the cabinet and have held prominent jobs in the political parties and in labour unions. More than a dozen women representatives had served in the Chamber of Deputies up until the 1988 elections. A number of women also held top positions in private enterprises. Approximately as many women as men attended postsecondary institutions; in some departments, women outnumbered their male counterparts.

For the middle-class woman who wanted to combine job and family careers there was still the support provided by the extended family and the availability of maids, who often were recent migrants from the Andean region or from Colombia. As the extended family progressively shrank and the traditional pool of poor and uneducated women grew progressively smaller, Venezuelan professional women had begun clamouring for day-care facilities. As of 1990, more progressive and larger firms were beginning to provide such facilities, but the main push was for the provision of these services by the government. Meanwhile, an active feminist movement was particularly strong in the capital

and the major cities, and women's studies were beginning to make their appearance among the university offerings.

Some social observers claimed that the rapid change in women's roles was attributable, at least in part, to the traditional weakness of the Venezuelan Roman Catholic Church when compared, for example, with the church in neighbouring Colombia. Some 90% of Venezuelans were baptized in the Roman Catholic faith, but most had little regular contact with the church. The number of Protestants continued to grow, mainly as a result of the tremendously successful proselytizing efforts among shantytown dwellers by charismatic and evangelical sects, and had reached about 5% of the population in the 1990s. A Jewish population of several thousand was concentrated in the major cities, especially in Caracas and Maracaibo. A minuscule number of Indians, particularly in the Amazon area, continued to practice their traditional religions, but many had adopted Roman Catholicism. This was particularly true among the Guajiro near Maracaibo and on the Colombian border. A few other religions were represented in very small numbers. Religious freedom is guaranteed by the nation's 1961 Constitution.

Relations between the Roman Catholic Church and the Venezuelan state have been harmonious throughout most of the twentieth century. They continued to be peaceful even after the 1958 coup d'état against Pérez Jiménez, in spite of the fact that the church had supported the dictator in his early years as president. Relations between the church and AD were somewhat strained during the triennium, mainly because the church felt threatened by some of the AD government's liberal reforms. As the corruption of the Pérez Jiménez regime became increasingly apparent, however, the church began to disassociate itself from his rule and to support a return to democracy.

Although there is no official state church, the Roman Catholic Church enjoyed close ties to the government and could be perceived as a national church. The COPEI, the second largest political party, was originally organized by Roman Catholic lay leaders, even though it has since broadened its appeal to Venezuelans of all religious persuasions.

The Venezuelan church was not well endowed economically. It owned little property and received only limited private contributions. The government contributed a large part of the church's operating expenses through a special division of the Ministry of Justice. Government funds generally covered the salaries of the hierarchy, certain lesser functionaries attached to the more important episcopates, a limited number of priests, and the missionaries to the Indians. In addition, government contributions sometimes paid for religious materials, for construction and repair of religious buildings, and for other projects submitted by bishops and archbishops and approved by the ministry.

Attitudes toward the church varied with education and social class, but it was generally viewed as a traditional institution involved more in ritual than in day-to-day contact with its members. Venezuelans generally practiced a form of Roman Catholicism that adhered loosely to church doctrine but was often deeply emotional in its manifestations. Religious laxity was widespread, as was a low level of general knowledge of the basic tenets of the faith. During the latter half of the twentieth century, Venezuela has become a much more secular and materialistic society, less committed to the traditional social primacy of the church.

In all social classes, religion was regarded as the proper sphere of women. Generally more conscientious in religious practice, women were expected to assume the duty of providing the religious and moral education of children. For girls, early religious and moral training was followed by close supervision in accordance with the socially protected status of women. Boys, however, were not encouraged to pursue the priesthood, and Venezuela historically has had a very low percentage of vocations. As a result, most of its clergy were foreign born.

Adherence to traditional Roman Catholic beliefs was stronger in the rural areas, especially in the Andean states, than in the urban centres. Many of the original leaders of COPEI came from the Andean states. Massive internal migration to the cities, however, had lessened considerably the influence of these old strongholds of Roman Catholicism at the national level.

Traditionally, one of the most significant and important areas of church involvement in society was education. Roman Catholic schools historically have educated the children of the middle and upper classes. Because many schools were supported only by tuition fees, their costs were prohibitive for lower-class groups. Spurred by the social encyclicals issued from Rome in the 1960s and challenged by the proselytizing of Protestant groups, the church's hierarchy has sought to establish greater control over the schools, to admit greater numbers of scholarship students, and to increase the number of schools charging little or no tuition. As a result, by the middle of the 1970s an estimated two-thirds or more of Roman Catholic schools and colleges were free or partly free.

The church has always felt a special obligation to help educate and Christianize the Indians. In the 1920s and 1930s, the government entered into a series of agreements with the church that assigned the regions of the upper Orinoco, the western Zulia, the Caron, and the Tucupita rivers to the Capuchin, Dominican, and Salesian religious orders. Educational work has been carried out in conjunction with the plans of the Indian Commission of the Ministry of Justice.

Although Venezuelan culture was a mixture of Hispanic, Indian, and African elements, comparatively rapid integration of large segments of the population prevented the syncretic blending of animistic and Roman Catholic beliefs so common in other Latin American countries. The culturally embracing nature of Venezuelan Catholicism was symbolized in the national patroness, the mestiza Lionza, a popular figure among Venezuelans of all social classes. The cult of Lionza presented a striking synthesis of African, Indian, and Christian beliefs and practices. She was worshipped as a goddess of nature and protectress of the virgin forests, wild animals, and the mineral wealth in the mountains, and certain traits of her character also paralleled those of the Virgin Mary in Roman Catholic tradition.

The worship of Lionza was particularly widespread among urban dwellers in the shantytowns, many of whom had recently migrated to the big cities and felt the need for a blending of Christian and traditional indigenous beliefs. At the same time, beliefs and practices related to magic and spiritual healing that combined Roman Catholic, African, and Indian elements could be found in remote rural areas, especially in the Andean states. In keeping with the ethnic and cultural background of many coastal communities, African elements predominated in their rituals. Traditional Indian healers still practiced their craft among the remaining tribes.

Economy

An upper-middle income, oil-producing country, Venezuela enjoyed the highest standard of living in Latin America. The country's gross domestic product (GDP) in 1988 was approximately US\$58 billion, or roughly US\$3,100 per capita. Although the petroleum industry has dominated the Venezuelan economy since the 1920s, aluminium, steel, and petrochemicals diversified the economy's industrial base during the 1980s. Agriculture activity was relatively minor and shrinking, whereas services were expanding.

Venezuela possessed enormous natural resources. The country was the world's third largest exporter of oil, its ninth largest producer of oil, and accounted for more oil reserves than any other nation in the Western Hemisphere. The national petroleum company, Venezuelan Petroleum Corporation (Petróleos de Venezuela, S.A. - PDVSA), was also the third largest international oil conglomerate. Because of its immense mineral wealth,

Venezuela in 1990 was also poised to become an international leader in the export of coal, iron, steel, and aluminium.

Despite bountiful natural resources and significant advances in some economic areas, Venezuela in 1990 continued to suffer from the debilitating effects of political patronage, corruption, and poor economic management. The country's political and economic structures often allowed a small elite to benefit at the expense of the masses. As a result, Venezuela's income distribution was uneven, and its social indicators were lower than the expected level for a country with Venezuela's level of per capita income. Many economic institutions were also weak relative to the country's international stature. The efforts of the administration of Carlos Andrés Pérez to reform the economy, especially if coupled with political and institutional reforms, would likely determine whether the country would reach its extraordinary potential.

Growth and Structure of the Economy

Spanish expeditionaries arrived in what is present-day Venezuela in 1498, but generally neglected the area because of its apparent lack of mineral wealth. The Spaniards who remained pursued rumoured deposits of precious metals in the wilderness, raised cattle, or worked the pearl beds on the islands off the western end of the Peninsula de Paria. Colonial authorities organized the local Indians into an encomienda system to grow tobacco, cotton, indigo, and cocoa. The Spanish crown officially ended the encomienda system in 1687, and enslaved Africans replaced most Indian labour. As a result, Venezuela's colonial economic history, dominated by a plantation culture, often more closely resembled that of a Caribbean island than a South American territory.

Cocoa, coffee, and independence from Spain dominated the Venezuelan economy in the eighteenth and nineteenth centuries. Cocoa eclipsed tobacco as the most important crop in the 1700s; coffee surpassed cocoa in the 1800s. Although the war of independence devastated the economy in the early nineteenth century, a coffee boom in the 1830s made Venezuela the world's third largest exporter of coffee. Fluctuations in the international coffee market, however, created wide swings in the economy throughout the 1800s.

The first commercial drilling of oil in 1917 and the oil boom of the 1920s brought to a close the coffee era and eventually transformed the nation from a relatively poor agrarian society into Latin America's wealthiest state. By 1928 Venezuela was the world's leading exporter of oil and its second in total petroleum production. Venezuela remained the world's leading oil exporter until 1970, the year of its peak oil production. As early as the 1930s, oil represented over 90% of total exports, and national debate increasingly centred on better working conditions for oil workers and increased taxation of the scores of multinational oil companies on the shores of Lago de Maracaibo. In 1936 the government embarked on its now-famous policy of sembrar el petróleo, or "sowing the oil." This policy entailed using oil revenues to stimulate agriculture, and later, industry. After years of negotiations, in 1943 the government achieved a landmark 50% tax on the oil profits of the foreign oil companies. Although Venezuela reaped greater benefits from its generous oil endowment after 1943, widespread corruption and deceit by foreign companies and indifferent military dictators still flourished to the detriment of economic development. Nevertheless, despite unenlightened policies, economic growth in the 1950s was robust because of unprecedented world economic growth and a firm demand for oil. As a result, physical infrastructure, agriculture, and industry all expanded swiftly.

With the arrival of democracy in 1958, Venezuela's new leaders concentrated on the oil industry as the main source of financing for their reformist economic and social policies. Using oil revenues, the government intervened significantly in the economy. In 1958 the new government founded a new non-cabinet ministry, the Central Office of Coordination and Planning (Oficina Central de Coordinación y Planificación - Cordiplan) in the Office of

the President. Cordiplan issued multiyear plans with broad economic development objectives. The government in 1960 embarked on a land reform program in response to peasant land seizures. In 1960 policy makers also began to create regional development corporations to encourage more decentralized planning in industry. The first such regional organization was the Venezuelan Corporation of Guayana (Corporación Venezolana de Guayana--CVG), which eventually oversaw nearly all major mining ventures. The year 1960 also marked the country's entrance as a founding member into the Organization of Petroleum Exporting Countries (OPEC), which set the stage for the economy's rapid expansion in the 1970s. Throughout the 1960s, the government addressed general social reform by spending large sums of money on education, health, electricity, potable water, and other basic projects. Rapid economic growth accompanied these reformist policies, and from 1960 to 1973 the country's real per capita output increased by 25%.

The quadrupling of crude oil prices in 1973 spawned an oil euphoria and a spree of public and private consumption unprecedented in Venezuelan history. The government spent more money (in absolute terms) from 1974 to 1979 than in its entire independent history dating back to 1830. Increased public outlays manifested themselves most prominently in the expansion of the bureaucracy. During the 1970s, the government established hundreds of new state-owned enterprises and decentralized agencies as the public sector assumed the role of primary engine of economic growth. The Venezuelan Investment Fund (Fondo de Inversiones de Venezuela--FIV), responsible for allocating huge oil revenues to other government entities, served as the hub of these institutions. In addition to establishing new enterprises in such areas as mining, petrochemicals, and hydroelectricity, the government purchased previously private ones. In 1975 the government nationalized the steel industry; nationalization of the oil industry followed in 1976. Many private citizens also reaped great wealth from the oil bonanza, and weekend shopping trips to Miami typified upper-middle-class life in this period.

A growing acknowledgment of the unsustainable pace of public and private expansion became the focus of the 1978-79 electoral campaign. Because of renewed surges in the price of oil from 1978 to 1982, however, the government of Luis Herrera Campins (president, 1979-84) scrapped plans to downgrade government activities, and the spiral of government spending resumed. In 1983, however, the price of oil fell and soaring interest rates caused the national debt to multiply. Oil revenues could no longer support the array of government subsidies, price controls, exchange-rate losses, and the operations of more than 400 public institutions. Widespread corruption and political patronage only exacerbated the situation.

The government of Jaime Lusinchi (president, 1984-89) attempted to reverse the 1983 economic crisis through devaluations of the currency, a multi-tier exchange-rate system, greater import protection, increased attention to agriculture and food self-sufficiency, and generous use of producer and consumer subsidies. These 1983 reforms stimulated a recovery from the negative growth rates of 1980-81 and the stagnation of 1982 with sustained modest growth from 1985 to 1988. By 1989, however, the economy could no longer support the high rates of subsidies and the increasing foreign debt burden, particularly in light of the nearly 50% reduction of the price of oil during 1986.

In 1989 the second Pérez administration launched profound policy reforms with the support of structural adjustment loans from the International Monetary Fund (IMF) and the World Bank. In February 1989, price increases directly related to these reforms sparked several days of rioting and looting that left hundreds dead in the country's worst violence since its return to democracy in 1958. Ironically, Pérez, who oversaw much of the government's expansion beginning in the 1970s, spearheaded the structural reforms of 1989 with the goal of reducing the role of government in the economy, orienting economic

activities toward the free market, and stimulating foreign investment. The most fundamental of the 1989 adjustments, however, was the massive devaluation of the Bolívar from its highly overvalued rate to a market rate. Other related policies sought to eliminate budget deficits by 1991 through the sale of scores of state-owned enterprises, to restructure the financial sector and restore positive real interest rates, to liberalize trade through tariff reduction and exchange-rate adjustment, and to abolish most subsidies and price controls. The government also aggressively pursued debt reduction schemes with its commercial creditors in an effort to lower its enervating foreign debt repayments.

Fiscal Policy

The government's fiscal accounts generally showed surpluses until the mid-1980s because of the immense oil income. In 1986, however, the drop in oil prices triggered a fiscal deficit of 4%; the deficit exceeded 6% in 1988.

The major actors in fiscal policy were Cordiplan, which was responsible for long-term economic planning, and the Budget Office of the Ministry of Finance, which oversaw expenditures and revenues for each fiscal year (FY). Cordiplan also oversaw the fiscal status of the FIV, PDVSA, the social security system, regional and municipal governments, the foreign exchange authority, state-owned enterprises, and other autonomous agencies. But economic planning and budgeting suffered from a serious lack of interagency cooperation, and five-year plans and annual public-sector investments often lacked cohesiveness.

Total government spending reached about 23% of GDP in 1988. Current expenditures accounted for 70% of overall outlays, compared with 30% for capital expenditures. Capital investments, after a decline in the mid-1980s, expanded slowly during the late 1980s. Interest payments, two-thirds of which serviced foreign debt, represented 11% of total expenditures in 1988, a typical figure for most of the decade.

The revenue structure in the late 1980s remained excessively dependent on oil income. In 1988 petroleum revenues, both income taxes and royalties, provided 55 percent of total revenue. Although oil's contribution to total revenue had declined in the 1980s, most economists felt that it had not declined sufficiently. Overall, taxes contributed 80% of total revenue in 1988, with the remaining 20% derived from such nontax sources as royalties and administrative fees. Tax exemptions, deductions, allowances, and outright evasion greatly reduced the effectiveness of fiscal policy. Officials planned to inaugurate a value-added tax in 1990 as another means to widen the revenue base.

Monetary and Exchange Rate Policies

The Central Bank of Venezuela (Banco Central de Venezuela-- BCV) performed all typical central bank functions, such as managing the money supply, issuing bank notes, and allocating credit. As part of the country's overall financial sector reform, the BCV embarked in 1989 on numerous revisions of monetary policy aimed at improving the bank's control over the money supply. The most important policy change was the government's decision to allow the interest rate to fluctuate with market rates. Despite its initial inflationary effect, the policy created incentives for savings and investment, thereby attracting and retaining capital. Deposits swelled noticeably during 1989. In 1990, however, the Venezuelan Supreme Court declared that the BCV was legally responsible for setting interest rates. The BCV hoped to rescind the law in the early 1990s.

Venezuela traditionally enjoyed general price stability; inflation averaged a mere 3% from 1930 to 1970. Annual price increases did not exceed 25% until the mid-1980s. During the 1970s, many economists credited the FIV with successfully managing and investing overseas the country's oil windfalls in a way that prevented inordinate price instability. By the 1980s, however, financial deterioration, weakening BCV authority, numerous

devaluations, and fiscal deficits had combined to push consumer prices and inflation up dramatically in the late 1980s. The average consumer price index rose by an unprecedented 85% in 1989. Some price increases were associated with the 1989 structural adjustment program, and thus represented what some economists refer to as "correctionary inflation," the trade-off for eliminating previous distortions in prices. By 1990 only a handful of price controls remained in effect.

The Bolívar was traditionally a very stable currency, pegged to the United States dollar at a value of B4.29=US\$1 from 1976 to 1983. The Bolívar experienced several devaluations from 1983 to 1988, when monetary authorities implemented a complicated four tier exchange-rate system that provided special subsidized rates for certain priority activities. The multiple exchange-rate system, however, proved to be only a stopgap measure, eventually giving way to a 150% devaluation at the market rate in 1989. The 1989 devaluation unified all rates from the official B14=US\$1 rate to the new B36=US\$1 rate, which was a floating rate subject to the supply and demand of the market. By late 1990, the value of the Bolívar had crept down to B43=US\$1.

In a related matter, the Differential Exchange System Office (Régimen de Cambio de Dinero--Recadi), the organization that oversaw the various exchange rates, became the focus of one of the largest scandals in the decade. Between 1983 and 1988, businessmen bribed Recadi officials in return for access to half priced United States dollars to funnel an alleged US\$8 billion overseas. When the scandal broke in 1989, law enforcement agents investigated as many as 2,800 businesses, and more than 100 executives from leading multinational enterprises fled the country in fear of prosecution.

Due the economical instability and high risk in investments in the country, and to avoid the imminent flight of capital, in 2004 the Government created a special agency called Commission of Foreign Exchange Administration (CADIVI, after the Spanish initials of Comisión de Administración de Divisas). CADIVI has the powers to issue general regulations, called "Providences", on the requirements for the purchase of foreign currency; to issue or deny authorizations to purchase foreign currency and to verify and control the use of the foreign currency, the purchase of which from the Central Bank of Venezuela it has authorized. For example, a citizen of Venezuela can only buy 4000 US\$/year to travel to other countries.

Corruption rumours in CADIVI and cases of denied solitudes for students and travellers to buy dollars has caused people call it ironically RECADIVI, remembering the predecessor Recadi.

Recently, the new law called "Ley Sobre Ilícitos Cambiarios" punishes people that sells, buy, transfer or moves out of the country more than 10.000 USD

Politics

The development of a stable, democratic political system in Venezuela after 1958 represents a remarkable accomplishment. Few political scientists and historians in the late 1950s would have predicted that Venezuela would become a democratic model. The nation's turbulent past, which saw numerous regime changes, some of them violent, and its tradition of instability and penchant for repeatedly revamping its constitutions gave few hints of its impending transformation.

At the core of this transformation has been the emergence and the strengthening of a diverse party system that has progressively converged toward the centre-left in its ideology and its policy orientation without abandoning pluralism. Elections since 1958 have been vigorously contested on a regular and predictable timetable. Political freedoms have been enjoyed by those in and out of power; presidents have been blessed with the sense that their mandate was legitimate. Perhaps even more extraordinary in the context of Latin

American politics, outgoing presidents have peacefully handed over power to incoming presidents from another party of somewhat divergent political orientation.

This transformation from an authoritarian past to a healthy and long-surviving democratic regime cannot be understood in a vacuum, however. The political system evolved from a past fraught with instability and authoritarianism. After the heroic years of independence, Venezuelans suffered under the corruption and brutality of caudillismo (rule by local strongmen, or caudillos); fought a major civil war; and saw the constant redrafting of the constitution and changes in the rules of the political game.

Venezuela's independence began with its liberation by Simón Bolívar Palacios, who freed not only his own homeland but much of the rest of South America. In 1830, with the collapse of Bolívar's dream of a larger Gran Colombia, Venezuela was ruled by a patriot caudillo from the llanos, or plains, General José Antonio Pérez. This first post-independence period lasted until about 1858 and was characterized by economic recovery and political stability as the young nation functioned under the reign of a conservative oligarchy. Pérez established the model of strongman rule under which an undisputed caudillo governed for a long period, either on his own or through the selection of handpicked loyal subordinates, thus preserving the appearance of constitutional presidential succession. These traditional caudillos, who preserved constitutional appearances while subverting the constitution's spirit, also elevated the role of Caracas as the political and economic centre of the country. Throughout the nineteenth century and to this day, the principal goal of traditional and modern caudillos has been to take hold of and control the capital and, from the centre, dominate and overwhelm the periphery.

The discovery and exploration of large oil reserves early in the twentieth century accelerated the demise of old-style caudillo rule. Although change took place, there were important continuities as well, as constitutional ideals constantly competed with political realities. By the time the long-lived dictator Juan Vicente Gómez died in his sleep in 1935, the seeds of democratic transformation were already planted. The short-lived student protest of 1928 was the first manifestation of democratic stirrings that were to flourish decades later.

The Generation of 1928 that sprang from that experience included future Venezuelan presidents and eminent political leaders of diverse political views, such as Rómulo Betancourt, Rafael Caldera Rodríguez, Jóito Villalba, Gustavo Machado, and Raúl Leoni. For a brief three years, between 1945 and 1948, many of these leaders experienced their first taste of democratic rule; but they were then perhaps too young and too impatient, and their democratic experiment was short-lived. Exile gave these leaders broader perspectives and provided essential links to other democratic forces. The last decade of dictatorship ended in 1958; by then the Generation of 1928 was prepared to implement democratic reforms without being overthrown in the process.

Since 1958 democracy has survived, although its record has not been uncheckered. Coup attempts, especially in the early years, were fomented by extremists of both the right and the left, sometimes in the pay of or under the inspiration of extremists from outside the country. But the constitution of 1961 has not been rewritten or abolished, even if the spirit of the charter has not always been observed. Corruption has existed as well. At times the oil bonanza has led to a disregard for fiscal responsibility and has also enhanced the notion that the government can always afford the luxury of one more panacea.

An oil-rich nation, by 1990 Venezuela enjoyed the highest annual per capita income in Latin America and a politically moderate labour movement. After more than three decades of democracy and a spirited presidential campaign, however, food riots in Caracas and elsewhere in the spring of 1989 shocked Venezuelans and forced them to contemplate the apparent fragility of their socio-political system. The food riots and looting of 1989, in which hundreds of people died violently, presented a stark reminder that Venezuelan democracy,

although enviable by Latin American standards, was not without its flaws and its vulnerabilities.

The Governmental System

The Venezuelan governmental system has been characterized by contradictions in theory and practice. While its constitutions pledged federalism and a separation of powers, political practice and custom gave an undeniable primacy to the government in Caracas and to the president, in particular. Even under the constitution of 1961, which gives extraordinary guarantees and rights to ordinary Venezuelans, the bureaucratic system has continued to favour those with family and political connections. Although the underlying system predates the democratic transition of 1958, it has broadened and become more pluralistic as more individuals and political brokers achieved influence in the drafting and implementation of policies.

The formal constitutional structure is fairly straightforward in its provisions. The pronouncements on individual and group rights, on the other hand, are imaginative, especially those articles dealing with social and welfare rights. This blend of traditional articles and those that reflect commitments toward reform and social justice makes the constitution of 1961 an interesting case study.

Under its twenty-sixth constitution, adopted on January 23, 1961, Venezuela is a federal republic made up of twenty states, two federal territories (Amazonas and Delta Amacuro), and a Federal District (Caracas). In addition, there are seventy-two island dependencies in the Caribbean. The power of the government is divided between the national government and those of the states, districts, and municipalities. Throughout most of its history, however, the national governmental power in Caracas has predominated.

Although the states did have some powers of their own and enjoyed some autonomy, until 1989 they were administered by governors appointed by the president. The first direct popular election of governors took place in July 1989. Even though they gained an independent political base, these governors still depended on the national government for their budgets. In contrast, the states had a much longer history of electing unicameral legislative assemblies. States have also been subdivided historically into county-like districts with popularly elected district councils and municipalities with popularly elected municipal councils. The Federal District and the federal territories similarly had elected councils.

Even though the president has considerable power, the constitution does place specific limitations on who may run for the presidency. Further, a retiring president may not return to the presidency until two terms, or ten years, have elapsed. Carlos Andrés Pérez, re-elected in 1989, became the first president since 1958 to occupy the highest office twice. Former presidents automatically become life members of the Senate (upper house of the Congress). Traditionally, they have also been viewed as elder statesmen. This was particularly true in the case of Rómulo Betancourt (president, 1959-64), who, with his great prestige, continued to exert considerable influence years after he had left the presidency.

The constitution provides for the direct election of the president, who is chosen under universal suffrage for a five-year term. The president appoints and presides over the cabinet and determines the number of ministries. The office of vice president, which had been at times provided for in earlier Venezuelan constitutions, is not mentioned in the 1961 document. One anecdote holds that wily Juan Vicente Gómez (president, 1908-35) abolished the office of the vice president in a turn-of-the-century constitution, after he, as vice president, had moved to the top office during the absence of president Cipriano Castro. Nearly a century later, the Venezuelan governmental system retained in its constitution traditional ways of protecting the president from the possibly fatal ambitions of a second-in-command.

Unlike the constitution followed in the time of the dictator Gómez, however, the 1961 constitution provides for mandatory voting for all Venezuelan citizens who are at least eighteen years old and who are not convicts or members of the armed forces. Generally, more than 80% of those registered voted. Each political party had its own ballot with a distinctive colour and symbol, so that even illiterate citizens could recognize their preferred party choice. Elections were supervised by an independent, federally appointed electoral commission. Constitutionally assured elections, universal suffrage, and participation in politics for over three decades have made Venezuela a unique and much admired democratic model in Latin America.

Political Evolution

Venezuelan political dynamics since 1958 have centred on a strong commitment to the democratic "rules of the game." Although Venezuelans--and foreigners alike--have pointed out that this democratic commitment was not without its blemishes, few Venezuelans still spoke about the days of dictatorship as the golden days of their country. In general, most felt that Venezuela's democracy was strong and robust, but that democracy alone had not brought about social justice or narrowed the gap between the very rich and the very poor. Indeed, the practice of democracy, in and of itself, was perhaps not even capable of achieving such goals.

Both AD and COPEI administrations have committed themselves to developing coherent, overall economic and social development policies. Such agencies as Cordiplan were established to coordinate planning and contributed to rapid social and economic mobilization. Reform rather than revolution has been a goal of both major political parties. By the same token, the policies of sembrar el petróleo, "sowing the oil," revenues served as a link uniting different factions within and between the two major parties. Even in the less affluent 1980s, large revenues produced by the petroleum industry continued to contribute to the government's ability to finance and develop ambitious programs in agriculture, education, industrial diversification, and health.

The nationalization of the petroleum industry in 1976, a long-sought goal by both major parties and practically all groups within Venezuela, was accomplished in a measured and tempered manner. Although not all parties to the nationalization accords agreed with every provision, most would admit that nationalization has worked better than many expected. Overall, it has worked well enough to serve as a successful model for other countries with some of the same developmental dilemmas as Venezuela. By ensuring that nationalization did not result in the drying up of foreign investment and, in turn, by ensuring that petroleum revenues served to some extent to underwrite reform programs, Venezuela created a financial cushion that enabled democratic governments to exert primary control over the exploitation of the nation's resources.

AD captured the presidency and both houses of Congress in 1973. Although it lost the presidency in 1978, AD remained the largest political party represented in the Senate and secured the same number of seats as the second largest party (and the winner of the presidency), COPEI, in the Chamber of Deputies. Lesser political parties such as National Opinion (Opinión Nacional - Opina) have won a few seats (usually under ten in the Chamber of Deputies) in various elections since 1958. Since the reestablishment of democracy in 1958, however, the major blocs of senators and deputies have consistently belonged to either AD or COPEI. Possibly because their parties have either held the presidency or have been considered potential winners of the presidency, AD and COPEI legislators have, in general, displayed responsibility in adhering to the political and legislative process and have not gone to extremes to destabilize the executive.

Although Pérez's victory in the December 1988 elections broke the pattern of alternating victories for AD and COPEI, his party lost absolute control of Congress in the legislative

vote. AD's share of the legislative vote fell to 43.8%, while COPEI obtained 31.4% and the leftish MAS doubled its representation. Of a total 253 congressional seats--204 in the Chamber of Deputies and 49 in the Senate--AD won with 121 seats (98 deputies and 23 senators), COPEI 89 seats (67 deputies and 22 senators), and MAS 22 seats (19 deputies and 3 senators). A centre-right group, the New Democratic Generation (Nueva Generación Democrática), won seven seats (six deputies and one senator). Small left-wing parties obtained seven deputies and small centre-right factions also elected seven deputies. Although the loss of absolute control of Congress might restrict some of the president's initiatives, overall it should represent only a minor impediment to the primacy of the executive.

The most outstanding political trend evidenced by six administrations since 1959 has been a commitment to and promotion of representative democracy. To many observers, the elections of 1988 assumed particular significance because they marked thirty years of democracy in Venezuela and indicated that pluralist democracy had a strong chance to survive. The food riots in Caracas in early 1989, which took place in spite of the overwhelming popular vote for the then recently inaugurated president Pérez revealed a certain popular dissatisfaction. Opinion polls have shown that many Venezuelans felt as though they had little impact on their leaders and the way that policies were drafted and implemented. The alternatives on either the right or left of the political spectrum, however, seemed to hold little appeal, and almost no one desired a return to an authoritarian regime.

AD and COPEI reforms have dramatically benefited large segments of the population. Education and health reforms have opened job opportunities and improved the quality of life. Both literacy and life expectancy figures were among the highest in Latin America. Some other reforms, however well intentioned, have not succeeded. Most Venezuelans admitted that their costly agrarian reform programs had neither provided much land to poor farmers nor managed to feed the nation, which continued to import significant levels of foodstuffs.

Venezuela's mixed economic picture in many ways served to shape its foreign policy. Venezuela was a founding member of the Organization of Petroleum Exporting Countries (OPEC). This brought Venezuela into high-level contact with a number of African countries, such as Nigeria, and with Middle Eastern oil producers. With the downturn of oil prices, Venezuela, like other once revenue-rich countries, had to face a continuing struggle to maintain foreign investment.

Jaime Lusinchi (president, 1984-89) sought to retain Venezuela's creditworthiness by paying the interest on its US\$32 billion foreign debt, but was sadly disappointed when his gestures were not tangibly rewarded by foreign bankers. Bankers praised Venezuela's political courage and agreed on the country's long-term prospects, but they declined to approve new loans to Lusinchi's government. The ensuing economic crisis forced the government to devalue the currency; as inflation and unemployment soared, Venezuelans again felt vulnerable at the hands of the "multinationals."

When President Pérez assumed office in 1989, he, too, imposed austerity measures in an attempt to persuade foreign bankers to restructure the old debt and make new loans available to Venezuela. He achieved some initial success; austerity programs, however, have always proven difficult to sustain in the face of political and electoral pressure.

Dynamics of Public Policy

Venezuelan public policies reflected the strong contrasts between the goals expounded by practically all major political parties and policy actors and the reality of their implementation. The constitution provides for access of the people to the government, principally via elections; but in its daily operation those with links to powerful groups, such

as labour unions and business groups, enjoyed an undeniable advantage in influencing policy formulation. These groups therefore benefited more often and more directly from government policies.

It was not so much that a limited number of families controlled the system. Venezuela long ago ceased to be a rural society in which a few landowners could pick the president and run the country. Rather, through the sophisticated use of the system, certain politicians and political groups achieved a greater say in policy making. Through their various branches, the political parties served as conduits for both policy demands and implementation. Thus, when agrarian reform policies figured prominently in AD's programs, peasant leagues affiliated with the party exercised considerable influence in the formulation and implementation of reforms. These groups also benefited inordinately from these reforms.

This was not to say, however, that certain groups held exclusive access to government and to policy makers. Under the Venezuelan democratic system, various groups participated in the overall process. The system was less than totally open, however, in that certain groups had greater input in the policy-making process, depending on the issues or the status of the group. Thus, even in the modern era of civilian governments, the military would hold veto power in certain policy areas, such as border control or the pursuit of terrorists. In the formulation of economic policy, both the major labour unions and the major business groups affected would be heard at the highest levels of government, where compromises and deals were struck and the political parties and leaders would attempt to preserve their influence among competing constituencies.

The caution and political moderation resulting from the triennium and the harsh decade of dictatorship that followed served as a backdrop to the dynamics of policy-making in Venezuela. The high hopes and radical reforms of the triennium came to naught because too many groups felt threatened; the memory of that period served to deter political actors from pushing too far in one or another public policy area. Both AD and COPEI reinforced this moderating influence by according each other a certain level of participation in policymaking and policy implementation.

Foreign Relations

Former President Luis Herrera Campins effectively described Venezuela's position in the world when he stated that, "Effective action by Venezuela in the area of international affairs must take key facts into account: economics--we are a producer- exporter of oil; politics--we have a stable, consolidated democracy; and geopolitics--we are at one and the same time a Caribbean, Andean, Atlantic, and Amazonian country." After the emergence of a democratic system in 1958, a number of Venezuelan presidents have stated the basic principles that guided their foreign policy. These principles included respect for human rights, the right of all peoples to self-determination, non-intervention in the internal affairs of other nations, the peaceful settlement of disputes between nations, the right of all peoples to peace and security, support for the elimination of colonialism, and a call for significantly higher export prices for developing countries' primary products, especially oil. Throughout its history, Venezuela's foreign policy also has been infused with Simón Bolívar's ideal of promoting the political and economic integration of Latin America.

In the democratic era, Venezuela has attempted to fulfil these principles through a variety of means. It maintained active membership in the United Nations (UN) and its related agencies, OPEC, the Organization of American States (OAS) and its related entities, the Latin American Integration Association, and a host of other world and hemispheric organizations. In all these forums, Venezuela consistently aligned itself with other democracies. Although Venezuela has been particularly active in the circum-Caribbean area, its foreign policy also has global dimensions.

The first two presidents of the democratic era, Rómulo Betancourt and Raúl Leoni, took courageous stands against tyrannies of the right and the left. Although motivated in part by idealism, these foreign policy positions also responded to the pragmatic need to defend the nascent democracy from foreign intervention. Both presidents saw their country repeatedly subjected to propaganda attacks and actual armed incursions directed or inspired by Cuban leader Fidel Castro Ruz. Although Betancourt and Leoni took a particularly harsh line against Cuba, they expressed equal criticism of the right-wing dictator Rafael Lenidas Trujillo Molina of the Dominican Republic, who nearly succeeded in engineering Betancourt's assassination in June 1960. The Betancourt Doctrine, whereby Venezuela refused to maintain diplomatic relations with governments formed as a result of military coups, was adhered to by both administrations. Although the doctrine was much praised, it gradually isolated Venezuela as most other Latin American nations became dominated by non-elected regimes. Slowly but surely, the doctrine was modified in the late 1960s and early 1970s, allowing for the reestablishment of diplomatic relations with Argentina, Panama, Peru, and most communist countries. In December 1974, President Rafael Caldera announced the normalization of relations with Cuba.

Relations with neighboring Guyana have been strained for decades by Venezuela's claim to all territory west of the Essequibo River, more than half the present size of Guyana. A 1966 tripartite agreement in Geneva established a Guyana-Venezuela commission to discuss the dispute. In 1970 President Caldera agreed to a twelve-year moratorium on the issue. The dispute was, with the concurrence of both parties, referred to the UN Secretary General in March 1983 for a determination of an appropriate means for settlement.

There appeared to be some prospect for improved relations between the two countries during the 1990s. One auspicious indication of this was the talks between the foreign ministers, held both in Venezuela and Guyana, in early 1990. The ministers not only discussed the lingering territorial question, but also committed their governments to greater cooperation in a number of fields, including energy and health. Guyana has expressed interest in importing electricity from Venezuela's mammoth Guri Dam; both countries shared concern over the control of tropical diseases.

Relations with Colombia have also been intermittently tense during the last half of the twentieth century. Caracas and Bogotá have been engaged in a long dispute regarding sovereignty over the Golfo de Venezuela (or the Golfo de Guajira, as the Colombians refer to it). Tensions arising from the dispute contributed to a high-level military alert following the intrusion of a Colombian ship into Venezuelan territorial waters in August 1988. Both countries managed to back away from the brink of open conflict over the incident; in March 1989, the two presidents met at the border to discuss this and other points of contention, most of which arose from the closely linked frontier economies along the vast land border. Venezuelans consistently assumed that most Colombians living in their country were indocumentados (undocumented or illegal aliens) and routinely accused them of a variety of crimes, real or imagined.

A constructive outcome of the presidents' meeting at the border in 1989 was the creation of a five-member international conciliation commission, headed by Adolfo Suárez González, the former Spanish prime minister, and including, among others, two former Latin American presidents. Three bilateral commissions were also established to study specific issues. The intensification of drug trafficking added a new urgency to better cooperation between the two countries. Most observers believed that relations improved after 1989 and that intergovernmental cooperation in controlling narcotics trafficking and guerrilla activities along the border expanded. Colombian president Cesar Gaviria used the occasion of his August 1990 inauguration to meet with President Pérez and to reconfirm Colombia's commitment to the agreements signed by the border commissions. For his part, Pérez stressed the need to continue regular meetings between the two heads of state

in order to maintain coordinated efforts not only on the resolution of border issues but also in the formulation of regional foreign policy and economic integration efforts.

Under the first Pérez administration (1974-79), Venezuela provided matériel, support, and advice to the Sandinista National Liberation Front (Frente Sandinista de Liberación Nacional - FSLN) during its struggle to oust the dictatorship of Anastasio Somoza Debayle in Nicaragua. President Herrera, who subsequently led the Andean Common Market (Ancom) efforts for a peaceful transition of government in that Central American nation, became increasingly disenchanted with mounting political repression under the Sandinistas. In 1983 Venezuela joined with Colombia, Mexico, and Panama to seek a regional solution to Central America's problems through the Contadora Group process. In his second administration, Pérez helped to push the Sandinistas into allowing the democratic elections of February 1990, in which opposition candidate Violeta Barrios de Chamorro defeated Daniel Ortega of the FSLN and became Nicaragua's president.

Venezuela bolstered its commitment to Chamorro's government by sending nearly 1,000 soldiers to participate in the UN peacekeeping mission in Nicaragua. This was the first time that Venezuela had sent troops outside the country to demobilize warring factions. In a more traditional vein, Venezuela also cancelled Nicaragua's US\$143 million oil debt and resumed oil shipments to the Central American country. Venezuela had suspended its oil trade with Nicaragua in 1982 as a result of that nation's default in paying its oil import bill; the cut-off was also intended to signal Venezuela's disappointment with the lack of progress toward democratic government in Nicaragua at the time.

Apart from their differences in relation to Nicaragua and Venezuela's strong support of Argentina during the 1982 Falklands/Malvinas conflict, relations with the United States have been generally close. The minor tensions between the two countries have been exacerbated by trade issues; Venezuela's main objections in this regard concerned United States import policies, which, in the Venezuelans' opinion, raised excessive barriers to Venezuelan products. Also in the economic sphere, the fact that most of Venezuela's foreign debt was owed to United States banks represented a major point of continuing contention between the two countries.

From the United States perspective, Venezuelan efforts at economic reform under President Pérez provided opportunities for an expansion of ties, particularly in the area of foreign investment. To the surprise of many analysts, Pérez, who in his first administration (1974-79) assumed a cool, almost hostile stance toward foreign investment, proved much more favourably disposed to foreign capital in his second term. His administration removed previous limitations on the remittance and reinvestment of profits by foreign companies. The government also approved majority foreign control of companies in several sectors previously closed to foreign investment, such as public services, domestic transportation, and export services. Although the administration hinted at the possibility of foreign participation in oil exploration and refining, it did not immediately enact such measures. After decades of restrictions, however, the new regulations generally opened the local capital market to foreign companies and promised a reduction in the government's discretionary interference in foreign investment decisions.

Because of its long democratic tradition, as well as its support for democratic institutions in other countries, Venezuela was respected and considered a leader among the Latin American nations. It maintained good relations in the Third World, although it had few commercial or other close ties with Third World nations. Venezuela also maintained relations with the Soviet Union and the countries of Eastern Europe and strongly supported the political openings there beginning in the late 1980s. In many ways, Venezuela often felt as close to Western Europe as it did to the United States, but the nature of these relations changed according to who held power in Caracas: AD administrations tended to pursue close ties with the socialist and social-democratic parties

and governments in Europe; COPEI governments established close ties with the Christian democratic and more centrist parties and governments of Europe.

Venezuela's domestic breakthrough in 1958 to a functioning democratic system was soon reflected in the conduct of its foreign policy. As that system grew stronger, and as the nation's economic status improved along with rising oil prices in the 1970s, Venezuela's role on the world stage became a more prominent one. Venezuela was a founding member of OPEC, and has exercised a responsible role within that organization. Outside of OPEC, Venezuela acted during the 1980s to supply oil to the emerging democracies in the Caribbean in an effort to ease the burden of these often heavily indebted nations. Venezuelan diplomacy also vigorously supported the establishment and strengthening of democracy in the Dominican Republic and in Central America. As a member of the Contadora group of nations dealing with the Central American crisis of the mid-1980s, Venezuela advocated the establishment of democratic systems and procedures in the region as the most beneficial solution both for the countries involved as well as for Venezuela's own political and economic interests in the region. In the UN, the OAS, and other Third World forums, Venezuela has consistently sought to advance the same basic goals, namely democracy and development.

The future course of Venezuela's foreign policy, regardless of its direction, will undoubtedly depend upon the status of these two factors: the stability of the governmental system and the state of the national economy. The nation's commitment to the overarching principle of representative democracy appeared to be unalterable.

The present and future of politics relations in Venezuela

The present and future of Venezuela seems to be oriented to break relations with non Socialist/Communist countries (UK, USA, Mexico, Peru) and make strong relations with leftish countries (Cuba, Bolivia, Iran and others). This impression can be obtained from notices of the Venezuelan diary *El Universal*. It is relevant to say that *El Universal* is an independent diary, non influenced by Venezuela's government. The followings are some of these notices:

Relations with United Kingdom

Chávez tells Tony Blair to go to hell

February 09, 2006 – President Hugo Chávez Thursday claimed UK Prime Minister Tony Blair attacked Venezuela in "a shameless manner, abiding by the orders of Washington. He is nothing but a pawn of imperialism".

Holding a "last minute" report in his hand, Chávez commented: "He is kind of threatening us: 'It is most important for the Venezuelan government to understand that if it is to be respected by the global community, it should comply with the rules of the international community'," Chávez quoted Blair as saying.

"Go to hell, Mr. Blair! Do not be such a shameless, immoral people! You are one among those who have no moral grounds to make a call on anyone. You have disregarded the rights and sovereignty of the peoples by cementing an alliance with Mr. Danger (US President George W. Bush) to outrage the Iraqi people," Chávez replied.

According to Chávez, both Blair's call and Bush's request to Voice of America to "enhance" news broadcasts to Venezuela, "are part of the empire attacks" to prevent his re-election next December 3rd.

Such moves by Blair and Bush, Chávez added, are intended "to foster an European battle against us."

"An attack from London... Is this a coincidence? Not at all," Chávez stated. He insisted that "Mr. Tony" is "the main ally of Danger-Bush-Hitler, the worst genocidal person and murderer in the world." [www.eud.com]

UK avoids verbal confrontation with Chávez

February 10, 2006 – The British government Friday refused to enter in a new verbal war with President Hugo Chávez, who Thursday asked Prime Minister Tony Blair to return Las Malvinas islands to Argentina-, but clarified that the UK stance on the Falkland Islands remains unchanged, AFP reported.

A spokesman for Downing Street was reluctant to comment on Chávez' statements. "I do not think that entering in an oral war regarding this issue is beneficial to anyone," said the spokesperson for Tony Blair. The United Kingdom "stance regarding the Falkland Islands has been clearly established many times. Our stance remains unchanged," he explained.

"I do not think that comments like that are of any help. I think we better close this chapter and move on," he added. [www.eud.com]

Relations with United States of America

Chávez: Bush is the worst threat in the world

August 10, 2005 – Venezuelan President Hugo Chávez Wednesday said that George W. Bush' administration -whom he called Mr. Danger- is the worst threat facing the world, news agency DPA reported.

Chávez' comments came in Uruguay, where Chávez is paying an official visit. "As a citizen of the Americas, it should be no secret to no one -and it is not- that the worst threat facing the world today" is "the government of 'Mr. Danger, Mr. George Bush. This is the worst menace facing our planet today."

According to Chávez, "the fate of the world will depend on the people of the United States and their awareness."

The Venezuelan President claimed that Washington is fostering terrorism, "and this has been happening for a long time now. Take for instance Hiroshima, Nagasaki... What was that? It was the biggest act of terror in 100 centuries," he said, referring to the bombing of these two cities by the US 60 years ago during World War II.

He regretted the fact that South American countries "are divided, dominated, plagued by poverty and misery." But he added that "the big day has come for South America, the big day of unity. Only unity shall make us free". [www.eud.com]

Bush refuses to reply to Chávez' insults

March 29, 2006 – "It is important for leaders to respect freedom of cult and freedom of the press," George W. Bush claimed.

United States President George W. Bush Tuesday refused to reply to his Venezuelan counterpart Hugo Chávez' verbal attacks. "I do judge President Chávez based on his respect for institutions in Venezuela," Bush told CNN in an interview.

The news TV network asked Bush about his reaction when Chávez "refers to you in very strong terms," Efe reported.

In the interview broadcast late Tuesday, the US ruler added that "it is very important for leaders to respect freedom of cult and freedom of the press and to allow people to express their opinion without fear."

"As long as he (Chávez) does not do that, I think he should subject to criticisms," the US ruler stressed. "This is very important for leaders in the hemisphere, quite apart from the fact that they agree or disagree with the United States," Bush asserted.

Chávez usually lashes out at Bush. Last March 19th, the Venezuelan ruler called his US counterpart "a donkey, coward and alcoholic," among other expressions.

"The world is against you; the world is opposed to an imperialist, immoral, and genocidal war. You are insane and coward," Chávez said on March 19th during his weekly radio and TV show in reference to Bush.

The United States and Venezuela have relations at ambassador level, but they virtually lack communication channels as of mid-2005, AFP said. In May 2004, Caracas discontinued military cooperation with the United States, accusing Washington of supporting a coup in April 2002 that removed Chávez from power for 47 hours.

The United States is Venezuela's largest investor and trade partner, while Venezuela is the fourth largest oil provider to US. [www.eud.com]

Washington Post: US must change relation with Venezuela

February 15, 2006 – The United States must change its relation with Venezuela since the current confrontation has weakened Washington's stance across the region, columnist Michael Shifter Tuesday wrote in "The Washington Post."

"The strength and effectiveness of the US administration weakened during the dispute (between Venezuela and Colombia over the capture of FARC leader Rodrigo Granda) as it showed clear evidence of bias in favor of (Colombian President Alvaro) Uribe," analyst and professor at the Center for Latin American Studies of Georgetown University claimed.

"Even though Washington's preference for Uribe is no secret, with its unlimited public support (to Uribe) it managed to anger (Venezuelan President Hugo) Chávez, allowing him to change the attention focus from Colombia towards the United States, and preventing other Latin American countries from getting involved," he said as quoted by news agency DPA. [www.eud.com]

Rice: Chávez insists in having bad relations with the US

May 02, 2006 – US State Secretary Condoleezza Rice Sunday regretted the fact that Venezuelan President Hugo Chávez is seeking bad relations with the United States, and made a reference to Chávez' remarks against his US counterpart George W. Bush and a recent attack by pro-government groups against US ambassador William Brownfield.

"We do not intend to have poor relations with Venezuela. We have had good relations historically," said the US diplomat, as quoted by AFP. "But apparently, the Venezuelan Government is making a great deal of effort to ensure bad bilateral relations, unfortunately," she added when asked about growing anti-Americanism in Latin America.

"When you do the sort of things they made to our ambassador; when you say this sort of things about the President of the United States, then it is hard to have good relations," Rice claimed.

US ambassador to Venezuela William Brownfield was attacked last April 7th by pro-government demonstrators that threw eggs and tomatoes at his vehicle when he left a school where he was making a donation of sports goods.

Rice stressed that the US is not the only country having tense relations with Venezuela. "Apparently, the Peruvian Government is not very pleased with (Chávez) interferences in Peru electoral affairs". [www.eud.com]

Relations with Mexico

Chávez calls Fox "a puppy of the empire"

November 10, 2005 – Caracas - President Hugo Chávez, in his first public appearance following the fourth Summit of the Americas, Wednesday labeled his Mexican counterpart

Vicente Fox as "a puppy of the empire," which led the Mexican Foreign Affairs Office to react immediately by asking Venezuelan Ambassador Vladimir Villegas to "render an explanation."

"I feel sorry for President Fox' selling out, this is sad," Chávez said late on Wednesday in a mandatory nationwide radio and TV address. "It is so sad to see the President of such a dignified people as the Mexican people lending himself to be a puppy of the empire," the Venezuelan ruler claimed before an audience including businesspersons, middle-class people and public officials. Chávez accused Fox of kneeling down before the United States.

"They wanted to run over us, they wanted to run over us, but as they could not, the Mexican President made a series of remarks against (Argentinean President Néstor) Kirchner and myself," Chávez asserted. "In connection with Venezuelan President Hugo Chávez' remarks regarding Mexico's participation in the fourth Summit of the Americas, the Foreign Affairs Secretariat informs that Venezuelan Ambassador Vladimir Villegas has been convened to render an explanation," said the Mexican Foreign Affairs Office in a communiqué.

Ambassador Villegas told AFP that the Mexican Foreign Affairs Office convened him to meet Thursday with foreign affairs "officials," but he is not scheduled to meet with Foreign Affairs Secretary Luis Ernesto Derbez. "Let's see what they have to say," said Villegas.

When asked if this impasse between Venezuela and Mexico could lead to the two countries recalling their diplomats, Villegas replied: "I do not know, we will see. I do not think so, though."

Chávez' remarks came in response to Fox' statements this week that Kirchner was to be blamed for the division seen at the end of the Summit of the Americas.

Fox also lashed out at Chávez for the "ideological stance, detached from reality" the Venezuelan ruler deployed during debates in the Summit of the Americas and during his participation in an event rejecting the Free Trade Area of the Americas (FTAA). [www.eud.com]

Mexico demands Venezuela apology

November 15, 2005 – Caracas - The Mexican Foreign Affairs Office has decided to recall the Mexican Ambassador to Venezuela if Caracas does not apologize formally on Monday, said the spokesman for the Mexican Presidency Rubén Aguilar Valenzuela.

Aguilar Valenzuela claimed that President Hugo Chávez' remarks on Sunday against President Vicente Fox are an "outrage for the dignity of the Mexican people and government, and Mexico demands a formal apology from the Venezuelan government on this Monday November 14. Otherwise, the Mexican government is to order the Venezuelan Ambassador (Vladimir Villegas) to leave and recall Mexican Ambassador in that country, thus downgrading bilateral relations to business missions."

The official added that they expect Venezuela to apologize "through its highest authorities," but he clarified that even though ambassadors are recalled they do not have plans to sever bilateral relations. He set a deadline that expires Monday at midnight (Mexican time) for Venezuela to apologize.

The Mexican official added that a dialogue between the two nations could lead Mexico to reconsider this decision.

Aguilar Valenzuela said he agreed with Venezuelan Foreign Affairs Minister Alí Rodríguez Araque that "mutual respect, sincerity and debate free from adjectives should prevail" in Mexico-Venezuela relations. On Sunday, the Mexican Foreign Affairs Office issued a communiqué threatening to recall its ambassador if President Chávez did not apologize on Monday for his remarks Sunday during his radio and TV show "¡Aló, Presidente!" (Hello, President!) against President Fox. [www.eud.com]

Mexican ambassador leaves Caracas

November 15, 2005 – Mexican ambassador to Venezuela Enrique Manuel Loaeza early on Tuesday departed from Caracas amid a diplomatic crisis facing the two countries, a spokesperson for the Mexican Embassy told AFP. "We are not offering a news conference, declarations or communiqués because the ambassador left the country early on Tuesday," the spokesman added.

The Mexican government Monday decided to call back his ambassador to Venezuela. Further, Mexican Foreign Affairs Minister Luis Ernesto Derbez requested "the immediate and final withdrawal of (Venezuelan) ambassador Vladimir Villegas". [www.eud.com]

Relations with Peru

Chávez calls Peruvian President "sepoy"

May 17, 2006 – Venezuelan President Hugo Chávez branded his Peruvian counterpart Alejandro Toledo as "sepoy" and called Peruvian presidential candidate Alan García a "troglodyte", in statements the Lima-based newspaper Correo published on Tuesday, DPA reported.

Further, Chávez insisted that Peruvian nationalist presidential candidate Ollanta Humala "has to be pushed into socialism" for he to joins "a turn to the left" in the region. According to Chávez, Toledo -with whom he has clashed repeatedly in the last few years- is "a sepoy who is leaving already. He is leaving sadly, almost unnoticed, through the back door." Sepoys were indigenous soldiers who served imperial armies in the 18th and 19th centuries.

Chávez said García was "a troglodyte, just like (former Argentinean President) Carlos Menem." Despite García's center-left ideology, Chávez said García is among "the rightwing that is desperate and crumbling down". [www.eud.com]

Ollanta Humala denies links with Chávez

May 04, 2006 – Peruvian nationalist presidential candidate Ollanta Humala late Wednesday expressed "rejection" against President Hugo Chávez' meddling in Peru electoral process. "I do deplore and reject this interference. I have nothing to do with President Chávez," said the candidate of Unión party on a TV show in Lima, AFP reported. This is the first time Humala makes a public criticism against the Venezuelan ruler. Chávez has repeatedly expressed his support for Humala, saying he hopes the nationalist leader to become the next Peruvian President.

Humala's remarks came following Chávez' announcement late Wednesday in Bolivia that he would recall the Venezuelan ambassador in Lima. Chávez made such a move in response to Lima decision last April 29th to recall the Peruvian envoy in Caracas, as Alejandro Toledo's Government considered that Chávez made an "unacceptable interference" in Peru internal affairs.

Humala, who is facing social democrat candidate Alan García in the second round of the presidential election next June 4th, strongly rejected his foes' claims that the Venezuelan Government is funding his electoral campaign.

Tensions started last week, when Chávez decided to withdraw from the Andean Community of Nations (CAN) and claimed that both Peru and Colombia "deadly wounded" the sub-regional bloc when they initialed free trade agreements with the United States. [www.eud.com]

Peru recalls ambassador to Venezuela

Peru recalled its ambassador to Venezuela late Wednesday, in a drastic reaction to President Hugo Chávez' support for Peruvian presidential candidate Ollanta Humala, a former nationalist military officer. "Given the statements yesterday (Tuesday) by the President of Venezuela, which represent an interference with Peru domestic affairs, the Peruvian government has decided to recall its ambassador to Venezuela, Carlos Urrutia, for consultations," said the Peruvian Foreign Affairs Ministry in a communiqué.

Lima claimed that Chávez "made a series of statements regarding the political process facing Peru that do not observe the international law and the principles of the Inter-American system of nations, under which democratic countries have an obligation to refrain from interfering with other countries' domestic affairs".

Further, Peruvian nationalist presidential candidate Ollanta Humala was the target of harsh criticisms in his country following his meeting with Chávez, and Bolivian president-elect Evo Morales in Caracas, Efe informed.

The Peruvian press highlighted Humala's visit to Caracas. El Comercio daily asserted "Chávez ratifies sponsorship for Ollanta," and claimed that the Venezuelan ruler "sees in Humala a sort of clone in a country that, despite lacking oil, has a strategic and enviable coast over the Pacific". [www.eud.com]

Relations with Cuba

Cuba and Venezuela to review cooperation agreements

September 22, 2004 – Cuba and Venezuela are to review their current cooperation agreement and a pact they have signed for next year, besides examining projects in 17 areas of social and economic development, during a meeting that started on Tuesday.

The Fifth Cuban-Venezuelan Joint Committee is to hold sessions in Caracas until Saturday, according to the Cuban National Information Agency. The Cuban Minister for Foreign Investment and Economic Cooperation, Marta Lomas, and the Venezuelan Energy and Mines Minister, Rafael Ramírez, are heading the delegations participating in the event, news agency Efe reported.

The bilateral meeting is taking place under the Integral Cooperation Agreement both countries signed four years ago. Under the pact, Venezuela sells some 53,000 barrels of oil per day to Cuba at preferential prices, while thousands of Cuban professionals and technicians work to provide services in the areas of healthcare, sports, and education in Venezuela.

More than 5,000 Venezuelans have received medical assistance in Cuban hospitals, while thousands of young Venezuelans have been granted scholarships to study in Cuba. [www.eud.com]

Cuba owes \$891 million to Venezuela

January 14 , 2004 – The 2000 Cuba-Venezuela Integral Cooperation Agreement, which establishes preferential conditions for the sale of oil to the island nation, continues to feed the debate. Oil experts have said that the reason behind the controversy is Cuba's bad reputation as a client.

Many of the finance employees that the state-owned oil firm Petróleos de Venezuela (PDVSA) fired during the December 2002-January 2003 general strike have insisted that Cuba has been delaying payments since day one of the agreement. This almost caused the suspension of supplies in 2002, shortly before PDVSA accepted to restructure the debt under the condition that Cuba will make all payments on time.

By December 2002, Cuba was paying 20 to 30 billion dollars monthly and had reduced its debt with Venezuela by 140 to 160 billion dollars, as shown by documents of the Venezuelan oil company. But the strike in Venezuela resulted in the removal of most PDVSA managers who had engineered the restructuring.

Nearly one year after the end of the strike, Cuba's debt reaches 891 million dollars. Information obtained by El Universal shows that the debt includes a 240-million-dollar long-term fraction - due in December last year - that must be paid with promissory notes from the National Bank of Cuba, and a 651-million-dollar short-term fraction, of which 475 million are due and 35 million are delay interest. An evaluation of the long-lasting Cuban debt reveals the island nation made almost no payment to PDVSA in 2003, nor did it redeem long-term debits due last month.

Cuba has delayed the payment of \$62 million for more than 300 days, \$121 million for more than 200 days, and \$122 million for more that 100 days.

Moreover, Venezuela has received no more than 20 of the 92 promissory notes should have filed for shipments made January 2003 and March 2004. This causes an accounting disorder that might explain the financial imbalances PDVSA is exhibiting lately. For instance, of the 651-million-dollar short-term debt, \$48.6 million resulted from the five last shipments already delivered that, by December, were still to be registered on PDVSA's books.

Industry sources say that this accounting disorder has reduced the firm's cash flow, caused an abnormal use of the Fund of Investment for Macro-Economic Stabilization (FIEM) and deteriorated PDVSA's position in the international financial markets. However, Energy Minister Rafael Ramírez has said that the Cuba-Venezuela agreement "has been stabilized" after the imbalance caused by the strike.

Ramírez added that the long-term debt is being dealt with by the Ministry of Finance. "There is no problem with PDVSA regarding Cuba's debt or payment delays," he said. [www.eud.com]

Cuba receives additional oil shipments

February 22 , 2005 – The Venezuelan-Cuban oil convention still gives grounds for criticism. In addition to 53,000 b/d of oil and byproducts set forth in the agreement signed by both nations in 2000, 15,000-25,000 b/d are being provided to total about 70,000 b/d.

Sources of the oil industry stated that the consumption of oil and byproducts in the island does not exceed 50,000 b/d. Thus, it is possible that part of the shipment received from Venezuela is being resold.

In a thorough study on the issue, the US daily The New Herald stated that brokers of the Cuban state company Cupet resell part of the Venezuelan oil in Central America and the Caribbean. They work "closely" with Petróleos de Venezuela and get up to USD 1 billion in annual revenues for Cuban economy. Resold barrels not even enter Cuba, because they are negotiated directly between PDVSA and the Cuban brokers, who sell the Venezuelan oil in Panama, Guatemala, Nicaragua, Honduras and El Salvador, among others.

With respect to the cumulative debt, PDVSA sources stated that Cuba has paid most of this debt by means of promissory notes of the Cuban National Bank. PDVSA delivers these papers to the Venezuelan Central Bank in order to fulfill its commitments with the state, such as the payment of dividends at the end of the year.

From the administrative point of view, this is a transparent operation. However, the original agreement established that only one part of the invoice would be subject to promissory notes, with the remaining -a variable amount based on the oil price- being paid to PDVSA in cash within a 90-day term. [www.eud.com]

Relations with Iran

Venezuela backs Iran in nuclear dispute

January 30 , 2006 – Venezuela is to advocate for Iran in a dispute with Western countries on the nuclear issue, Minister of Energy and Petroleum Rafael Ramírez declared Monday in Vienna. "We will express Venezuela's support to Iran in the dispute on the nuclear issue," Ramírez told reporters before meeting with his Iranian counterpart Kazem Vaziri-Hamaneh, on the eve of the meeting of the Organization of Petroleum Exporting Countries (OPEC) to be held on Tuesday in Vienna, AFP reported. "All countries are sovereign, and this is what we will state clearly". [www.eud.com]

Relations with Bolivia

Roger Noriega: Venezuela and Cuba intervened in Bolivia

July 27 , 2005 – The US Secretary of State for Western Hemisphere Affairs Roger Noriega Wednesday confirmed the statements made by a Pentagon official who said that Venezuela and Cuba were meddling in Bolivia's internal affairs. Noriega added that a response should not come from the US Department of State, but from the region as a whole, reported AP. "There are overwhelming evidences," he affirmed, referring to statements made by US Deputy Assistant Secretary of Defense Roger Pardo Maurer, who said that Venezuela and Cuba are trying to destabilize not only Bolivia, but also other Latin American countries.

Noriega said the Bolivian people and authorities know about the interventions in Bolivia by Venezuelan president Hugo Chávez and his Cuban counterpart Fidel Castro. "It is not about how they worry about Pardo Maurer's or Roger Noriega's comments," he said. "It is an issue that must be decided upon by the region". [www.eud.com]

PDVSA confirms substantial investment in Bolivia

Friday May 26 , 2006 – State oil holding Petr6leos de Venezuela (PDVSA) confirmed Friday that is planning to invest initially at least USD 1.5 billion in some oil projects in Bolivia, in association with local state company YPFB.

The agreements will be signed Friday night in the capital city of La Paz, as the final step of President Hugo Chávez' visit, PDVSA President Rafael Ramírez told reporters. "We are ratifying today the union in the energy sector between Bolivia and Venezuela, for domestic development and to open new markets," Ramírez asserted. The official is part of the entourage of almost 100 people accompanying Chávez during his visit to the coca region of Chapare, Reuters reported. Previously, YPFB President Jorge Alvarado had mentioned the amount of the initial investment. [www.eud.com]

Energy Business

Oil

Petroleum dominated the economy throughout the twentieth century. In 1989 the petroleum industry provided almost 13% of the GDP, 51% of government revenues, and 81% of exports. Before the sharp drop in international oil prices in the 1980s, these ratios were considerably higher. From 1929 to 1970, the year of the country's peak production, Venezuela was the world's largest exporter of petroleum. In 1990 the country ranked as the third leading oil exporter, after Saudi Arabia and Iran, and contained at least 7% of proven world oil reserves.

The country's national petroleum company, the Venezuelan Petroleum Corporation (Petróleos de Venezuela, S.A – PDVSA), the third largest international oil conglomerate, owned refineries and service stations in North America and Europe. Although Venezuela was only the third largest petroleum producer in the Western Hemisphere, behind the United States and Mexico, its proven reserves, at 58.5 billion barrels in 1989, exceeded those of both countries. Venezuela exported 54% of its petroleum to the United States in 1988, representing about 8% of American petroleum imports.

The first commercial drilling of petroleum in Venezuela took place in 1917. After World War I, British and American multinational oil companies rushed to Lago de Maracaibo to tap the country's huge petroleum reserves. Oil jumped from 31% of exports to 91% from 1924 to 1934. The industry proved extremely lucrative to the scores of foreign companies that drilled Venezuelan crude because of the country's low wages and nominal taxes, policies supported by corrupt relations between foreign oil companies and various military dictatorships.

In the forty-year period after the death of Juan Vicente Gómez in 1935, the government and foreign oil companies engaged in a tug-of-war over taxation, regulation, and, ultimately, ownership. Although Venezuela reaped substantially greater benefits from its generous oil endowment after 1943, corruption and deceit on the part of the foreign companies and avaricious caudillos such as Pérez Jiménez still limited the national benefits of the industry. By the early 1970s, the possible nationalization of the oil industry became the focus of debate among labour, businesses, professionals, government, and the public at large. Aware of the conflicts and subsequent difficulties of Mexico's sudden, dramatic nationalization of the entire oil industry in the 1930s, Venezuela pursued its acquisition of the petroleum sector cautiously and deliberately. In December 1974, a national commission created by President Pérez delivered a proposal for nationalization. This proposal formed the core of the 1975 law that nationalized the oil industry. The most controversial element of the new law was Article 5, which gave the government the authority to contract out to multinational firms for various technical services and marketing. Despite the controversy, Article 5 provided technical expertise that proved crucial to the industry's smooth transition to state control beginning on January 1, 1976.

In 1977 the government created a holding company, PDVSA, to serve as the umbrella organization for four major petroleum-producing affiliates. This process consolidated the holdings of fourteen foreign companies and one national company, the Venezuelan Petroleum Corporation (Corporación Venezolana de Petróleos – CVP), into four competing and largely autonomous subsidiaries. Industry analysts have credited the competitive structure of the subsidiaries with increasing overall efficiency to levels well above those of most nationalized companies. The largest subsidiary of PDVSA was Lagoven, which was composed mainly of the facilities previously operated by the United States oil company Exxon. Lagoven accounted for 40% of national output in 1976. From the holdings of British and Dutch Shell, PDVSA created a subsidiary called Maraven. Four smaller United States companies became Meneven. Finally, PDVSA consolidated six smaller foreign firms and the state oil company into Corpoven.

A slump in world oil prices beginning in 1981 rolled back the substantial revenues acquired, and largely squandered, during the 1970s. The symbolic end of PDVSA's prosperity came in 1982, when the Central Bank of Venezuela seized US\$6 billion of the oil company's earnings to help offset the country's growing external debt problems. This action effectively eliminated PDVSA's autonomy. After oil prices dropped nearly 50% in 1986, the government accelerated industrial diversification programs in specialized petroleum refining, natural gas, petrochemicals, and mining, and also stepped up oil exploration efforts.

Exploration remained a major focus of PDVSA activities in the 1980s. At the time of nationalization in 1976, exploration efforts had come to a near standstill. Little exploratory activity took place during the 1960s and 1970s because the Venezuelan government did not grant any new oil concessions after 1958 and most foreign oil companies anticipated eventual nationalization. Although financial constraints slowed the pace of exploratory drilling in the 1980s, major new finds of light, medium, and heavy crude by 1986 nearly doubled proven reserves.

The country's 1989 oil reserves were expected to last for at least ninety-three years at prevailing rates of extraction. The Orinoco heavy oil belt accounted for 45% of proven reserves in 1989, followed by the Maracaibo region with 32%, the eastern Venezuelan basin with 22%, and 1% in other areas. Only a small fraction of the Orinoco's total heavy oil deposits, however, were routinely included in estimates of total proven reserves because of the cost and difficulty of extraction. Some estimates of total recoverable heavy crude reserves ran as high as 190 to 200 billion barrels.

PDVSA's early exploration strategy emphasized heavy crude, but by the 1980s the company's efforts shifted toward more valuable light and medium grades. This approach proved successful, as major new discoveries were made in the Lago de Maracaibo area, the Apure-Barinas Basin in southwest Venezuela near the Colombian border, and in the eastern Venezuelan basin in the El Furrial/Jusepín area in the state of Monagas. Encouraged by its finds in the mid-1980s, PDVSA launched further drilling operations in the late 1980s, with the goal of adding 14.4 billion barrels of light and medium crude to its proven reserves by 1993. In addition to its land-based drilling, PDVSA established an increasing number of offshore rigs. The Venezuelans also explored off the coast of Aruba and had discussed with the governments of Guyana, Trinidad and Tobago, and Guatemala the prospects of exploratory drilling.

PDVSA not only extracted crude oil, but also refined and distributed a wide variety of petroleum products. In 1988 six active refineries in Venezuela boasted an installed refining capacity of approximately 1.2 million barrels of oil a day. These refineries produced a full range of oil products and specialty fuels, making Venezuela an international leader in petroleum refining. PDVSA increased the percentage of locally refined crude from 35% to 58% between 1979 and 1988. In 1988 the country for the first time exported more refined petroleum than crude. PDVSA diversified its production during the 1980s, increasing the share of petroleum products that fell outside OPEC quotas until the late 1980s, in an effort to enhance price stability and boost profits. Orinoco Asphalt (Bitúmenes del Orinoco), a PDVSA subsidiary, began preliminary shipments in the late 1980s of orimulsión, a uniquely Venezuelan synthetic fuel derived from Orinoco heavy crude, water, and chemical additives. PDVSA hoped to export increasing quantities of orimulsión, outside OPEC quotas, to Canada and Europe as a substitute for coal or fuel oils used by electric power stations.

From 1983 to 1989, PDVSA acquired overseas refining capacity from at least five multinational oil conglomerates, either through production contracts or outright purchases. For example, in 1983 PDVSA bought a 50% share of the West German Apple Laser Writer Plus/IINT/IINTXAPLASPLU. PRS the Swedish lubricant and asphalt producer, Nynas. Beginning in 1986, PDVSA entered the United States oil market by purchasing United States oil firms, refineries, and retail outlets previously held by Citgo, Champlin, and Unocal. PDVSA's overseas refining capacity exceeded 700,000 barrels per day by the close of the decade. By 1990, therefore, PDVSA had the capability to refine nearly all of its crude oil production, either at home or at Venezuelan-owned facilities overseas. Moreover, with PDVSA's purchase of Citgo in 1989, Venezuela became the first OPEC member to wholly own a major United States oil refinery.

The United States has consistently been Venezuela's leading oil export recipient. During the 1980s, however, PDVSA increased its exports to Central America and the Caribbean. In 1980 Venezuela and Mexico embarked on a joint program called the San José Accord, under which the two oil producers exported oil to many countries of the Caribbean Basin region at concessionary rates. The accord set up a system of compensatory finance and purchases of Venezuelan goods in exchange for crude that amounted to a 20% discount on the world market price.

Natural Gas and Petrochemicals

Venezuela also possessed vast reserves of natural gas. Proven gas reserves reached an estimated 3 trillion cubic meters in 1989, the second greatest proven reserves in the Western Hemisphere after the United States. At current rates of extraction, proven gas reserves could meet domestic needs into the twenty-second century. In the late 1980s, the country produced roughly 22 billion cubic meters of gas a year, most of which was used to meet domestic energy needs.

The natural gas industry increased in importance during the 1980s as oil prices declined, as more households received piped gas, as gas-intensive heavy industries came on-stream, and as liberalization of foreign investment rapidly expanded the potential of the petrochemical industry. Natural gas effectively became the property of the state under the Hydrocarbons Reversion Law of 1971, at which time the state-owned CVP oversaw exploration. A major effort to expand consumer sales of gas in the late 1980s involved gas pipeline construction to provide gas to households. Gas also fuelled some of the industries in the mining sector.

Venezuelan Petrochemicals (Petroquímicas de Venezuela-- Pequiven), a PDVSA subsidiary established in 1977, oversaw petrochemical development. Pequiven's forerunner institution, the Venezuelan Petrochemical Institute (Instituto Venezolano de Petroquímicas – IVP), was established in 1956. A source of corruption and political patronage, the IVP was reorganized in 1977 in a controversial decision to bring it within PDVSA's nascent structure. The new Pequiven proved successful under PDVSA's guidance, registering its first profit in 1983. Pequiven extended its profits as petrochemical production more than quadrupled from 1979 to 1988, from 540,000 to 2.3 million tons.

In 1990 Pequiven consisted of four major subsidiaries and sixteen associated companies. Numerous joint ventures with multinational firms, however, were slated to begin in the mid-1990s. The three major petrochemical complexes in Venezuela were at El Tablazo in Zulia, Morón in Carabobo, and José in Anzoátegui. El Tablazo, traditionally the largest complex, produced ammonia, urea, polystyrene, ethylene, and propylene. The Morón plant, the site of the country's first commercial fertilizer production, also fabricated chlorine, caustic soda, and sulphuric acid, all used in heavy industry. The complex in Anzoátegui was scheduled to manufacture liquefied natural gas, methanol, and methyl-tertiary butyl ether (MTBE), primarily for export. Among the three complexes, the country also produced pesticides, insecticides, resins, explosives, aromatics, and ethane dichloride and other chemicals. As of 1990, a fourth petrochemical complex in Paraguana in the state of Falcón was also anticipated.

Actual Energetic Policy of Venezuela

Similar to the political relation, the energetic policy of Venezuela shows an interest to form a block of leftist oil producer countries, pushing the uncertainty in the oil sector. Constant changes in national oil and taxes laws and regulations have increased the investment risk. This conclusion is obtained with the following articles taken from *El Universal*.

Proposal to levy higher tax on foreign oil firms

June 02 , 2005 – Ex president of state oil company Petróleos de Venezuela (PDVSA) Gastón Parra Luzardo proposed Thursday to increase the income tax nominal rate charged to the parties to operational agreements. "Increasing the nominal rate from 34 to 50% under the operational agreements, as reported, is fair and reasonable. However, I think that the 50% rate should be raised even more," he told the National Assembly (AN) Finance Committee, during a formal questioning including the appearance of several ex PDVSA senior officials. In Parra's opinion, the oil opening skewed the fundamental principle of hydrocarbons nationalization. "Because of operational agreements, PDVSA surrendered to third parties R&D activities reserved by the state," he claimed.

Government surveys found that "operational agreements are not what they intended to be." They are not only service companies, but oil producers. In his view, operational agreements should be construed as service contracts.

At the present time, there are 32 operational agreements in force. During the first quarter of 2005, output under these instruments totaled 429,000 b/d. [www.eud.com]

Oil companies cannot record reserves of the Orinoco Oil Belt

March 02 , 2006 – Oil companies cannot record in their accounting books any reserves of extra-heavy oil in the Orinoco Oil Belt, Minister of Energy and Petroleum Rafael Ramírez warned Thursday.

Venezuela has a partnership in four projects – Cerro Negro, Hamaca, Petrozuata and Sincor – with Norwegian Statoil, French Total, and US ExxonMobil, ConocoPhillips and Chevron, to enhance extra-heavy oil. "Nobody, nobody" can record as own the reserves of Venezuelan oil, Ramírez pointed out during a ceremony at the National Assembly (AN.)

Oil companies include in their balances the reserves of the fields developed by them as a final pointer of financial good conditions. [www.eud.com]

Tax authority closes Total office in Venezuela

March 16 , 2006 – The National Customs and Tax Administration Service (Seniat) Thursday closed down French oil company Total and Italian ENI business offices in Caracas for 48 hours, for administrative failings. The move is not to affect the company's production activities. Seniat head José Gregorio Vielma Mora told reporters that the move came in response to "non compliance with accountancy records," AFP reported.

Seniat had previously warned it could close Total office on Friday if the corporation failed to repay overdue taxes for USD 107 million.

Total is one of the 22 oil firms Seniat has accused of misconstruing the Venezuelan tax code and inflating tax deductions, AP reported.

The Venezuelan tax authority made the warning in a press release issued one day after it said Total had accepted to repay overdue taxes this week. Earlier Seniat had threatened to fine Total and confiscate its assets if the firm failed to pay back taxes. [www.eud.com]

Energy minister: ExxonMobil is no longer welcome in Venezuela

March 31 , 2006 – Venezuelan Energy and Petroleum minister Rafael Ramírez announced that US corporation ExxonMobil was no longer welcome in Venezuela.

The US firm rejected changes in oil taxes implemented by President Hugo Chávez' government, as well as migration from oil operational agreements to joint ventures where the Venezuelan State has a majority stake, AP reported. Chávez is championing "re-nationalization" of the Venezuelan oil industry, the world's fifth largest. ExxonMobil recently sold its stake in a joint venture with the Venezuelan State to Spanish-Argentine corporation Repsol. "Some companies rather left" than accepting changes in Venezuelan oil policies, Ramírez told state-run TV channel Venezolana de Televisión. "ExxonMobil chose to sell its stake to Repsol rather than fitting in". "Consequently, we said we do not

want them here. We have many partners, many capabilities and many countries are ready to join us in managing our resources".

ExxonMobil was also the only foreign oil company operating in Venezuela that publicly expressed rejection against increased oil royalties. [www.eud.com]

PDVSA takes over Eni, Total oil fields

April 03 , 2006 – Oil output in eastern Venezuela grew 100,000 bpd following termination of operational agreements with Italian firm ENI-Dacion and French company Total.

Energy and Petroleum minister Rafael Ramírez said Venezuelan state-owned oil giant PDVSA took over the operations of the fields of the two foreign corporations, amidst efforts to comply with the new Hydrocarbons Law, the official news agency ABN reported.

PDVSA drills 1.2 million bpd in eastern Venezuela. Output is to increase with exploitation of Dacion fields, south Anzoátegui state, and Jusepín, in Monagas state, Ramírez told local El Tiempo daily.

This move was made amid legal changes leading to termination of 32 operational agreements Venezuela entered into during the so-called oil opening process in the 90's. The Venezuelan State, has therefore taken control of some 600,000 bpd, for a total estimated output of 3.3 million bpd.

Under the new rules, former service agreements became joint ventures between foreign firms and the Venezuelan State. Most private companies accepted the new conditions, with the exception of ENI and Total. Both corporations refused to initial last March 31st the memoranda of understanding to migrate to joint ventures.

The foreign firms that initialed the agreements were Repsol, Suelopetrol, BP, Teikoku, Vincler, Inemaka, Open, Petrobras, CNPC, Chevron, Shell, CGC, Tecpetrol, Perenco, Harvest and Hocol. Under these agreements, the Venezuelan State is to hold at least a 60% stake. The relevant authorities thus claim they have full sovereignty over the country's energy resources. [www.eud.com]

Eni ponders legal actions against PDVSA

April 04 , 2006 – Italian oil firm Eni announced likely legal actions against Venezuelan state oil giant PDVSA for the takeover of one of Eni-operated oil fields in Venezuela, according to a press release published Tuesday in Milan, AFP reported. On Monday, Venezuela said it would retake control over two oil fields French firm Total and Eni exploited in Venezuela, given their failure to enter into joint ventures with PDVSA where the Venezuelan State has a majority stake. "Eni estimates that PDVSA move is a contract breach. Eni is to grant a term for PDVSA to reach an agreement that fully respect Eni rights," the Italian firm stressed. "In the event that no agreement is attained, Eni is to take legal actions to defend its rights". Eni was operating 50,000 bpd Dacion field.

Oil agreements should become joint ventures

April 14 , 2005 – Minister of Energy and Petroleum Rafael Ramírez announced Thursday that the 32 operational agreements reached with private companies for oil R&D should become joint ventures with state oil company PDVSA in six-month time, Reuters reported.

Ramírez noted during a press conference that some of the agreements entered into from 1992-1997 by foreign and domestic companies were resulting in substantial losses. Therefore, they should be amended to fit in the new hydrocarbons law.

The law provides for state sharing of at least 51% in operational agreements including private, foreign or domestic, capital. Based on Ramírez estimates, "PDVSA direct losses in 2004 are around USD 260 million in this connection."

The official explained that the 2005 corporate budget amounted to USD 12 billion based on an output of 3.1 million barrels of oil. A total of USD 3 billion was spent in order to

produce 500,000 barrels under the operational agreements. "This puts the cost of operational agreements in USD 14/b against USD 4/b for PDVSA own production," he added. [www.eud.com]

Joint ventures to operate all fields

May 04 , 2006 – Under the final agreements for the organization of the joint ventures that are to replace oil operational agreements in Venezuela -which the Energy and Petroleum Ministry forwarded to the National Assembly Energy and Mines Committee last week for approval-, the 25 oil fields that migrated to the new scheme will be in the hands of said joint ventures.

In a news conference, Rafael Ramírez, minister of Energy and Petroleum, and also the president of state oil firm PDVSA, had suggested that 10 oil fields close to the PDVSA operational districts -Kaki, Cabimas, Onado, Guárico Oriental, LL652, Casma Anaco, Ambrosio, B2X 70/80, Caracoles and Intercampo Norte- were likely to be operated by the Venezuelan state oil holding rather than joint ventures, with a view to optimize costs.

However, the 21 agreements forwarded to the National Assembly Energy and Mines Committee -which the plenary session is expected to okay in the next few days, clearly establish that the operation of the 25 fields will be in the hands of joint ventures, where the Venezuelan Corporation of Petroleum (CVP) -an affiliate of PDVSA- has an average stake of 63%, while the remaining 37% stake is in the hands of several private firms. Such instruments also show that the Ambrosio and Pedernales agreements, formerly operated by Perenco, are to merge into a single joint venture called Petrowarao, where the CVP owns a 60% stake and Perenco a 40% stake. In this way, the total number of joint ventures that are to replace operational agreements are 21 and not 22 as originally announced.

The total number of private firms participating in the new joint ventures includes 16 large corporations -BP, Chevron, CGC, CNPC, Harvest Vinccler, Hocol, Inemaka, Open, Perenco, Petrobrás, Repsol YPF, Shell, Suelopetrol, Tecpetrol, Teikoku and Vinccler- and other 14 companies that are to play the role of third and fourth parties.

The largest acreage -2,401 square kilometers- was granted to British Petroleum, under joint venture Petroperijá, which is replacing operational agreement DZO, in northwestern Zulia state. The smallest acreage -34.84 square kilometers- is in the hands of China National Petroleum Corporation, under joint venture Petrocaracol, which is to replace operational agreement Intercampo Norte. [www.eud.com]

Venezuelan foreign policy has used oil as diplomatic weapon

February 05 , 2005 – Relations of President Hugo Chávez' administration with other nations have been marked by duality and contradictions. From the very beginning, it showed independence from the United States by improving links with countries such as Cuba, Iraq and Iran. But economic interests have taken precedence over the anti-imperialist wording and oil relations with the United States have been steady

The use of oil as diplomatic weapon was reinforced when Hugo Chávez Frías took over in 1999. While diplomacy based on oil is not a new issue in Venezuela -ex Presidents Carlos Andrés Pérez and Rafael Caldera set an example- the current ruler has managed to implement it in order to "tie" those nations that, despite of having different government policies, need the Venezuelan supply. "Unfortunately, oil is increasingly used as a weapon, rather than a political tool. As a tool, it could leverage development, but as a weapon is a blackmail against the enemies of revolution," said diplomat Milos Alcalay.

This six year-term under Chávez' government has been marked by a foreign policy based on economic multi-polarity with a view to breaking dependence on the United States and promoting Southern integration.

Clashes with the United States, Colombia and Spain were in the diplomatic agenda. While Cuba, Iraq, Iran, China, Libya, Russia, United Arab Emirates, Saudi Arabia, Qatar and Kuwait are in the list of the nations that have signed with the "Bolivarian revolution" a wide range of agreements, labeled as "strategic," sometimes they favor the party, rather than the state, according to Alcalay.

Cuban-Venezuelan relations are not a secret. The communion of the communist ideology between Fidel Castro and Chávez has turned Venezuela into the major economic and political ally of Cuba.

Since 1999, Venezuela has been the major oil supplier of Cuba. It presently exports 53,000 b/d of oil in preferential payment conditions. This is a strategic alliance for both governments. In exchange, Cuba has supported the Bolivarian revolution and its social plans with physicians, sport trainers, health care for Venezuelans in Cuba and training in Cuba of Bolivarian circles.

Several times, the United States have expressed reservations about this mutual cooperation and fear that Venezuelan democracy would be at stake.

From the very beginning, Chávez showed diplomatic independence from the United States. The OPEC summit held in Caracas in 2000 attests to this fact. During that meeting, the leaders of Iraq and Iran -viewed as evil by the United States- met in private with the Venezuelan ruler. Nor can be forgotten the intense tour of President Chávez to oil countries to make personally the invitation.

In the opinion of internationalist and analyst Maruja Tarre, Chávez's attempts at getting closer to OPEC nations cannot be criticized. "For 45 years, Venezuela has conducted a permanent diplomacy to get closer to OPEC nations. The difference is that formerly it was a matter of common interests. Now, President Chávez seeks ideological rapprochement. This is absurd, because there are enormous differences among them. If he is with Khadafi or Saddam Hussein's Iraq, he runs counter to Saudi Arabia or Kuwait," Tarre said. "While getting closer to some countries, Chávez walks away from other nations. And this may cause us some inconveniences at OPEC," she added.

Chávez' visit to Iraq -the first one paid by a ruler since the Gulf War in 1991- shocked the United States. How can the ride of President Chávez and the then President Saddam Hussein in a Mercedes Benz be forgotten, or the eventful inauguration of a statue of Simón Bolívar and a street with the name of the Liberator in Iran?

Russia has also been in good terms with Venezuela. Under the government of Vladimir Putin there has been increasing cooperation in gas and oil projects, a number of trade agreements have been executed and weapons have been purchased for USD 5 billion.

China adds to this list of allies. Conventions on scientific, technological, trade and oil cooperation have been entered into. Last January 28, Chinese Vice-President Zeng Qinghong executed over 20 agreements with Venezuela, thus reinforcing the links of both nations. For a country, the President of which was awarded the Khadafi International Prize of Human Rights 2004, harmonic relations with remaining countries, particularly with the West, are to be expected. However, this is not the case.

There are many reasons to consider that Venezuelan-US relations are inconsistent. However, economic issues have taken precedence over conflicts and helped preserve relations over the last six years. The Iraq war, terrorism, human rights, integration, trade, fight against rebels, criticism of Plan Colombia, and rejection of the Free Trade Area of the Americas (FTAA) are many of the differences between Chávez and US President George W. Bush.

Despite confrontation, oil relations have been steady: many times the Venezuelan government has threatened to suspend oil supply as the United States seriously question democracy in Venezuela. However, the conflicts dampen in view of the US need for the Venezuelan oil supply and the Venezuelan need for dollars to keep the political project of

the Bolivarian revolution and attain a global high profile. "To the extent that Chávez does not threaten with the oil supply, the United States will not have any problems with Venezuela. As clearly stated by US Ambassador to OAS John Maisto, there is no need to take care of Chávez' words, but his actions," said Tarre.

Relations with Colombia are strained. The capture of the "chancellor" of the Colombian Revolutionary Armed Forces (FARC) Rodrigo Granda, in Venezuela last December, sparked a real diplomatic crisis.

Bilateral trade was endangered. The fact of the matter is that many interests are at stake. Neither Bogotá nor Caracas is willing to lose their markets.

The Granda's case is the tip of the iceberg, because reported links of the Venezuelan government to FARC and ELN have not been clarified, whereas President Chávez refuses to view these organizations as terrorists. From the very beginning, Chávez has taken a liking of the Marxist ideology of Colombian guerrillas. On their part, the rebels have identified themselves with the revolution advanced by Chávez.

While the Venezuelan ruler labeled as positive Venezuelan foreign affairs during the World Social Forum held in Porto Alegre, there are different opinions in this regard.

According to Tarre, the diplomatic performance of the current government is negative. Alcalay agrees with it and pointed to "an downward trend" as the concept of diplomacy has been deteriorated. But surely enough, oil will always condition bilateral relations. Nations will continue moving according to the Venezuelan oil. [www.eud.com]

Brazil

The fifth largest country in the world, Brazil is the largest country in Latin America and has territory slightly larger than that of the continental United States. Its population, estimated officially at nearly 160 million in mid-1997, is the largest in Latin America and constitutes about half of the population in South America. With 80% of its population living in cities and towns, Brazil is one of the most urbanized and industrialized countries in Latin America. São Paulo and Rio de Janeiro are among the ten largest cities in the world. São Paulo, with its 18 million people, is the world's third largest city, after Mexico City and Tokyo. Yet, parts of Brazil's Amazon region, which has some of the world's most extensive wilderness areas, are sparsely inhabited by indigenous peoples still in the process of coming into contact with the modern world.

More than for its superlatives, however, Brazil stands out for its regional and social disparities. Brazil is noted for having one of the most unequal income distributions of any country. In the rural Northeast (*Nordeste*), there is poverty similar to that found in some African and Asian countries. Although increased urbanization has accompanied economic development, it also has created serious social problems in the cities. Even the wealthiest cities contain numerous shantytowns called *favelas*.

While in many ways this diversity or heterogeneity makes it similar to other developing countries in Latin America and elsewhere, Brazil is also unique. One of the fascinating elements of this uniqueness is that it is different things at once, presenting different faces or identities of a single coherent whole. Both local and foreign perceptions of Brazil tend to exaggerate particular features, lack a balanced view, and fail to grasp how the parts of the whole fit together. During the twentieth century, for example, Brazil came to be known to the rest of the world and to many of its own inhabitants in picturesque motifs that could best be fit together coherently in terms of a "land of contrasts." The country was considered a tropical paradise famed for its exports (coffee), music (such as Carmen Miranda, samba, and bossa nova), and soccer (thanks to Edson Arantes do Nascimento (Pelé), as well as the nearly mythical Amazon rain forest. Rio de Janeiro was associated with Sugarloaf (*Pao de Açúcar*), Copacabana, income tax fugitives, and even the mastermind of Britain's "Great Train Robbery" of 1963. On a more serious level, Brazil often was disparaged for its inability to solve basic political and economic problems, such as consolidating democratic institutions, controlling runaway inflation, and servicing the foreign debt. However, the nation is noted for being an emerging industrial power and for constructing giant public works, such as the new capital city of Brasilia, the Trans-Amazonian Highway, and the world's largest hydroelectric dam (Itaipu). Brazil also stands out for its leadership role in Latin America and the developing world.

Most Brazilians saw the military regime (1964-85) as a repressive dictatorship, although others regarded it as having saved the country from communism. Brazilian society was viewed as conservative and male chauvinistic, yet simultaneously freewheeling or even licentious, as revealed in its *Carnaval* (Carnival) festivities. In the 1980s, much of the world saw the Amazon, the world's greatest store of biodiversity, and its native peoples as falling victim to unparalleled destruction. In the early 1990s, the news of massacres of Yanomami Indians, street children, and *favela* dwellers who inhabit Rio de Janeiro's hillsides sundered Brazil's image of cordiality. Although there were other reasons for pessimism and a continuing identity crisis (Brazil became the first democracy to impeach its president, in December 1992), there were reasons for pride as well (inflation was brought under control in 1994). Was Brazil a "serious country" destined to be a great power, or was it always to remain a land of the future?

One can find ample evidence for countervailing trends: unity and diversity, modernity and tradition, progressive government policies and deeply rooted inequality, tight control by elites and broadening popular participation, principles and pragmatism. There are no simple answers. This chapter examines Brazil's social and environmental complexity and its characteristic paradoxes and nuances of meaning, beginning with the physical setting and moving into the more mercurial social issues, with special attention to how society relates to nature.

Geography

With its expansive territory, Brazil occupies most of the eastern part of the South American continent and its geographic heartland, as well as various islands in the Atlantic Ocean. The only countries in the world that are larger are Russia, Canada, China, and the United States (including Alaska). The national territory extends 4,395 kilometres from north to south ($5^{\circ}16'20''$ N to $33^{\circ}44'32''$ S latitude) and 4,319 kilometres from east to west ($34^{\circ}47'30''$ E to $73^{\circ}59'32''$ W longitude). It spans four time zones, the westernmost of which, in Acre State, is the same as Eastern Standard Time in the United States. The time zone of the capital (Brasília) and of the most populated part of Brazil along the east coast is two hours ahead of Eastern Standard Time, except when it is on its own daylight savings time, from October to February. The Atlantic islands are in the easternmost time zone.



Brazil possesses the archipelago of Fernando de Noronha, located 350 kilometres northeast of its "horn", and several small islands and atolls in the Atlantic--Abrolhos, Atol das Rocas, Penedos de São Pedro e São Paulo, Trindade, and Martim Vaz. In the early 1970s, Brazil claimed a territorial sea extending 362 kilometres from the country's shores, including those of the islands.

On Brazil's east coast, the Atlantic coastline extends 7,367 kilometres. In the west, in clockwise order from the south, Brazil has 15,719 kilometres of borders with Uruguay, Argentina, Paraguay, Bolivia, Peru, Colombia, Venezuela, Guyana, Suriname, and French Guiana. The only South American countries with which Brazil does not share borders are Chile and Ecuador. A few short sections are in question, but there are no major boundary controversies with any of the neighbouring countries.

History

There is evidence suggesting possible human habitation in Brazil more than 30,000 years ago, and scholars have found artefacts, including cave paintings, that all agree date back at least 11,000 years. By the time Europeans arrived there was a relatively small indigenous population, but the archaeological record indicates that densely populated settlements had previously existed in some areas; smallpox and other European diseases are believed to have decimated these settlements prior to extensive European exploration. The indigenous peoples that survived can be classified into two main groups, a partially sedentary population that spoke the Tupian language and had similar cultural patterns,

and those that moved from place to place in the vast land. It is estimated that approximately a million indigenous people were scattered throughout the territory.

Whether or not Brazil was known to Portuguese navigators in the 15th cent. is still an unsolved problem, but the coast was visited by the Spanish mariner Vicente Yáñez Pinzón before the Portuguese under Pedro Alvares Cabral in 1500 claimed the land, which came within the Portuguese sphere as defined in the Treaty of Tordesillas (1494). Little was done to support the claim, but the name Brazil is thought to derive from the Portuguese word for the red color of brazilwood [brasa=glowing coal], which the early visitors gathered. The indigenous people taught the explorers about the cultivation of corn, the construction of hammocks, and the use of dugout canoes. The first permanent settlement was not made until 1532, and that was at São Vicente in São Paulo. Development of the Northeast was begun about the same time under Martím Afonso de Sousa as first royal governor. Salvador was founded in 1539, and 12 captaincies were established, stretching inland from the Brazilian coast.

Portuguese claims, somewhat lackadaisically administered, did not go unchallenged. French Huguenots established themselves (1555) on an island in Rio de Janeiro harbour and were routed in 1567 by a force under Mem de Sá, who then founded the city of Rio de Janeiro. The Dutch made their first attack on Salvador (Bahia) in 1624, and in 1633 the vigorous Dutch West India Company was able to capture and hold not only Salvador and Recife but the whole of the Northeast; the region was ably ruled by John Maurice of Nassau. No aid was forthcoming from Portugal, which had been united with Spain in 1580 and did not regain its independence until 1640. It was a naval expedition from Rio itself that drove out the Dutch in 1654. The success of the colonists helped to build their self-confidence.

Farther south, the *bandeirantes* from São Paulo had been trekking westward since the beginning of the 17th cent., thrusting far into Spanish territory and extending the western boundaries of Brazil, which were not delimited until the negotiations of the Brazilian diplomat Rio Branco in the late 19th and early 20th cent. The Portuguese also had ambitions to control the Banda Oriental (present Uruguay) and in the 18th cent. came into conflict with the Spanish there; the matter was not completely settled even by the independence of Uruguay in 1828.

The sugar culture came to full flower in the Northeast, where the plantations were furnishing most of the sugar demanded by Europe. Unsuccessful at exploiting the natives for the backbreaking labour of the cane fields and sugar refineries, European colonists imported Africans in large numbers as slaves. Dependence on a one-crop economy was lessened by the development of the mines in the interior, particularly those of Minas Gerais, where gold was discovered late in the 17th cent. Mining towns sprang up, and Ouro Preto became in the 18th cent. a major intellectual and artistic centre, boasting such artists as the sculptor Aleijadinho. The centre of development began to swing south, and Rio de Janeiro, increasingly important as an export centre, supplanted Salvador as the capital of Brazil in 1763.

Ripples from intellectual stirrings in Europe that preceded the French Revolution and the successful American Revolution brought on an abortive plot for independence among a small group of intellectuals in Minas; the plot was discovered and the leader, Tiradentes, was put to death. When Napoleon's forces invaded Portugal, the king of Portugal, John VI, fled (1807) to Brazil, and on his arrival (1808) in Rio de Janeiro that city became the capital of the Portuguese Empire. The ports of the colony were freed of mercantilist restrictions, and Brazil became a kingdom, of equal status with Portugal. In 1821 the king returned to Portugal, leaving his son behind as regent of Brazil. New policies by Portugal toward Brazil, tightening colonial restrictions, stirred up wide unrest.

The young prince eventually acceded to popular sentiment, and advised by the Brazilian José Bonifácio, on Sept. 7, 1822, on the banks of the Ipiranga River, allegedly uttered the fateful cry of independence. He became Pedro I, emperor of Brazil. Pedro's rule, however, gradually kindled increasing discontent in Brazil, and in 1831 he had to abdicate in favour of his son, Pedro II.

The reign of this popular emperor saw the foundation of modern Brazil. Ambitions directed toward the south were responsible for involving the country in the war (1851–52) against the Argentine dictator, Juan Manuel de Rosas, and again in the War of the Triple Alliance (1865–70) against Paraguay. Brazil drew little benefit from either; far more important were the rise of post war discontent in the military and beginnings of the large-scale European immigration that was to make SE Brazil the economic heart of the nation. Railroads and roads were constructed, and today the region has an excellent transportation system.

The plantation culture of the Northeast was already crumbling by the 1870s, and the growth of the movement to abolish slavery, spurred by such men as Antônio de Castro Alves and Joaquim Nabuco, threatened it even more. The slave trade had been abolished in 1850, and a law for gradual emancipation was passed in 1871. In 1888 while Pedro II was in Europe and his daughter Isabel was governing Brazil, slavery was completely abolished. The planters thereupon withdrew their support of the empire, enabling republican forces, aided by a military at odds with the emperor, to triumph.

In 1889 the republic was established by a bloodless revolution, with Marshal Manuel Deodoro da Fonseca as its first president. The rivalry of the states and the power of the army in government, especially under Fonseca's unpopular Jacobinist successor, Marshal Floriano Peixoto, caused the political situation to remain uneasy. The expanding market for Brazilian coffee and more particularly the wild-rubber boom brought considerable wealth as the 19th cent. ended.

The creation of rubber plantations in Southeast Asia brought the wild-rubber boom to a halt and hurt the economy of the Amazon region after 1912. Brazil sided with the Allies in World War I, declaring war in Oct., 1917, and shared in the peace settlement, but later (1926) it withdrew from the League of Nations. Measures to reverse the country's growing economic dependence on coffee were taken by Getúlio Vargas, who came into power through a coup in 1930. By changing the constitution and establishing a type of corporative state he centralized government (the Estado Nôvo) and began the forced development of basic industries and diversification of agriculture. His mild dictatorial rule, although it aroused opposition, reflected a new consciousness of nationality, which was expressed in the paintings of Cândido Portinari and the music of Heitor Villa-Lobos.

World War II brought a new boom (chiefly in rubber and minerals) to Brazil, which joined the Allies in 1942, after coming close to backing Germany, and began taking a larger part in inter-American affairs. In 1945 the army forced Vargas to resign, and Gen. Eurico Gaspar Dutra was elected president. Brazil's economic growth was plagued by inflation, and this issue enabled Vargas to be elected in 1950. His second administration was marred by economic problems and political infighting, and in 1954 he committed suicide. Juscelino Kubitschek was elected president in 1955. Under Kubitschek the building of Brasília and an ambitious program of highway and dam construction were undertaken. The inflation problem persisted.

On Apr. 21, 1960, Brasília became Brazil's official capital, signalling a new commitment to develop the interior of the country. In 1960 Jânio da Silva Quadros was elected by the greatest popular margin in Brazilian history, but his autocratic, unpredictable manner aroused great opposition and undermined his attempts at reform. He resigned within seven months. Vice President João Goulart was his successor. Goulart's leftish administration was weakened by political strife and seemingly insurmountable economic chaos, and in 1964 he was deposed by a military insurrection. Congress elected Gen.

Castelo Branco to fill out his term. Goulart's supporters and other leftists were removed from power and influence throughout Brazil and, in 1965, the president's extraordinary powers were extended and all political parties were dissolved.

A new constitution was adopted in 1967, and Marshall Costa e Silva succeeded Castelo Branco. In 1968, Costa e Silva recessed Congress and assumed one-man rule. In 1969, Gen. Emílio Garrastazú Médici succeeded Costa e Silva. Terrorism of the right and left became a feature of Brazilian life. The military police responded to guerrilla attacks with widespread torture and the formation of death squads to eradicate dissidents. This violence abated somewhat in the mid-1970s. Gen. Ernesto Geisel succeeded Médici as president in 1974. By this time, Brazil had become the world's largest debtor.

In 1977 Geisel dismissed Congress and instituted a series of constitutional and electoral reforms, and in 1978 he repealed all emergency legislation. His successor, Gen. João Baptista de Oliveira Figueiredo, presided over a period (1979–85) of tremendous industrial development and increasing movement toward democracy. Despite these improvements, economic and social problems continued and the military maintained control of the government. Civilian government was restored in 1985 under José Sarney, and illiterate citizens were given the right to vote. Sarney's reforms were initially successful, but increasing inflation brought antigovernment protests.

In 1988 a new constitution came into force, reducing the workweek and providing for freedom of assembly and the right to strike, and in 1990 President Fernando Collor de Mello was elected by popular vote. As a result of increasing international pressure, Collor sponsored programs to decrease the rate of deforestation in Amazon rain forests and to protect the autonomy of the indigenous Yanomami. In 1992, amid charges of wide-scale corruption within his government, Collor became the first elected president to be impeached by the Brazilian congress; he resigned as his trial began, to be replaced temporarily by his vice president, Itamar Augusto Franco. In 1994 the supreme court cleared Collor of corruption charges, but he was barred from public office until 2001.

Fernando Henrique Cardoso was elected president in Oct., 1994, and took office in Jan., 1995. The Cardoso government reduced state controls on the economy and privatized government-owned businesses in telecommunications, oil, mining, and electricity. With the help of a new stable currency, Cardoso was able to bring inflation under control; he also signed decrees expropriating new lands from private estates for redistribution to the landless poor.

Re-elected in 1998, Cardoso was faced with an economic crisis as budget deficits and a decline in foreign exchange reserves led to currency devaluations and increased interest rates. Late in 1998, he appealed to the International Monetary Fund, which assembled a \$42 billion aid package for the country. Brazil then began implementing a program of stringent economic policies that restored investor confidence by mid-1999 and led to economic growth. In May, 2000, Cardoso signed a fiscal responsibility law that limited spending by the states; the legislation was a result of fiscal crises in several Brazilian states.

A series of corruption scandals that undermined the governing coalition in early 2001 was followed by an energy crisis that led the government to order widespread cuts in electrical consumption from May until Mar., 2002; the crisis resulted from a drought that reduced the water available to produce hydropower and a decade-long increase in the demand for electricity. Popular dissatisfaction with economic austerities helped fuel the election of Lula Da Silva, of the opposition Workers' party (PT), to the presidency in 2002. Da Silva's subsequent inauguration also marked the increasing stability of Brazilian democracy; it was the first transfer of power between elected presidents since 1961. The new president did not deviate greatly from his predecessor's economic program, however, which alienated many supporters on the left.

Da Silva's government was hurt by a campaign finance scandal in early 2004 and by an increase in unemployment, and suffered losses in popular and congressional support, although economic growth in 2004 was strong and unemployment subsequently decreased. In June, 2005, the president was further hurt PT officials were accused of buying the votes of some of its congressional coalition members. The charges, made by the leader of a party in coalition with the president, led to the resignation of the president's chief of staff (who was expelled from the congress late in the year) and of the Workers' party leader and treasurer and forced the president to reshuffle his cabinet to shore up coalition support for his government. A separate bribery scandal led to the resignation of the speaker of the House in September. Although the president weathered the scandals, they led to the sidetracking of social-reform legislation he had proposed. Amazonas state was hit by a severe drought in 2005 when the dry season saw much less rainfall than usual.

The Portuguese were the first European settlers to arrive in the area, led by adventurous Pedro Cabral, who began the colonial period in 1500. The Portuguese reportedly found native Indians numbering around seven million. Most tribes were peripatetic, with only limited agriculture and temporary dwellings, although villages often had as many as 5000 inhabitants. Cultural life appears to have been richly developed, although both tribal warfare and cannibalism were ubiquitous. The few remaining traces of Brazil's Indian tribes reveal little of their lifestyle, unlike the evidence from other Andean tribes. Today, fewer than 200,000 of Brazil's indigenous people survive, most of whom inhabit the jungle areas.

Other Portuguese explorers followed Cabral, in search of valuable goods for European trade but also for unsettled land and the opportunity to escape poverty in Portugal itself. The only item of value they discovered was the *pau do brasil* (brazil wood tree) from which they created red dye. Unlike the colonizing philosophy of the Spanish, the Portuguese in Brazil were much less focused at first on conquering, controlling, and developing the country. Most were impoverished sailors, who were far more interested in profitable trade and subsistence agriculture than in territorial expansion. The country's interior remained unexplored.

Nonetheless, sugar soon came to Brazil, and with it came imported slaves. To a degree unequalled in most of the American colonies, the Portuguese settlers frequently intermarried with both the Indians and the African slaves, and there were also mixed marriages between the Africans and Indians. As a result, Brazil's population is intermingled to a degree that is unseen elsewhere. Most Brazilians possess some combination of European, African, Amerindian, Asian, and Middle Eastern lineage, and this multiplicity of cultural legacies is a notable feature of current Brazilian culture.

The move to open the country's interior coincided with the discovery in the 1690s of gold in the south-central part of the country. The country's gold deposits didn't pan out, however, and by the close of the 18th century the country's focus had returned to the coastal agricultural regions. In 1807, as Napoleon Bonaparte closed in on Portugal's capital city of Lisbon, the Prince Regent shipped himself off to Brazil. Once there, Dom Joao established the colony as the capital of his empire. By 1821 things in Europe had cooled down sufficiently that Dom Joao could return to Lisbon, and he left his son Dom Pedro I in charge of Brazil. When the king attempted the following year to return Brazil to subordinate status as a colony, Dom Pedro flourished his sword and declared the country's independence from Portugal (and his own independence from his father).

In the 19th century coffee took the place of sugar as Brazil's most important product. The boom in coffee production brought a wave of almost one million European immigrants, mostly Italians, and also brought about the Brazilian republic. In 1889, the wealthy coffee magnates backed a military coup, the emperor fled, and Brazil was no more an imperial

country. The coffee planters virtually owned the country and the government for the next thirty years, until the worldwide depression evaporated coffee demand. For the next half century Brazil struggled with governmental instability, military coups, and a fragile economy. In 1989, the country enjoyed its first democratic election in almost three decades. Unfortunately, the Brazilians made the mistake of electing Fernando Collor de Mello. Mello's corruption did nothing to help the economy, but his peaceful removal from office indicated at least that the country's political and governmental structures are stable. Brazil has the sixth largest population in the world--about 148 million people--which has doubled in the past 30 years. Because of its size, there are only 15 people per sq. km, concentrated mainly along the coast and in the major cities, where two-thirds of the people now live: over 19 million in greater São Paulo and 10 million in greater Rio.

The immigrant Portuguese language was greatly influenced by the numerous Indian and African dialects they encountered, but it remains the dominant language in Brazil today. In fact, the Brazilian dialect has become the dominant influence in the development of the Portuguese language, for the simple reason that Brazil has 15 times the population of Portugal and a much more dynamic linguistic environment.

Social Structure

Brazil has the largest population in South America and is the fifth most populous country in the world. The people are also diverse in origin, and Brazil often boasts that the new "race" of Brazilians is a successful amalgam of African, European, and indigenous strains, a claim that is truer in the social than the political or economic realm. Portuguese is the official language and nearly universal; English is widely taught as a second language. Most of the estimated 150,000 indigenous peoples (chiefly of Tupí or Guaraní linguistic stock) are found in the rain forests of the Amazon River basin; 12% of Brazil's land has been set aside as indigenous areas. Some 90% of the population is at least nominally Roman Catholic. There are more than 50 universities in the country.

At the turn of the century, Brazil's population was 17,438,434. By 1950 it had grown to 51,944,397, and in 1970 it reached 93,139,037. By 1991 Brazil was the world's sixth most populous country, with about 2.7% of the world's 5.3 billion people or 147,053,940 inhabitants. In July 1996, the population was counted as being 157,079,573, but estimated in 1997 to be nearly 160 million. Projections indicate a total population of 169 million in 2000 and 211 million in 2020, and population stability at about 250 million in 2050. The population growth rate for the 1992 to 2000 period is estimated at 1.5% per year. As a result of the decline in mortality and continued high fertility during the 1950s and 1960s, the average growth rate was nearly 3% per year. Subsequent to a decrease in total fertility, the growth rate dropped to 2.5% in the 1970s and 1.9% in the 1980s.

Average population density in Brazil in 1994 was 18.5 inhabitants per square kilometre. There was a wide variation between the densely populated Southeast and South, on the one hand, and the sparse North and Center-West, on the other, with the Northeast at intermediate levels. In comparison, in 1991 the United States (including Alaska) had an average of twenty-five inhabitants per square kilometre; France, 100; the United Kingdom, 100; China, 110; and Canada, three.

According to the 1996 count, the most populous region in the country is still the Southeast (63 million inhabitants), followed by the Northeast (45 million), the South (23.1 million), the North (11.1 million), and the Center-West (10.2 million). The most inhabited states are São Paulo, Minas Gerais, Rio De Janeiro, Bahia, Rio Grande do Sul, and Paraná. These states all lie along the Atlantic coast.

In some rural areas and many cities, particularly in major metropolitan areas, females outnumber males. The historical predominance of women over men in the Brazilian population has persisted. The 1996 count showed that there were ninety-seven men for

every 100 women and that the total number of women exceeded the number of men by 5 million.

The average age of the Brazilian population has increased as a result of a continued decrease in mortality and fertility. Between 1980 and 1990, the proportional share of children from birth to age fourteen decreased from 38.2 to 34.7%, while the share for those of age fifteen to sixty-four increased from 57.8 to 61.1%. The proportion of elderly (age sixty-five or greater) increased from 4.0 to 4.2% and is projected to reach 9.0% by the year 2020. In all regions of the country, the count registered an increased number of people of ages fifteen to sixty-four and of older people over sixty-four years old. In the Southeast, for example, the proportion of people in the former age bracket increased from the 61.7% registered in 1980 to 63.6% in 1991, while the number of older people increased from 4.2% to 5.1%.

The demographic transition in Brazil becomes apparent as the bottom of the very wide-based pyramid, typical of developing countries with high birthrates, begins to narrow (see fig. 6). Further declines in the fertility rate, estimated at 2.44 children born per woman in 1994, eventually will lead to a pyramid that is shaped more like a bullet, with cohorts under age sixty of roughly equal size. Senior citizens will live longer, and the proportion of young people will decline. In the year 2000, young people will account for 28.3% of the population and senior citizens, 8%. Couples will have fewer children, and the fertility rate may be less than 2.2 children per woman, the replacement level.

Brazilian culture was never monolithic. Since the sixteenth century, it has been an amalgamation of traditional Iberian, indigenous, and African values, as well as more recent Western values, developed in northern Europe and the United States, such as equality, democracy, efficiency, and individual rights. At times there are subtle or open conflicts, especially between norms of Mediterranean and Anglo-Saxon origin, or between practices of European versus Amerindian or African origin. However, Brazil is remarkable for the way in which there is unity in cultural diversity. Sometimes the values and practices of different origins have blended with each other, as in the case of Afro-Brazilian religious syncretism or liberation theology.

Another way of reconciling diversity has been the often considerable distance between actual practices, which conform with tradition, and official norms, which generally follow the positivist logic of "order and progress" that underlay the establishment of the republic in 1889. The difference between norms and behaviour, or between theory and practice, is a constant throughout Brazilian history. In colonial times and during the empire, imported cultural values and social norms had to be reconciled with the extenuating circumstances and realities of a frontier situation. Getting married officially, for example, was difficult in the absence of priests or because of the high cost of service by the justices of the peace.

In the 1990s, many people ignore laws that are not enforced, or allege that doing the right thing would be fine but that they lack the *condições* (conditions). The aphorism that sums up a common attitude about doing one's duty is, "*Ninguém é de ferro*" (No one is made of iron). The relaxed attitude is reinforced by the fact that laws or norms are often seen as having been imposed from the outside, rather than being the result of a social contract established for the common good. Thus, Brazilians, who are known for pragmatism, have become adept at living with idealistic rules, on the one hand, and actual practices that are often quite divergent, on the other. They switch easily between different cultural codes ranging from "traditional" values, such as machismo and paternalism, to "modern" values and social norms that favour women and equality.

Economy

From Portugal's discovery of Brazil in 1500 until the late 1930s, the Brazilian economy relied on the production of primary products for exports. Portugal subjected Brazil to a

sternly enforced colonial pact, or imperial mercantile policy, which for three centuries heavily curbed development. The colonial phase left strong imprints on the country's economy and society, lasting long after independence in 1822. Measurable changes began occurring only late in the eighteenth century, when slavery was eliminated and wage labour was adopted. Important structural transformations began only in the 1930s, when the first steps were taken to change Brazil into a modern, semi-industrialized economy.

These transformations were particularly intense between 1950 and 1981, when the growth rates of the economy remained quite high and a diversified manufacturing base was established. However, since the early 1980s the economy has experienced substantial difficulties, including slow growth and stagnation. Nevertheless, Brazil still has the potential to regain its former dynamism. In the mid-1990s, it had a large and quite diversified economy, but one with considerable structural, as well as short-term, problems.

Socioeconomic transformation took place rapidly after World War II. In the 1940s, only 31.3% of Brazil's 41.2 million inhabitants resided in towns and cities; by 1991, of the country's 146.9 million inhabitants 75.5% lived in cities, and Brazil had two of the world's largest metropolitan centres--São Paulo and Rio de Janeiro. The rate of population growth decreased from about 3% annually in the 1950s and 1960s to 1.9% annually in the 1980-91 period, indicating that Brazil was in a demographic transition. By mid-1997 Brazil had an estimated population of 159.9 million.

The share of the primary sector in the gross national product declined from 28% in 1947 to 11% in 1992. Despite this reduction, the agricultural sector remains important. Although part of it is primitive and intensive, part is modern and dynamic. Brazil remains one of the world's largest exporters of agricultural products.

In the same 1947-92 period, the contribution of industry to GNP increased from less than 20% to 39%. The industrial sector produces a wide range of products for the domestic market and for export, including consumer goods, intermediate goods, and capital goods. By the early 1990s, Brazil was producing about 1 million motor vehicles annually and about 32,000 units of motor-driven farming machines. On an annual basis, it was also producing 1.8 million tons of fertilizers, 4.7 million tons of cardboard and paper, 20 million tons of steel, 26 million tons of cement, 3.5 million television sets, and 3 million refrigerators. In addition, about 70 million cubic meters of petroleum were being processed annually into fuels, lubricants, propane gas, and a wide range of petrochemicals. Furthermore, Brazil has at least 161,500 kilometres of paved roads and more than 63 million megawatts of installed electric power capacity.

Despite these figures, the economy cannot be considered developed. Although the economic changes since 1947 raised the country's per capita income above US\$2,000 in 1980, per capita income in 1995 was still only US\$4,630. Growth and structural change have not altered significantly Brazil's extremely unequal distribution of wealth, income, and opportunity. Despite impressive increments in economic growth and output, the number of poor has risen sharply. Most of the poor are concentrated in the rural areas of Brazil's Northeast (*Nordeste*) Region, or in the country's large cities or metropolitan areas. The economic and political troubles of the 1980s and early 1990s have only complicated the task of correcting the country's development pattern.

Inequality and Poverty

Income inequality in Brazil has a personal and a regional dimension. The highly concentrated distribution of income worsened in the 1960 to 1990 period. The Gini coefficient for the country as a whole increased from 0.50 in 1960 to 0.56 in 1970, 0.59 in 1980, and 0.63 in 1990. The 1990 coefficient means that the richest 5% of the population received 36.6% of the national income, while the poorest 40% received only 7.2%.

Moreover, the pattern of income distribution was similar in all of Brazil's five regions. In 1988 the South had the lowest Gini coefficient (0.58) and the Northeast had the highest (0.64). The difference is not remarkable; inequality is pervasive.

A substantial number of Brazilians are poor because Brazil has a large population, a medium-range income per capita (as compared with the United States, which is in the high range), and a high level of inequality. Estimates indicate that in 1990 almost a third of Brazil's total population, or 39.1 million persons, were poor. Approximately half of these poor lived in rural areas and half in urban areas. In relative terms, however, the proportion of the urban poor (22.5%) was substantially lower than that of the rural poor (50.1%). The rural to urban migration since 1950 markedly reduced the rural population, but it did not improve the lot of those who remained behind.

As for regional inequality, in 1991 the more developed Southeast and South regions, which occupy 17.6% of Brazil's total territory, had 58.7% of the total population and generated 74.3% of the country's GDP (in 1985). By contrast, the poverty-stricken Northeast, which occupies 18.3% of the total area, had 28.5% of the total population and generated only 13.1% of Brazil's 1985 GDP. The huge North (Norte) and Center-West (Centro-Oeste) regions, which occupy 64.1% of Brazil's total area, had 12.8% of the total population and generated 12.6% of Brazil's 1985 GDP. The Southeast had the largest urbanization rate (88.3% in 1991); the Northeast had the second largest proportion of the population in rural areas (41.6% in 1991), slightly below that of the frontier North (43.9%).

As a result of the economic boom, Brazil's per capita income experienced a marked increase in the 1970s, from US\$1,253 to US\$2,266; in the stagnant 1980s, it declined, reaching US\$2,154 in 1990. In 1970 the per capita income of the Southeast exceeded the national average by 53.2%, while that of the Northeast was 44.4% lower. This discrepancy has declined, but only marginally: in 1988 the per capita income of the Southeast was 43.6% higher than the national average, and that of the Northeast was 37.5% lower. Of Brazil's 39.1 million poor in 1990, 53.1% were in the Northeast and 25.4% were in the prosperous Southeast. In the Northeast, the majority of the poor lived in rural areas, while in the Southeast the largest portion of the poor lived in cities.

Brazil's major urban areas warrant examination, given the large and growing number of urban poor. In 1991 nine Metropolitan Regions (MRs), including Belém, in the North; Fortaleza, Recife, and Salvador in the Northeast; Belo Horizonte, Rio de Janeiro, and São Paulo in the Southeast; and Curitiba and Porto Alegre in the South, had a combined population of 42.7 million people, almost one-third of Brazil's total population. The smallest MR, Belém in the Amazon, had 1.3 million inhabitants, and the largest, São Paulo, had more than 15 million inhabitants. The three largest MRs were in the Southeast. They had a combined population of 28.6 million, nearly 67% of the total metropolitan population and almost 20% of Brazil's total population. The four MRs in the North/Northeast had a combined population of 9.0 million—a large number for an underdeveloped or frontier area. The South's two MRs had a combined population of 5.0 million.

The metropolitan Gini coefficients for 1970 and 1988 show that all the MRs except for Curitiba experienced a deterioration in income distribution. The coefficients for 1988 also show that the distribution of income was worse in the Northeast MRs and better in São Paulo and in the two Southern MRs, but the differences were not large.

The metropolitan average household real income shows that all MRs, except for Rio de Janeiro, had increases between 1970 and 1988. In 1970 and in 1988, the average household incomes of the North-Northeast MRs were significantly lower than those of the Southeast-South. However, the gap between the two groups has declined somewhat. In 1970 the average household income of Fortaleza (the MR with the lowest average) was only 36.6% of that of São Paulo (with the highest average); in 1988 this average had increased to 53.3%. This does not mean that the Northeast MRs were prospering. Rather,

it means that São Paulo, flooded with migrants, had a sharp increase in the number of households, moderating the rise in its average household income.

Estimates indicate that in 1990 the nine MRs had a combined total number of poor of almost 12.3 million people, or 28.9% of the total population of the MRs. São Paulo and Rio de Janeiro had the largest absolute number of poor (over 3 million, or nearly 24% of the total MR poor each), but the highest levels of urban poverty were in the MRs of the North/Northeast.

In 1989 the proportion of the poor unemployed was 11%, while that of the rest of the work force was only 3%. The proportion of the poor employed in informal occupations was 38%, while that of the remaining population was 26% (still quite a high percentage). And, the proportion of poor children, age seven to fourteen, out of school was 14%, while that of the non-poor was only 6%.

Politics

Brazil is governed by the 1988 constitution. Under its terms, authority is vested in the president, who is elected for four years by universal suffrage. Under a 1997 amendment, the president may be re-elected once. There is a bicameral legislature consisting of an upper federal senate and a lower chamber of deputies. The 81 senators are elected for eight years and the 513 deputies are elected for four years. The president may unilaterally intervene in state affairs. Each state has its own governor and legislature. The main political parties are the Brazilian Democratic Movement party, the Liberal Front party, the Democratic Labor party, the Brazilian Social Democracy party, and the Workers party.

Brazil's political evolution from monarchy to democracy has not been smooth. Following independence in 1822, Brazil, unlike its South American neighbours, adopted constitutional monarchy as its form of government. The new nation retained a slave-based, plantation economy, and political participation remained very limited. After the coronation of Dom Pedro II (emperor, 1840-89) in 1840, a two-party system based on the British model--with conservative and liberal parties and frequent cabinet turnovers--evolved. Within this centralized unitary system, the emperor appointed the governors, using his prerogatives under the moderating power granted by the 1824 constitution, and legislative elections were indirect. Brazil enjoyed considerable political stability until the 1880s, when the system proved incapable of accommodating military demands and pressure to emancipate slaves.

Brazil patterned the constitution of what is now called the Old Republic (1889-1930) on the United States constitution. However, colonelism, a political system based on economic power by large landowners in rural areas, persisted. Under the new constitution of February 24, 1891, the president, National Congress (Congresso Nacional; hereafter, Congress), state governors and legislatures, and local officials were chosen through direct elections.

Following World War I, when Brazil began to undergo rural-urban and agricultural-industrial transformations, its political system again was unable to cope with the demands of the urban middle classes and especially the working classes. The 1929 stock market crash further exacerbated the volatile situation, and elites from the states of Rio Grande do Sul and Minas Gerais staged a preemptive revolution and deposed the old regime. As a result of the revolts of 1930, Getúlio Dorneles Vargas became president (1930-1945, 1951-54).

Violent clashes over conflicting ideologies of the left and the right erupted in the streets of Brazil's major cities in the 1930s. Vargas tried to strike a balance between the demands of labour and capital following Italian dictator Benito Mussolini's Carta di Lavoro model established in the 1920s. The 1934 constitution incorporated this model and thus began the politics of corporatism in Brazil. In close cooperation with the military, Vargas pushed

for import-substitution industrialization and a reduction of military forces under the command of state governments, in favour of the Brazilian Armed Forces (Forças Armadas Brasileiras). President Vargas closed Congress in 1937 and ruled as a dictator until 1945. The 1945-64 period is known for its multiparty democratic politics, and four presidents were elected freely in 1945, 1950, 1955, and 1960. In the early 1960s, an explosive combination of slower economic growth, rising inflation, populism, and nationalism produced political instability and popular discontent. The major political parties lost their hegemony, and labour unions accumulated great political influence over the government of Joao Goulart (president, 1961-64).

The military seized power in April 1964 and began twenty-one years of rule. Under its model of "relative democracy," Congress remained open, but with greatly reduced powers. Regular elections were held for Congress, state assemblies, and local offices. However, presidential, gubernatorial, and some mayoral elections became indirect. Political parties were allowed to operate, but with two forced realignments. These were the replacement of the old multiparty system with a two-party system in 1965 and a system of moderate pluralism, with six (and later five) parties in 1980. The military regime employed massive repression from 1969 through 1974.

After the "economic miracle" period (1967-74), Brazil entered a "stagflation" phase concurrent with political liberalization. During the military period, Brazilian society had become 70% urban; the economy had become industrialized, and more manufactured goods than primary goods were exported; and about 55% of the population had registered to vote. Foreign policy oscillated between alignment with the United States and pragmatic independence. A transition to a civilian president took place in 1985. From 1985 to 1997, Brazil experienced four distinct political models: a return to the pre-1964 tradition of political bargaining, clientelism, and economic nationalism under José Sarney (president, 1985-90); neosocial liberalism with economic modernization under Fernando Collor de Mello (president, 1990-92); an erratic personal style of social nationalism under Itamar Franco (president, 1992-94); and a consensus-style social-democratic and neoliberal coalition under Fernando Henrique Cardoso (president, from 1995).

Under heavy accusations of corruption, President Collor was impeached in 1992. His vice president, Franco, used a pragmatic policy of "muddling through," but in mid-1994 achieved great popularity with the Real Plan (for value of the real (R\$)), a stabilization program authored by then Minister of Finance Cardoso. In the 1994 election, Cardoso and the Brazilian Social Democracy Party (Partido da Social Democracia Brasileira--PSDB) expounded a social-democratic model of modernization, while Luis Inácio "Lula" da Silva of the Workers' Party (Partido dos Trabalhadores--PT) supported a reworked model of corporatist or syndicalist socialism. The Real Plan was instrumental in the election of Cardoso as president.

Cardoso was inaugurated as president on January 1, 1995. The transition to the new government was nearly perfect. Cardoso had won an outright victory in the first-round election. He had potentially strong support blocs in the Chamber of Deputies (Câmara dos Deputados) and Federal Senate (Senado Federal; hereafter, Senate). He had strong support from a majority of the newly elected governors, including those from the important states of Minas Gerais, São Paulo, and Rio de Janeiro, which elected governors from the president's own PSDB. Moreover, the December 1994 inflation rate was less than 1%; unemployment was low; and popular expectations were extremely high.

Perhaps the most important task of the Cardoso government in 1995 was to promote the reform of key sections of the 1988 constitution in order to reduce the role of the state in the economy, reform the federal bureaucracy, reorganize the social security system, rework federalist relationships, overhaul the complicated tax system, and effect electoral and party reforms to strengthen the representation of political parties. The new Cardoso government

initiated constitutional reform (which requires a three-fifths majority of each house), but soon met with stiff congressional resistance. Because of the 1996 municipal elections and other political impediments, the other reforms--administrative, social security, and fiscal--were stalled in Congress, awaiting passage in 1997.

Political Culture

Many aspects of Brazil's political system may be explained by its political culture, the origins of which may be found in traditional rural society during the colonial and independence periods through 1930. This political culture evolved into three styles of politics. Under the more traditional style of politics, coronelismo, the local coronel (colonel), in alliance with other large farmers, controlled the votes of rural workers and their families. The local political chiefs in turn exchanged votes with politicians at the state level in return for political appointments and public works in their municipalities.

As rural-urban migration increased after 1930, a transitional style of clientelistic politics emerged in medium-size and large-size cities. Under this system, neighbourhood representatives of urban politicians would help recent migrants resolve their problems in exchange for votes. These representatives were usually from "clientele professions," such as medical doctors, dentists, and pharmacists.

The third style of mass politics involved a direct populist appeal to the voter by the politician, without formal intermediation by clientelism or domination by coronelismo. Research in the early 1990s revealed that in most cases voter decision making has been influenced by a mixture of the second and third styles, as well as by peer groups, opinion leaders, and television soap operas.

Polling results since the early 1970s have revealed changing public opinion concerning the relative merits of military government versus democracy. For example, the proportion of Brazilians favourable to military government decreased from 79% in 1972 to 36% in 1990. Moreover, 70% of Brazilians agreed in 1990 that the government should not use troops against striking workers, as compared with only 7% in 1972. In a March 1995 poll conducted by the Datafolha agency, however, only 46% of Brazilians responded that "democracy is always preferred over dictatorship," as compared with 59% endorsing the same proposition in March 1993. The relatively low crime rates during the military period may be a factor in the shift in public opinion regarding democracy.

Brazil has a diversity of regional political cultures. Politics in the states of the Northeast (Nordeste) and North (Norte) are much more dependent on political benevolence from Brasília than are the states of the South (Sul) and Southeast (Sudeste). Because Brazil's southernmost state, Rio Grande do Sul, suffered three civil wars and was involved frequently in political conflicts in the Rio de la Plata areas, its population holds strong political loyalties. As a result, the Liberal Front Party (Partido da Frente Liberal--PFL) and the PSDB have very limited penetration in Rio Grande do Sul. Both parties are considered traitors: the PFL had splintered from the military regime's Democratic Social Party (Partido Democrático Social--PDS) in 1984, and the PSDB had broken from the Brazilian Democratic Movement Party (Partido do Movimento Democrático Brasileiro--PMDB) in 1988.

In the Southeast state of Minas Gerais, politics is conducted in a very cautious, calculated manner. Politicians there are known for their ability to negotiate and cut bargains, and they have political "adversaries" rather than enemies. In the western frontier states, politics is constantly evolving, because of the continuous inward migration from other regions. Most politicians and voters are newcomers with no local political roots or traditions.

The Southeast states of Rio de Janeiro and São Paulo have received large influxes of rural-urban and north-south migration since the 1950s. Because of higher levels of

industrialization, per capita income, labour union membership, and education, the level of political consciousness is higher in these states than in those to the north and west.

As a result of intense rural-urban migration since 1960, urban voters have increased from fewer than 30% to more than 70% of the population in 1994. In 1960 only 22% (15.5 million) of Brazil's population was registered to vote; by 1994 more than 60% (nearly 95 million) of the population was enfranchised. The new migrants to urban areas quickly enhanced their political consciousness through television, increased schooling, and membership in new associations, such as labour unions.

Foreign Relations

The Rio Branco Institute (Instituto Rio Branco--IRBr) recruits from twenty to thirty candidates each year among college graduates. After four semesters of intensive study of language and diplomacy, graduates receive a certified bachelor of arts degree in diplomacy and begin their careers as third secretaries. In 1996 the IRBr began studies to upgrade the course to an M.A. program. The IRBr teaching staff is composed of senior diplomats and some academics from the University of Brasilia (Universidade de Brasilia). Some foreign students are admitted, mostly from Latin America and Africa.

After three or four years experience within several divisions of the Ministry of Foreign Affairs (known as Itamaraty, after the building it formerly occupied in Rio de Janeiro), the junior diplomat is posted overseas. Promotion to second and first secretary is by merit (evaluation by immediate superiors). Before promotion to minister second class, the diplomat goes through a mid-career course and produces a monograph, which is defended before an examining board. Many diplomats also acquire graduate degrees during their career. Promotion to the final positions of counsellor (minister first class) and ambassador involves a combination of merit and political considerations; the president makes the final decision. Because Itamaraty has more diplomats than posts overseas and in Brasilia, diplomats frequently fill key positions in other ministries, state enterprises, and the president's office. Brazilian diplomats generally are considered skilled and patient negotiators by their peers.

Most foreign policy strategies and decisions originate within Itamaraty. A senior diplomat always occupies the position of foreign affairs adviser within the president's office, and diplomats occupy similar liaison positions in key ministries. Since the 1980s, Itamaraty, in response to the growing complexity of foreign policy issues, has established new divisions dealing with export promotion, environmental affairs, science and technology, and human rights. Itamaraty also established the International Relations Research Institute (Instituto das Pesquisas das Relações Internacionais--IPRI) as part of the Alexandre Gusmão Foundation, which functions as a think tank and conference centre and publishes foreign policy studies.

The Senate and Chamber of Deputies each have foreign affairs standing committees. Under the 1988 constitution, the Senate expanded its treaty approval prerogative to include all international financial agreements, such as negotiations with the International Monetary Fund (IMF) and international banks, which in the past had been the exclusive prerogative of the executive branch (see *The Military in the Amazon*, ch. 5). The Congress also has involved itself in major government contracts with foreign companies, such as the contract with Raytheon for an Amazon surveillance system.

The Brazilian Cooperation Agency (Agência Brasileira de Cooperação--ABC), a foreign aid agency formally established in the late 1980s, coordinates all international technical cooperation and assistance received by Brazil from foreign donors (often, but not always, within the context of bilateral agreements). For example, in the absence of a United States-Brazil bilateral agreement, United States Agency for International Development (USAID) programs in Brazil are not coordinated through the ABC. The ABC also

coordinates Brazilian international technical cooperation and assistance directed to other countries, mostly through South-South relationships conducted by Brazilian government agencies, universities, and NGOs.

At times other agencies may take the lead in foreign policy decision making. For example, in June 1995 the economic sector, led by the Ministry of Planning, made the initial decision to impose quotas on imported automobiles. This decision provoked a crisis within the Common Market of the South (Mercado Comum do Sul--Mercosul)--because Argentine automobile exports to Brazil would have been affected. Itamaraty intervened, and a solution was negotiated excepting Mercosul from the rigors of the measure.

The military had the final say on foreign policy during the 1964-85 period, when foreign policy was decided frequently within the National Security Council (Conselho de Segurança Nacional--CSN). Since then the military occasionally has exercised some influence. When the United Nations (UN) requested Brazilian troops for a peacekeeping force in Namibia during the delicate, pre-election phase of transition in 1991, Itamaraty was favourable, but the army vetoed the initiative. The reverse occurred in 1995. After a successful peacekeeping mission in Mozambique in 1993-94, the army, in search of new missions, approved sending a battalion to the peacekeeping operation in Angola. However, for reasons of economic austerity the ministries of Planning and Finance delayed the appropriation until 1996.

Relations in South America

Brazil's first circle of international relations is with its Latin American neighbours. Being the largest nation in the region makes this process somewhat delicate. Most border issues were settled in the late nineteenth and early twentieth centuries, but some questions concerning the borders with Bolivia, Colombia, Paraguay, and Venezuela remain. In 1995 Brazilian farmers and forest gatherers penetrated Bolivia's Pando Department, in an action reminiscent of the invasion of Acre by Brazilian rubber tapers in the 1890s. Brazil regularly extends export credits and university scholarships to its Latin American neighbours. A certain quota of Latin Americans are admitted to the Rio Branco Institute and the armed forces staff schools.

An active participant in regional security activities, Brazil hosted the conference that established the Inter-American Treaty of Reciprocal Assistance (Rio Treaty) in 1947. In addition, Brazil was a founding member of the OAS in 1948 and has participated in several OAS peacekeeping endeavours. Most notable was Brazil's participation in the Inter-American Peace Force (Fuerzas Interamericanas de Paz--FIP) in the Dominican Republic in 1965. In the 1980s, Brazil was an active participant in the Contadora Support Group, which sought a permanent peace in Central America. In June 1995, eighty-seven Brazilians were attached to peacekeeping operations in the Americas--thirty-seven in El Salvador, thirty-two in Nicaragua, ten on the Ecuador/Peru border, six in Honduras, and two in Guatemala.

The Treaty of Asunción--signed in 1991 by Brazil, Argentina, Uruguay, and Paraguay--was the culmination of a rapprochement between Brazil and Argentina after 160 years of regional rivalry. It also incorporated Uruguay and Paraguay into Mercosul, and Bolivia and Chile joined Mercosul in 1996.

Energy Business

Brazil has a great potential for oil and natural gas fields, due to its 4 millions squared kilometres in onshore sedimentary fields and about one million in offshore areas, gathering 29 basins. Besides, Brazil has a very large territory and the difficulty of access to many regions represents a challenge to the organization of its oil sector.

The birth of oil industry in Brazil has its milestone in 1938, when President Vargas created the National Petroleum Counsel – CNP. In that decade, the whole consumption of oil was imported, summing about 38 thousand barrels a day . CNP was an organism directly linked to the Presidency of Brazil and its goal was to set up the long run guidelines for the development of the Brazilian oil industry, including prices policies, priorities for investments and geological studies, supplying and distribution policies, among others.

In the following years, several studies were performed to evaluate the economic potential of the Brazilian sedimentary basins, with the purpose of finding evidences that could justify investment in the exploration of resources. Initially, efforts have been concentrated in the coast of Bahia, in the Northeast of Brazil, resulting in the discovery of important fields. This region has become the first basin to be explored in Brazil and remained as the most important until the beginning of 70's.

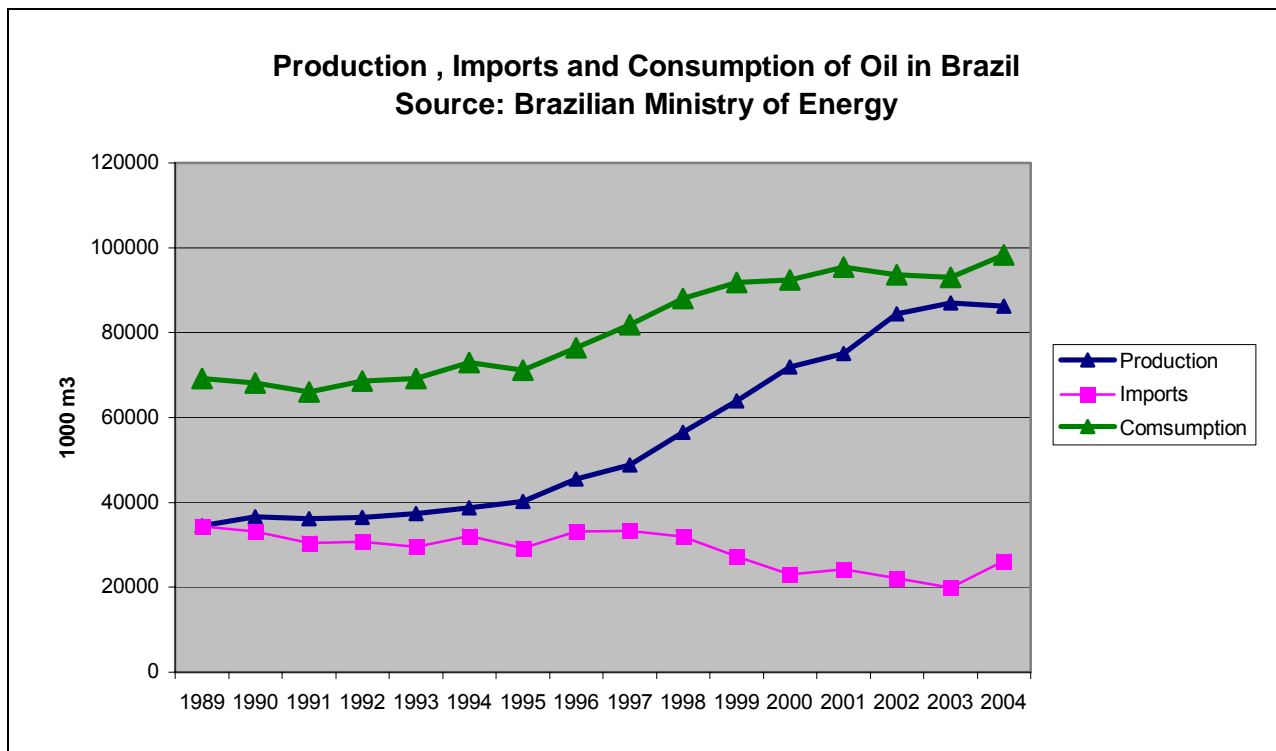
The second historical landmark in the Brazilian oil industry happened in 1953 with the inauguration of Petrobras – Brazilian Petroleum, a state owned corporation created to perform activities of research, exploration, development and production of oil and gas in Brazil. In this context, the state monopoly was set up due to the lack of private capital and its unwillingness to undertake a high risky activity. There were also political resistances to open the sector to foreign firms. Petrobras, therefore, has become the manager of this monopoly, expanding progressively its activities toward other steps of the productive chain, like processing and distribution. In the middle of 50's, Petrobras' productive capacity summed 3,000 barrels a day, which was insufficient to cover the increasing national consumption. This public corporation also undertook oil imports, whose monopoly it granted in 1963. Thereby, the supply of oil for Brazilian market was composed, in most part, by imports. Meanwhile, national production was responsible for less than 15% of national consumption.

The purchases of foreign oil were well succeeded in complementing the national supply until the beginning of 70's, when the first oil shock generated a strong deterioration of the Brazilian trade balance. In face of it, the Government and Petrobras both intensified their efforts to reduce the dependence of imported oil, through two main guidelines: enhancing the exploration in other basins and increasing the research of alternative sources of energy, mainly the so called *Pro-Alcohol*, a program that created incentives to the development of alcohol-moved cars.

Another front by which the Brazilian government tried to mitigate the problem was through the Risky Contracts. By this mechanism, a foreign enterprise could get the right to undertake exploratory research in some area. If successful, the firm could extract and sell the resource, paying to the Government royalties of 20% on the value of the output; in the case of failure, the firm should give the area back to the government, assuming alone all the losses with the investment. However, these contracts did not have the desired effect, since only 243 contracts were signed between 1975 and 1988, when the new Constitution vetoed new leases to the private sector. Only one contract (gas) was well succeed.

In 1974, Petrobras discovered oil in the offshore basin of Campos, in the south-eastern state of Rio de Janeiro. Since then, this basin has become the largest Brazilian oil province and the pioneer in exploration under deep waters. Today, it is responsible for about the half of Brazilian oil production.

In the long run, these efforts were very well succeeded. Brazilian oil production is increasing over time and imports have decreased softly. The production is closer to the domestic consumption and self-sufficiency is predicted to July 2006.



Recent Institutional Changes

Since the middle of 90's, the Brazilian oil and gas industry has been undergoing deep institutional changes, mainly in the exploration and production of crude oil and natural gas. With the purpose of attracting the largest possible amount of investment in the sector and to take advantage from the Brazilian basins, the Federal Government has begun to design a new regulatory environment to the oil industry. The core of the changes consisted in allowing private sector to undertake activities of exploration, development, processing, production and import of oil and natural gas, aiming to break the state monopoly over these activities, enhancing competition and rising the part of the Government in the rent from natural resources.

In 1995, the Brazilian Congress approved a Constitutional Amendment that extinguished the 40 years Petrobras' monopoly in exploration, production and processing of crude oil. This reform can be inserted in a broader context, characterized by meaningful changes in mineral policy of developing countries, with the purpose of attracting more investment. From the middle of 80's to the middle of 90's, several Asian, African and Latin American countries have created more favourable laws for the participation of private and foreign capital in their oil and gas sectors. Moreover, in those years, rich countries have raised their investment in less developed countries, as consequence of the absence of opportunities in their homeland. These new investments were possible due to new technologies that reduced exploratory costs and enhanced profits of oil corporations. This interaction of international factors and the new regulatory policy became attractive to invest in oil sectors in developing countries like Brazil. Summing up, these countries transformed their systems from full state monopoly to a regime of concessions to private firms.

The Brazilian Petroleum Law, approved in 1997, sets up the basic guidelines for the regulation of oil industry. It details the 95's Constitutional Amendment and predicts that all activities that were state monopoly in the past can be leased to private – national and foreign – agents.

Petrobras, the manager of the monopoly for more than 40 years, has now a new role in the oil industry. Despite the purpose of improving competition in the chain, the Federal Government remains as the major stockholder of Petrobras. Nevertheless, it should receive the same treatment than private concessionaires in lease auctions. The Petroleum Law also created the CNPE, the National Counsel for Energy Policy, which is a committee directly linked to the Presidency and headed by the Minister of Mining and Energy, whose main goal is to manage the long run energy policy as a whole. With CNPE, Brazil searches to upgrade not only the oil and gas law, but also its energy planning as a whole, with the purpose of integrating their resources and optimizing the energy source used to take care of the national needs.

The new law created the National Petroleum Agency – ANP – a federal autarchy linked to the Ministry of Mining and Energy, whose basic aim is to promote regulation, contracting and monitoring activities linked to the oil and gas industry. ANP was conceived to be a typical regulatory agency to take care of social interests (represented in the Federal Government) in the results from exploration and production of oil and natural gas, as well as to avoid harmful actions the oil industry.

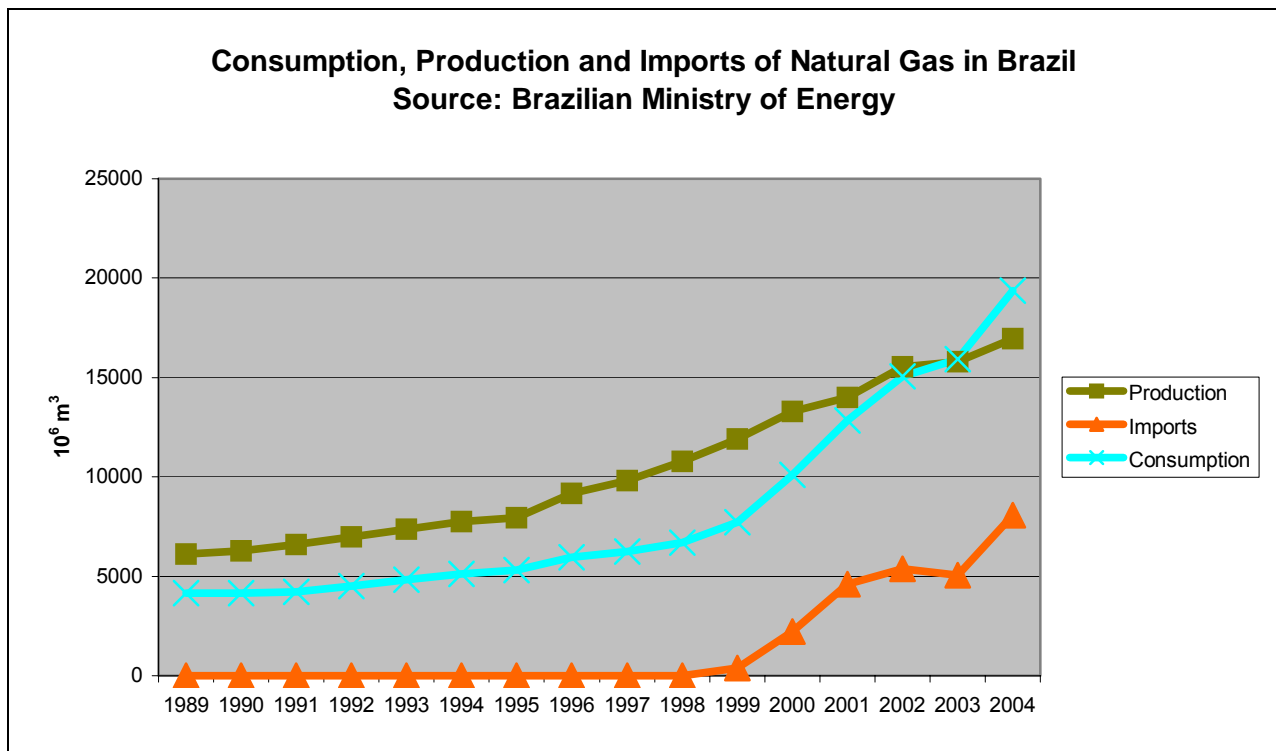
The law establishes a set of attributions to ANP related to monitoring distribution and trade activities, stimulating geological and technological researches and managing all oil and gas exploratory leases. ANP is the responsible for elaborating and signing lease contracts, after have conducted the auction to lease the areas. Signing the lease contract, the winner receives both the right to explore non-renewable resources in the area up to 9 years (in which the firm has to accomplish a minimum investment program) and, if well succeed, to extract and trade the resource for the remaining 27 years.

The openness of the sector can be considered well succeed, because these days dozens of firms operate exploratory activities onshore and offshore Brazilian basins. Several foreign corporations, like Shell, Texaco and El Paso, also take part in these activities.

If the explored resource is economically viable, the firm follows with the phase of development, that is, it undertakes investments to create the necessary infrastructure to the upstream. This phase lasts from 3 to 5 years, depending on the resource's physical characteristics. After the development phase, the corporation is allowed to extract and trade the resources, paying 10% royalties to the government as well as a kind of Resource Rent Tax (called Special Participation), with rates from 0 to 40% over the net rent, depending both on the location and on the level of production in each field.

Finally, among other ANP's attributions, we can list the issue of permission for import and export of oil and gas, the regulation of duct's fees and monitoring the entire chain, from upstream to the downstream, with the purpose of avoiding economic and environmental damages.

It is important to emphasize that these institutional changes were also well succeed in improving the use of natural gas as energy source. The new law also regulates natural gas. There was an increasing production, consumption and imports (mostly from Bolivia) in Brazil, mainly after the approval of the Petroleum Law (1997), whose goal is to modernize the energetic matrix towards the use of natural gas. In this context, the number of conversions from regular engine to natural gas-moved cars (GNV) has grown up at an average rate of 90% from 1996 to 2005. Today, the estimated number of natural gas-moved cars in the Brazilian fleet is above one million and the daily consumption of GNV is about 5,8 millions of m³.



The increasing use of natural gas is also a result of environmental programs – some of them in partnership with private and foreign associations – destined to reduce emissions of carbon and other greenhouse gases, since natural gas is less pollutant than fossil fuels. The industry has been registering an increasing use of natural gas, mainly in sectors that demand a direct contact between the flame and the final product, like pottery, glass and cement. The natural gas can also be used as an energy source in the steel industry and as raw material in petrochemical processes, like fertilizers, ammonia and methanol. Its use has also been growing for electricity supply, since the Brazilian government is stimulating the construction of thermal power plants as a complement for the whole supply of energy.

The risky gas dependency on Bolivia

Most of the Brazilian gas import comes today from Bolivia: today half of the natural gas consumed in Brazil, 200,000 barrels of oil equivalent, comes from Bolivia. However at the end of April 2006 Evo Morales, the former new President of Bolivia, has pledged to nationalize his country's oil and gas industry, redistribute privately owned land. But it's not clear that as President, Morales will be able to live up to many of the promises he made as a candidate. And for Bolivia, which has the second-largest natural-gas reserves in South America, that may be where the real danger lies.

Morales won a resounding victory in the 2005 Dec. 18 election, garnering far more support than expected in a field crowded with eight candidates. During the campaign Morales and his band of supporters stopped in one pueblo after another whose mud walls had been painted with the blue and white slogans of the Movement for the Advancement of Socialism, or MAS, Morales's party. The candidate told cheering crowds of farmers dressed in traditional 18th-century peasant garb that "what our ancestors have fought for is what we're fighting for: land for the people and nationalization of our natural resources.

In a recent interview he insisted that Bolivia must "recuperate our natural resources so they are in our hands and no one can tell us how to use them," he added, "We would never try to take the private property of any company or person." Nationalization of the oil and gas industry, then, means not outright expropriation but forcing a shift to new

contracts that grant Bolivia ownership of its reserves and state control over whom companies can sell to and at what price. It also means a fifty-fifty split on profits with oil companies, something Carlos Mesa, the former President, tried to accomplish, at least on some gas fields. That not only angered foreign gas companies, which under the old law paid 18% royalties and no taxes on production, but also failed to satisfy thousands of protesters who in August 2005 filled the streets of La Paz and clashed with police, objecting that Mesa's reforms of the oil industry didn't go far enough. Mesa was driven out of office—the second Bolivian President forced out in as many years.

That's precisely the sort of pressure Morales will face. The big issue in this campaign, and for the past few years in Bolivia, has been the structure of the oil and gas industry. Although Bolivia had only about five trillion cubic feet of proven reserves in 1996, after privatization of the industry and major investments by foreign companies it now has about 54 trillion cubic feet. In 2003, Bolivians, angry at not getting their fair share of the benefits, launched the *guerra del gas*. Beginning with a two-week strike in El Alto—a rapidly growing city of brick and mud houses that cling to the Andean mountains surrounding La Paz, most of which don't have running water, let alone gas hook-ups—people blocked roads and choked off supplies of food and fuel to La Paz. The army killed more than 60 protesters, and President Gonzalo Sanchez de Lozada was forced to flee. Although the conflict's spark was a government decision to export gas via a pipeline through Chile, Bolivia's age-old enemy, the underlying cause was a growing anger that the benefits of Bolivia's booming gas industry were enriching foreign companies and weren't reaching the vast majority of Bolivians.

Indeed, despite Bolivia's wealth of natural resources (including silver, gold, tin, and lumber) and its fealty to the World Bank and the IMF's reform agenda in the 1980s and '90s, Bolivians now earn on average less than their grandparents did. Today, with a growing indigenous-rights movement sweeping Latin America, the indigenous of Bolivia, who make up 65% of the population, are determined to take back the natural resources they see as rightfully theirs and address a historical grievance that stretches back to the Spanish conquest.

That's why Morales, who is the Bolivia's first indigenous President, seems to many a great hope. But he isn't in a position to fully satisfy his supporters. For one thing, his party did not win control of the senate. He also knows that expropriating foreign property will provoke a slew of claims in international arbitration that could cost Bolivia billions of dollars. Already most of the major oil companies invested in Bolivia—including Repsol, Total, Petrobras, British Gas, Exxon Mobil, and Pan American Energy—have threatened to sue based on the new hydrocarbons law passed by the last government. Most companies have agreed to wait and see what a new government does, but they aren't likely to tolerate major changes.

"Gas has become an instrument of populism, which just got out of hand," says Carlos Alberto Lopez, spokesman for Bolivia's hydrocarbons chamber, which represents the major oil and gas companies invested in the country. "Since that's happened, the sector has been mired in complete uncertainty." Indeed, it's not clear what the law is now, since the latest hydrocarbons legislation was written under a government forced out of power, and the current government has yet to issue regulations implementing it. So far, companies are paying the new 32% non-deductible tax on production under protest.

The conflict isn't only about oil and gas. Land ownership is another divisive issue. Under Bolivian law unproductive land can be expropriated and redistributed by the government, and Morales has pledged to enforce that. But how the government defines whether the land is meeting its "social and economic function" is controversial, especially in Santa Cruz, the nation's wealthiest province, where latifundistas own large estates, and oil and agricultural businesses are concentrated. "MAS talks about nationalization of land," says

Rosendo Barbery Paz, president of Unagro, a leading sugar and alcohol manufacturer in Santa Cruz. "That's caused a lot of worry." Carlos Rojas, director of Bolivia's association of soybean producers, agrees: "We don't accept Mr. Morales's policy about land."

Considering this big political instability and the recent announcement of nationalizing natural resources, including of course oil and gas, moved Petrobras into a planning of intended investments of 16bn US\$ in the gas sector up to 2010. The measure should reduce Brazilian dependence on Bolivian gas: today half of the natural gas consumed in Brazil, 200,000 barrels of oil equivalent, comes from Bolivia.

Brazilian investment in the gas sector should take some years to bring results, since the development of a gas field takes between two and three years. Petrobras already produces gas, but not at sufficient volumes to supply the domestic market. Another alternative studied by Petrobras is the replacement of natural gas for fuel oil. Each year, Petrobras exports 250,000 barrels of oil equivalent of fuel oil: if Brazil stops importing the 100,000 barrels of oil equivalent of natural gas from Bolivia, the country will still have 150,000 barrels to export.

Refining and distribution

Refining is, basically, the set of physical and chemical processes whose goal is to convert crude oil in compounds, through the so-called fractionated distillation. Loosely speaking, the whole process is divided in three phases: the first one is the atmospheric distillation, which produces the most part of fuels as well as the naphtha, the main raw material for petrochemical industry; in the second phase – called vacuum distillation – the residues from the first phase (only useful as fuel oil) is transformed in both light and heavy gas oil. The residue of this process is a heavy molecular dust, which can be used both as fuel and asphalt. Finally, in the third phase, the catalytic cracking, the gas oil from the previous step is submitted to a new fractioning process that generates several compounds, like industrial gas, domestic gas, propane, butane (raw materials for synthetic rubber and acrylic), coking, gas oils, gasoline, kerosene, naphtha and diesel.

In the basic petrochemical, the naphtha is decomposed in new compounds used as raw materials for the second generation of petrochemical industry (propane and benzene) as well as intermediate compounds, which reacts each other to produce long chain complexes of carbon – the polymers. Polymers are the base for a wide range of plastic resins, each one input for several industries: toy industry, raw materials for building, canvases, packing, cleaning products, garbage collectors, among others.

While the new regulatory environment has been well succeed in setting up competition in exploration and production, the refining is an important shortage in the Brazilian oil industry, since the most part of Brazil's refineries (11 among 13) belongs to Petrobras. Therefore, even with the freedom of price in the Brazilian refineries (which is on since January 2002), Petrobras still has a stunning influence on the price of oil derivatives in Brazil and it is able to practice a predatory price policy with the purpose of creating a barrier to entry. Another problem is that the most part of refineries are old fashioned and do not perform well in refining domestic oil, which has a worse quality than the Middle West, whose technology Brazilian refineries were designed for.

The table below summarizes the composition of the oil processed in the Brazilian refineries, according to its origins, from 2002 to 2004. Today, about 90% of the oil processed is domestic and the self-sufficiency is close to be reached.

Origin of oil processed in the Brazilian refineries

(Source: Ministry of Mining and Energy)

	2004	2003	2002
Brazil	75,84%	80,20%	79,20%
Campos' Basin	46,02%	64,50%	62,80%
Other offshore basins	21,03%	2,40%	1,40%
Onshore basins	8,79%	13,30%	15,00%
Imports	24,16%	19,80%	20,80%
Middle East	5,73%	6,30%	5,70%
Africa	17,79%	9,90%	12,60%
Central and South America	0,51%	0,70%	2,50%
Australia	0,13%	2,90%	-
Total	100,00%	100,00%	100,00%

The table below shows the composition (%) of oil derivatives produced in national refineries, in equivalent barrels of oil. As one can see, diesel has the biggest share, representing these days about 40% of refined oil, since its importance to transportation in Brazil (which has a high degree of road). Gasoline, on the other hand, represents 18% of refined oil.

Composition of processed oil in Brazilian refineries

(Source: ANP)

In equivalent barrels of oil.	2002	2003	2004	2005
Asphalt	2,03%	1,39%	1,64%	0,99%
Coke	1,99%	1,96%	1,80%	2,50%
Gasoline	18,49%	17,45%	16,40%	17,71%
Airplane's gasoline	0,07%	0,07%	0,07%	0,07%
Liquid Oil Gas - GNP¹	5,95%	6,20%	6,03%	6,65%
Lubricants	0,86%	0,88%	0,75%	0,76%
Naphtha	8,09%	8,27%	7,62%	7,31%
Fuel Oil	19,82%	19,05%	18,91%	17,19%
Diesel	36,47%	37,92%	40,08%	40,24%
Other Non-energy	1,28%	1,49%	1,43%	1,48%
Paraffin	0,15%	0,14%	0,15%	0,13%
Airplane's kerosene	3,76%	3,95%	4,07%	4,03%
Illumination's kerosene	0,24%	0,20%	0,11%	0,06%

Solvents	0,69%	0,78%	0,79%	0,72%
Other Energy	0,14%	0,25%	0,15%	0,16%

The retail supply comprehends two parts strongly connected each other: the distribution and resale. Both activities have always been allowed to private firms, despite the retail prices were liberalized only in the middle of 1990's.

The distribution comprehends the transportation from refineries to the deliverers (gasoline stations) or to domestic consumption (canalized and bottled liquid gas for domestic consumption, the so-called GLP). Nowadays, 276 liquid and gas products deliverers are registered at ANP.

The resale is considered a public utility activity and is performed by thousands of gas station spread all over the country. This activity technically comprehends the retail sale of fuels, lubricants and bottled liquid gas and it is required authorization from ANP to perform them. Since January 2002, prices are free in all the productive chain. There is no longer any kind of price control, maximum or minimum values, or the need of authorization to readjust prices. Thereby, retail prices are a positive function of international prices.

The taxes in the chain

As we have noted above, the oil and gas chain is overcharged with extra taxes due to the high potential for collecting revenues to the Treasury. It is also important to have in mind that the economic rationale of overcharging the oil sector is that, according to the Brazilian Constitution, underground natural resources belong to the public, which, as a consequence, has the right to usufruct its rents.

Considering the upstream, the Brazilian Petroleum Law establishes four mechanisms for extracting mineral rent:

- i) Fixed payment: the winner bid of the leasing auction, which must be paid at once when the lease contract is signed;
- ii) Royalties: corresponding to 10% of monthly gross revenue of extracted oil. This rate can be reduced to 5% in very special conditions. Part of the collected royalty is destined to state and local governments, mainly where oil and gas facilities are located in.
- iii) Special Taxes: this tax only charges fields with high level of output. It is a quarterly resource rent tax whose rates are between 0 and 40%, depending both on the deposit's location and on the field's age. The collection base is the net revenue – that is, the gross revenue minus operational and investment costs, royalties, depreciation and other legal taxes. The revenue from special taxes is invested in a fund destined to promote environmental and technological investments.
- iv) Occupation Tax: some kind of rent for the area. This tax is calculated based on the field's size and is increasing over time.

In the downstream, on the other hand, besides the regular taxes that charges the economy as a whole, there is a specific tax on the imports and sales of gasoline, diesel, natural gas and alcohol, called CIDE – Contribution to the Intervention on Economic Domain – which consists in a fixed amount of contribution by m^3 of traded resource. The importance of CIDE goes beyond collection purposes and is linked to resource's price policies, since the choice of the rate has a direct impact on the retail prices. For gasoline, for example, the rate is about \$ 190/ m^3 .

Data from productive chain

Despite the decreasing participation, the Brazilian energetic matrix still depends heavily on oil, due to the importance of road transportation in the economy. As we can see in the table below, in 2004 oil represented 39.1% of total energy. At the same time, the participation of natural gas has been increasing, reaching 9% in 2004. As we said before, this is due to the deregulation and the new institutional environment in oil and gas complex in Brazil.

Brazilian Energetic Matrix

(Source: Ministry of Mining and Energy)

Type	2000	2001	2002	2003	2004
Nonrenewable Energy	59.0	60.7	58.8	56.3	56.1
Oil and derivatives	45.5	45.4	43.0	40.1	39.1
Natural Gas	5.4	6.5	7.4	7.7	8.9
Mineral Coal and Derivatives	7.1	6.9	6.5	6.7	6.7
Uranium and Derivatives	0.9	2.0	1.9	1.8	1.5
Renewable Energy	41.0	39.3	41.2	43.7	43.9
Water and Electricity	15.7	13.6	14.0	14.6	14.4
Wood and Vegetable Coal	12.1	11.6	11.9	12.9	13.2
Sugar's Cane Derivatives	10.9	11.8	12.8	13.4	13.5
Other renewable	2.3	2.4	2.5	2.8	2.7
TOTAL	100.0	100.0	100.0	100.0	100.0

The table below decomposes the consumption of oil derivatives and natural gas by sector in the Brazilian economy. Due to the strong presence of Hydroelectricity, their consumption by Electricity Powers is relatively low. Meanwhile, final consumption of energy is responsible for 83% of total – 51% in transports.

Consumption of Derivatives of Oil and Natural Gas, by sector

(Source: Ministry of Mining and Energy)

	2000	2001	2002	2003	2004
Total (thousands petroleum-equivalent)	88134	88043	85655	82792	85455
Sector					
Consumption in Electricity Powers	4.4	4.7	3.5	3.1	3.2
Public Services	3.2	3.3	2.4	2.2	2.3
Self-producers	1.2	1.4	1.1	0.9	0.9
Final Consumption (Energy)	81.1	81.6	83.3	83.4	83.2
Energy Sector	4.6	4.8	4.8	5.3	5.4
Households	7.3	7.3	7.2	6.9	6.8
Commercial	0.8	0.8	0.8	0.6	0.6
Public	0.8	0.8	0.9	0.8	0.7
Farming	5.2	5.7	5.7	6.0	5.7
Transports	46.7	47.5	49.2	49.7	50.9
Industrial	15.7	14.7	14.6	14.2	13.1
Final Consumption (Non-Energy)	14.5	13.7	13.2	13.5	13.5

TOTAL	100.0	100.0	100.0	100.0	100.0
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Self-sufficiency

Petrobras announced, in April 2006, when one of its platforms P-50 went into operation in Campos Basin, in the state of Rio de Janeiro, that the company had reached self-sufficiency in oil. That is, Brazil started producing the same volume of oil that the country consumes. This means that the country produces 1.9 million barrels of oil a day for a consumption of 1.8 million barrels. P-50 has a capacity for production of 180,000 barrels of oil a day.

Becoming self-sufficient is good news for a region that has gone through nearly three decades of boom-and-bust cycles and does not want to be subject to global energy price shocks.

The oil crisis of the 1970s increased Brazil's national debt, creating a burden that remains heavy. The debt has made Brazil subject to austere macroeconomic policies designed to pay lenders first, often at the expense of other national priorities. By contrast, higher natural-gas prices put the United States at a competitive disadvantage because natural gas costs less elsewhere, according to the American Gas Association.

The best-case scenario is if the southern cone has a major grid to move natural gas around to other South American nations, driving economic growth at lower cost: that would be fundamentally cheaper than having to import liquefied natural gas, like the U.S. is going to have to do.

However, it is interesting to evidence that Brazil has not stopped importing oil, as the commodity produced in the country is different from that purchased from other countries. That is, Petrobras imports but also exports oil.

Interview to professor Fernando Antonio Slaibe Postali, University of São Paulo, about the oil market in Brazil and South America

(by Filippo Bof – April 17, 2006)

Considering oil and gas are not renewable resources, how are governments in South America (Brazil first and then the others) acting to maximize the benefits from these resources?

From the production of oil and gas, Brazil government collects royalties and taxes which feed a fund that is distributed to the different cities in proportion with their activities linked with oil and gas. For example Rio de Janeiro is the biggest producer and receives the majority of the funds.

According to the law the money collected from the oil and gas production has to finance capital investments and not consumptions: this is related to a big concern on the temporal welfare...

So, if the oil reserves are exploited today, is capital investments the only way to pass some benefits to future generations?

Yes, exactly: the idea is to address this funds also to other activities, different from oil and gas, trying to grow the whole economy. Since in the future oil and gas will vanish, how will you be able to diversify economy if you don't invest today in capital goods?

The law is concerned on that but – you see – it's not easy: the country is very large, so monitoring all of it is a problem.

Could you spend some words about the structure of the oil and gas sector?

Brazil has been changing his law about that: in 1995 a constitutional amendment was approved and it opened oil and gas sector to privates and also to foreign companies. And two years later, in 1997, the Petroleum Law was created. Each company can take part in an auction and who gives the best offer receives an area for nine years to explore oil and gas. Today not only the downstream but also the upstream is becoming competitive.

Can we say Petrobras, the national company, receives the same treatment as other companies do from the government?

Yes, Petrobras should receive the same treatment as others. Petrobras is the state company but 2/3 of its shares belong to privates. In fact every Brazilian worker has an account in which every month the employer has to put some money that the worker will receive once he retires. This account can be invested in the Petrobras shares and this is what many workers have done.

Is the competition real in this sector?

Today there is not any kind of price control and there is competition in exploration, refinery and distribution. Actually distribution has always been competitive because it has always been open to private sector. The competition is so high that many are worried about possible frauds against the law made by the companies, like tax evasion or the possibility that some distributors mix gasoline with water, alcohol, lubricants and other substances to reduce the costs. So you can often read in the newspaper that the Brazilian National Petroleum Agency discovered some frauds like this, usually in the backyard of the gas stations.

What about other countries in South America?

The big producers in South America are Brazil, Venezuela, Bolivia, Ecuador and Argentina. Argentina is a big one and it exports oil to Brazil. Bolivia has natural gas deposits and through the Dut – the pipeline which connects the two countries – it exports a lot to Brazil, especially considering that in Brazil the percentage of gas moving cars is growing fast. Last week this pipeline was damaged from a flood and now the government is worried about a possible shortage of gas.

How is the relationship between Brazil and these countries?

Brazil has a very complicate relationship with Bolivia, because the president of Bolivia – Evo Morales – is trying to nationalize Brazilian investment there. Petrobras is one of the biggest producers of natural gas in Bolivia and its investments there are really very large. In Venezuela there is Hugo Chavez that is totally unpredictable. Lula (president of Brazil, ndr) and Chavez are big friends...

But did Brazil take a clear position regarding the clash between Venezuela and USA?

We can say Brazil is in the middle of the conflict between Venezuela and United States and it tries to be neutral. I don't know if you heard this but Brazil was the chairman of the group "Friends of Venezuela". At the same time Brazil keeps a relationship with United States. It's a quite complicate position to keep.

Chavez has this dream of creating Petrosur, also called Petroamerica: what is really "Petroamerica"? What is its target? Which consequences could it generate?

Petroamerica is a merger between PDVSA, the Venezuelan national oil company, and Petrobras. However not a complete merger, but only a merger of some of their assets, which would create Petroamerica. But this idea that came from Chavez was left on the paper and it didn't go on, because Petrobras has a lot to lose in this, both economically and politically: so it's more a political idea of Venezuela to face United States.

Brazil, which wouldn't like to break up with United States, is not well seen from them: Lula is from the left party...

But not as extreme as Chavez, right?

Yes, not extreme as Chavez: he has never threatened to nationalize the American investments in Brazil, it's a crazy idea. In the beginning of the government Lula created a very good relation with Bush. I think Brazil and United States disagreed only about FTAA, the free trade area of the Americas. While United States wanted to accelerate the negotiation, Brazil tried to throw it down.

If Petroamerica is the organization that Venezuela wants to create, can we say ALCA is the "American version" of it?

ALCA has a more general purpose than Petroamerica: ALCA is a free trade agreement which would include all the American countries except for Cuba, while Petroamerica would be only between oil companies. For sure they have both a big political and economic importance. Venezuela is in fact one of the biggest supplier of oil for USA, beside Mexico, thus there is a huge concern on this. Nd Mexico is already in the free trade agreement.

I read an interview to Chavez made by ABC, an American television channel: Chavez seemed very good in avoiding provocations from the interviewer. However he underlined that with the Bush administration there was a breaking point, while until the Clinton administration there was a dialogue between the two nations. Chavez said the oil supply to USA is totally guaranteed...

I think the loss for Venezuela would be very large if the supply to United States is reduced or stopped, cause it's the main source of income for Venezuela.

At the same time the demand of oil is so high that some countries, like China and India, could replace United States and buy the Venezuelan oil. Is this power to the supply side enough to let the South American countries do without United States?

I don't know. I really don't know, because South American countries in general depends a lot on United States, not only in the oil market. They import and export a lot there. If United States says not to buy anymore from these countries, they would lose a lot of money. So they are interested in keeping a good relation with United States. If there is an opportunity from Asia, from China, they would try to take advantage from this relationship, but I don't think this will vary considerably the supply to United States.

How is the situation with refineries in Brazil?

The big problem today in the oil sector in Brazil is the shortage of refineries. There was one that had to be built in Rio de Janeiro. Maybe in five years the refining capacity will be enough to cover the production level. Today Brazil has to export crude oil to other countries to refine and then import it.

The problem is that the Brazilian oil is not as light as the Middle East one and so it's more complex to process it. They have to re-design the refineries in Brazil. That's the problem.

Is Brazil investing in refineries?

Yes, they are investing. The problem in Brazil is that Petrobras is the main producer and it owns most of the refineries, eleven out of thirteen, so Petrobras decides Brazilian price and there are no investors willing to build new refineries because they feel they cannot compete with Petrobras in refining. By decreasing the price Petrobras can destroy the competition. This happened with the two private refineries, which had to ask to the government for help, otherwise they wouldn't survive.

Did the government try to regulate the refining market to make it more competitive?

The government just said it's free to invest for everyone. After it became clear that there was not a real competition, the government couldn't do anything else. And together with the refining problem there is also another one: the pipelines. All the pipelines belong to Petrobras so every company needs to pay some rent to Petrobras for using them: maybe there should be a regulation of these prices.

Technology has always been a discriminant variable in the oil market: producing countries in the past needed international oil companies also because of their technology. Those countries who tried to nationalize the reserves in the 70s had to step back. Is the situation different today?

In Brazil yes. Petrobras in fact has the most advanced technology in the world for deep water exploration. It was a pioneer in creating there kind of technologies. This because Brazilian oil is deep, deep, deep under the ocean.

So this problem doesn't exist for exploration in Brazil. For refining it's another story, also because the oil is heavy and thus the technology required in refining are more complex.

And Venezuela?

I think also Venezuela, with the national company PDVSA, doesn't have big problems with technologies. The point is that the level of technology required depends a lot on the physical conditions of production. It's much more easy to extract the oil in Venezuela than in Brazil, so Venezuela doesn't really need sophisticated technologies. In Brazil the locations are really bad. I don't know if you heard this but Petrobras has professional divers who are trained to work in deep water. They have to spend two years in a special room waiting for adapting to that pressure

This year Brazil became energy independent, and Petrobras is growing a lot: which are the next steps Petrobras will take? Does Petrobras have a chance to become one of the big international companies?

I think the next step is internationalization. Petrobras already has big investments in Bolivia, Venezuela, Argentina and Mexico. And then it has partnerships in United States and in Africa, like Angola. I know there were also some investments in Iraq before the Gulf war but then they left. I remember a Brazilian contractor was kidnapped in Iraq and there was a big polemic here.

Now Petrobras is pursuing this goal of becoming a big oil company.

To reach this goal do you think Petrobras will sell part of its shares to foreign investors?

I think they may sell some percentage of shares to new foreign investors, but the government will keep the golden share. In 1997 they tried to sell a big quota of Petrobras to private, but it didn't work because they faced a very big political resistance. The left party didn't agreed with this transaction. But I think they were more worried with the fact

that the new investors were foreign and not with the fact they were private. Petrobras is the national company and a big part of Brazilians and of the government don't want to lose it.

What shall an international oil company consider to enter in the South American market?

Regarding production in Brazil you just have to take part to the auction. Every year, since 1999, there is an auction of some areas open to private sector. Today there are many international companies exploring and producing: Shell, Texaco, Agip. The political risk then is very very low in Brazil, so companies don't really worry about it. The problem is in other countries. In Bolivia and Venezuela the assessment is that the political environment is very unstable and I think in the next years the situation won't get better. So companies of course consider this when they evaluate their interest in taking part to auctions. The point is that the oil price is now so high, over 70\$, that it's convenient to work there. So, as we see, the oil price has the power to balance every kind of risk.

Ok, thanks a lot professor, this interview was very interesting and useful for my research.

Thanks to you Filippo. I hope I answered to your questions.

Conclusions

In the past years the geopolitics of South America is changing quickly and continuously, mainly because ultra leftish governments as Venezuela, Cuba and Bolivia are trying to push and sustain the same political thinking also in the other countries of the region and hence cutting the relations with USA and part of their allies. At the same time moderate leftish countries as Brazil, Chile and Argentina and rightish countries (Peru, Colombia) prefer to keep these relations and grows them to receive the best economic advantage.

Venezuela and Bolivia, following the leadership of Hugo Chavez, started in 2006 a nationalization of the natural reserves, including oil reserves. This affected the economic relations with multinational oil companies, modifying the conditions of the original contracts, with a huge lost for these companies. This politic move was possible due to the ideological force of Cuba (Fidel Castro) and to the financial power of Venezuela, which owns the largest heavy oil reserves in the world.

Forecasting how this situation will evolve is not easy: for sure the big political and social differences between different countries let believe that it will be almost impossible to generate a political and economic union of South America. At the same time it is not possible to predict if one of these forces will grow over the others.

An important question for oil companies today is choosing how to behave with this situation. After Venezuela changed the interpretation of tax law in March 2006 and forced some companies to turn their contract from oil agreements to joint ventures with a lower profit for companies (April 2006), most of the companies accepted the new conditions, preferring not to risk to lose the reserves. Only Eni and (regarding the tax law interpretation) Total refused the changes imposed by the Venezuelan government, losing the reserves.

This teaches to oil companies how much is important to consider the political risk when they evaluate their new investments.

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