

LETTER FROM CARACAS

VENEZUELA: FROM BAD TO WORSE

During the three tumultuous years of Nicolas Maduro's presidency, the economy sputtered to new lows, violent street gangs took over Caracas neighbourhoods and the president's top aides morphed into a disorganized crime ring.

Maduro can claim one small success, however: avoiding a presidential recall movement that earlier this month drew up to an estimated one million demonstrators onto the streets of Caracas to demand a referendum be held on his recall.

The president is demonstrably out of his depth. His regime can't be said to have any coherent economic or political policy other than holding on to power at all costs. Maduro is striking out at the opposition and imposing bizarre economic and financial measures in the name of Marxism, virtually all of which have made the situation worse.

With the price of oil likely to stay low for the foreseeable future, the country faces a staggering 500 percent increase in the rate of inflation this year, which could balloon to 700 percent before year's end, according to the IMF. Instead of remedies, the economy was buffeted with currency controls, business expropriations and land confiscations. Dire shortages of goods inevitably followed, and then ongoing food riots and thefts of food from delivery trucks.



The president has also committed a series of public gaffes that made him the butt of jokes in much of the region. He recently did it again, offering typically unreal and feckless advice to starving Venezuelans. He parroted a message sent to hungry Cuban farmers years ago by their leaders, who are also Maduro's mentors. The president told his mostly urban citizenry to start growing their own food. Those who refuse, he warned, were traitors.

Perhaps angling for an economic miracle, the president picked as his chief economic adviser a 40-year-old Spanish Marxist, Alfredo Serrano Mancilla, whose long hair and beard prompted Maduro to dub him "the Jesus Christ of economics." The Caracas daily El Nacional described Serrano as 'the man who pulls the strings of the country's economy,' not intending it as a compliment

With a near-empty treasury but desperate to calm public outrage over shortages, Maduro ordered a baffling 50 percent increase in the minimum wage last month. In response the presidents of the two leading business groups came out against the raise and told reporters that a number of businesses would now have to close and jobs would be lost because of shortages in raw materials due to the exchange rate controls.

If Venezuela's economic downward spiral continues, fearful Latin American leaders warned Maduro, there would be social upheavals and mass flight. The upheaval is well underway as the massive recall demonstration illustrates. Days after the demonstration, at a routine political event Maduro was chased by a crowd of angry protesters banging on pots and yelling that they were hungry. He eventually had to flee. During the president's time in office, numerous Venezuelans who could afford it have fled to live in Colombia or Miami.

An estimated 90,000 of those who remain trudged across the bridge between Venezuela and Colombia on a weekend in mid-July for the first time in a year thanks to a pact between Maduro and Colombian President Juan Manuel Santos to reopen it. Desperate Venezuelans cross the bridge to Colombia in search of food and medicine which are impossible to find at home.

Scarcities of medicine and health services raise the spectre of a health crisis as dengue fever and malaria are reported to be on the rise. Malaria is a special concern in this country that was the first to be recognized by the World Health Organization in 1961 as having eradicated it. With the economy in shreds over the past five years, an estimated 70,000 desperate Venezuelans have been streaming into the jungle mining regions in the areas around Pozo Verde, five hours away from Ciudad Guayana, looking for gold. Health officials fear that more than 10,000 may have contracted malaria from mosquito bites.

The demise of Venezuelan oil

Venezuela is South America's largest oil exporter, and now leads the continent in another category: most corrupt nation, according to a 132-page report issued by the Organization of American States (OAS).

One prime casualty of the corruption has cost the country billions of dollars in lost revenue. Petróleos de Venezuela (PDVSA) used to be the crown jewel of the continent's state-run companies, but when Hugo Chávez took office in 1998 it went straight to the top of his Marxist reform agenda.

The world-class U.S.-trained engineers who once ran PDVSA were replaced with untrained and unqualified leftist workers who quickly ruined several of Venezuela's major oil fields. Other actions of the Chávez administration destroyed relations with many Western firms whose expertise was critical to the oil industry. The world drop in oil prices was the finishing touch. The damage done to the oil fields and other elements of the production cycle is so serious that even a complete change in management and a return to sane policies will not repair it. Venezuelan heavy crude requires advanced production methods to refine and it may be years before it is competitive on the world market again.

As Chávez added more and more political cronies to PDVSA in place of qualified technicians, its standing and production fell further and rumours of large-scale corruption became hard to ignore. All this culminated in June, when a Venezuelan businessman named Roberto Rincón who had been arrested in Houston, pleaded guilty in a U.S. Federal Court to a five-year long role in a \$1 billion bid-rigging scheme involving PDVSA officials.

It was the latest turn in the Justice Department's wide-ranging investigation of Venezuelan corruption. The bid-rigging scheme spanned two presidential administrations continuing into Maduro's after the death of Chávez in 2013.

Narcotics and the State

By U.S. estimates, some 200 tons of cocaine flow unimpeded every year through Venezuela on the way to the U.S. and Europe, much with the apparent acquiescence of the military's Cartel of the Suns, the term referring to the emblems on the uniforms of high-ranking Venezuelan military officers.

Additional details of the drug smuggling could unfold as a result of this summer's U.S. Drug Enforcement Agency arrest of a key Suns Cartel operative, an army captain picked up in Colombia. U.S. officials want him extradited. But Maduro might prevail upon the Colombians to return him home instead. Using what presidential prestige remains, he has rescued other Venezuelan military officers accused of trafficking from the custody of neighbouring countries and brought them home safe from questioning by outside law enforcement agencies. In the captain's case, Maduro has personally asked Colombian President Juan Manuel Santos to intercede.

A similar incident in 2014 involved the detention in Aruba of Hugo Carvajal, a retired Venezuelan general sought on a U.S. warrant for drug trafficking. He was chief of military intelligence during the Chávez administration, a military colleague and ally of the late president and would have been a prized source of inside information on the Suns Cartel.

Aruban authorities took Carvajal into custody after he arrived there to assume the post of consul. He landed in the country aboard a plane belonging to Rincón, the Venezuelan businessman later convicted in the PDVSA bribery case.

Maduro demanded that Aruba send Carvajal back home instead of extraditing him to the U.S. Aruba ultimately complied, perhaps because the president closed Venezuelan airspace to planes taking off from Aruba, stranding fliers, and sent four military ships to the tiny island country until the consul-designate was returned.

Carvajal, now an assembly deputy widely known by his nickname El Pollo (the chicken), has kept a low profile, at least until recently. A Caracas newspaper reported that he had quietly and legally changed his name to Hugo Peck Peck, perhaps at least partly in a misguided attempt to avoid the notoriety attached to his former name. He explained to reporters that both his grandfathers' last names were 'Peck,' and he had wanted to make this change for some time.

Other senior military and government officials, as well as a pair of Maduro relatives, have not fared as well as Carvajal/Peck Peck. They have been indicted or arrested and held in connection with drug smuggling activity to the U.S.:

- Gen. Néstor Reverol, former drug czar and commander of the powerful National Guard, which oversees customs activities. He was indicted by the U.S. for protecting drug shipments passing through Venezuela to the north. In a direct rebuke to the U.S., Maduro recently named the general minister of the interior, essentially the nation's principal law enforcement official. The appointment was described in Miami's El Nuevo Herald, as akin to "naming El Chapo Guzman to the cabinet."

- Two nephews of Maduro's wife, Celia Flores, who have been in U.S. custody since last year when they were arrested in a sting on charges of conspiring to smuggle 800 kilograms of cocaine into the United States.
- The powerful ex-president of the National Assembly, Diosdado Cabello, a former army officer reported to be the head of the Suns Cartel has not yet been charged and denies the accusations.

Venezuelan officials did move against two ex-National Guard captains involved in narcotics trafficking; however it appears in retrospect to have been a political show aimed at burnishing the administration's image in advance of last December's parliamentary elections, which it lost badly anyway. They are charged in the U.S with using official government vehicles to transport seven metric tons of cocaine from the Colombian border to various Venezuelan airports and seaports to be sent to the U.S. between 2004 and 2009.

The rise of the gangs

Despite the legal woes of ranking military officers, in July Maduro promoted the secretary of defense, Gen. Vladimir Padrino, to be his second-in-command and chief of the cabinet, with power over all ministries and the economy, or what some commentators called the prime minister or co-president. By elevating Padrino, the president might have been conceding the need for a senior military man to tame the criminal anarchy that has exploded in the streets. A more likely explanation is that Maduro badly needs the support of the military to stay in office. His clownish antics may have brought smiles to the faces of his neighbours, but there is nothing amusing about his use of the police, the military and criminal gangs to confront activist opponents to his regime.

His predecessor, Chávez, began arming extreme leftist members of the criminal class, and a desperate Maduro has doubled down. Well-armed and connected gangs have proliferated alarmingly over his years in office and now engulf the country in one of the worst crime, kidnapping and murder waves in Latin American history. The gangs have grown beyond the control of the government and, indeed, often collaborate with rogue elements of the security forces. Resulting widespread express kidnapping and gang warfare have transformed much of Caracas and other parts of the country into a no-go zone any time of the day or night.

According to a veteran local security expert, there are now 18 organized gangs in the Caracas metro area, a number of which are aligned with and at the service of one or the other of the competing Maduro or Cabello camps, selling drugs, attacking one another or the police with grenades and killing them to steal their weapons, as well as joining with corrupt police and others in kidnapping for ransom or extorting the businesses of what prosperous Venezuelans remain in the country.

The gangs originated in the poor areas of the capital like El Valle, Uranos, 23 de Enero, Cementerio, Cota 905, and La Vega and grew out of the so-called Zones of Peace created by Maduro early in his administration.

These gangs can count on a steady supply of prospective members emerging from the country's badly overcrowded prison system. One typical and notorious example - but not the only one by far - is the General Penitentiary of Venezuela (PVG) in Guarico State, run by the inmates, many of whom are armed, and ruled by a *pran* or leader, as most other prisons in the country are. PVG contains pizza and burger shops as well as a supermarket. Inmates pay a weekly fee to the *pran* for access to the amenities.

Kidnap for ransom

Though kidnapping is generally acknowledged to be epidemic throughout the country, the government maintains there is none and so there are no statistics to report. Outside estimates put the number of kidnappings in the same range as the 3,000 annually reached in Colombia in the early 2000s. One high-end estimate, by lawyer and criminologist Mármol García of the Institute of Criminal Sciences at the University of Santa María, is that kidnaps in the last chaotic six months have increased by a factor of five with only 8 percent of cases being reported.

While traditional kidnappings for ransom often result in payments in excess of USD \$1million, the express version has become far more frequent because it is quick and easier to pull off. Express kidnappings have reached an average of about 25 a day in just the eastern part of the capital, according to one veteran negotiator. A typical ransom might be \$20,000 in foreign currency.

Express kidnappings take various forms in Caracas and are sometimes planned and targeted to varying degrees: a typical kidnapping might be staged at a school during daytime or on the streets outside a nightclub in Las Mercedes, as tipsy patrons leave bars or restaurants during the night or early morning, between the hours of 0430 and 0700. After dark, kidnappers hunting for victims place obstacles on key streets to force motorists to stop. They take the hostage to a so-called safe house and begin negotiations. Cruelty to hostages has skyrocketed to include frequent torture or sexual abuse and sometimes, once a ransom is paid, murder.

Kidnappers generally know all they need to about a hostage's finances in advance of committing the crime. To help with the targeting, the criminals access official government records with extensive data on citizens, their goods and property, and location and kind of vehicle they own as well as data on savings, checking and credit accounts.

The political landscape

Maduro and his party still have some support, but it is difficult to know how much of it is genuine. Given the extraordinary economic and security situation, it is hard to believe that genuine support for Maduro and the Bolivarian Revolution exists any more in significant numbers.

Mired in a legislative deadlock with the opposition General Assembly, Maduro is working furiously behind the scenes to block a recall vote until after 10 January 2017. He controls the Supreme Court, which has almost always ruled in favour of the government during the last 17 years of socialist rule under Maduro and Chávez. Only days after the huge demonstration in Caracas, for example, in a dispute over the appointment of three opposition lawmakers, the court declared all decisions of the new Assembly void until the dispute is settled.

If Maduro does succeed in stalling a recall referendum until after 10 January 2017, but is later voted out in a referendum, there would be no election for a successor. His vice-president would succeed him.

So there seems to be little chance of any regime change in Venezuela in the near future, barring the defection of a significant part of the armed forces or armed rebellion by the political opposition.

The first is unlikely because the senior officers have probably been either paid off, compromised or co-opted by their participation in illegal activities, most importantly of course narcotics trafficking. The second is unlikely because the

opposition does not have access to the weapons needed to confront the security forces and, in any case, it is a civic opposition movement, not an incipient military organization.

Maduro can count on the absolute loyalty and ruthlessness of the Cuban security forces that provide his inner ring of security, according to a former senior U.S. intelligence operations officer with years of experience in Cuba and in a number of Latin American countries, who still has government sources in Caracas. The Cubans will not allow the president to be overthrown nor will they allow him to resign (unlikely in any case) unless Havana orders him to. Cuba depends on virtually “donated” Venezuelan oil to keep its economy afloat. Until this flow is stopped, Maduro will continue to be propped up by his Cuban Praetorian Guard. The Cubans also manage the efforts of the security services against the political opposition and have shown remarkable skill in smothering and checkmating the clearly expressed opposition of the majority of the Venezuelan people. They are helped by the unwavering support of a declining but still powerful bloc of pro-regime supporters, whose main motivation appears to be resentment and hatred of what is left of the Venezuelan middle and upper classes.

Even if Maduro and his generals wanted to step aside they must know they can't. The fall of the regime would be followed by demands to arrest almost all of them and they would face long prison sentences either in Venezuela or in the United States in the case of the many who have profited from narcotics trafficking. They are riding a tiger they can't get off.

With his economy in ruins, President Nicolas Maduro traveled to Havana on Aug. 12 accompanied by a delegation of 80 to celebrate Fidel Castro's 90th birthday. The total cost to feed and transport the entourage was \$375,000.

Venezuela's so-called “Bolivarian Revolution” was from the first stage-managed by the Cubans. It was implemented by President Hugo Chávez, a clever but brutal, erratic and unstable coup-plotting army colonel, who was replaced after his death by Maduro, an uneducated former public transit system driver. While Chávez began his career as a follower of the controversial American political gadfly Lyndon LaRouche (whose backers have never been completely identified), he drifted into a quasi-Marxist extreme nationalist position with pretensions to be the new Simon Bolivar of Latin America. Fidel Castro was his hero, mentor and, more importantly, protector; Chávez was - and Maduro is - surrounded at all times by members of the Cuban Special Forces and intelligence services.

According to Assemblyman Carlos Berrizbeitia, a member of the General Assembly treasury commission, Maduro, in his three years in office, has spent more than \$14 million on 22 foreign trips. Last year he traveled to China to seek a loan, accompanied by more than 80 people, including the two nephews of Maduro's wife who are now in custody in New York on drug trafficking charges.

Terra Firma has a presence in Venezuela and our team has extensive experience and knowledge of working in the country. If you would like to know more about the security situation and challenges of working and living in Venezuela, please get in touch.



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