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Trump Administration Should Mitigate Damage from Venezuela Oil Sanctions

Ana Rosa Quintana

On Monday, January 28, 2019, the Trump Administration announced sanctions on Venezuelan oil. Pursuant to U.S. Executive Order 13850, all U.S. entities are prohibited from doing business with Venezuela's state-owned oil company, Petroleos de Venezuela, S.A. (PDVSA).¹ Additionally, any future income generated from PDVSA's American subsidiary, CITGO, will go into blocked accounts that will be handed over to President Nicolas Maduro's democratically elected successor.

The Maduro regime is a threat to U.S. interests and regional stability. Venezuelan officials have turned the country into an international drug trafficking hub.² They also enable regional and international terrorist groups by supporting the Revolutionary Armed Forces of Colombia (FARC)³ and Iran's Hezbollah.⁴ Maduro's corruption and mismanagement of the economy have produced Latin America's worst refugee crisis.

While oil sanctions deprive the regime of funds, the Trump Administration should also address collateral damages that impact U.S. interests—particularly if they undermine the Administration's successful Venezuela policy. The U.S. should prepare for the humanitarian fallout in Venezuela, reasonably address concerns of partner countries impacted by

the sanctions, and assess and reasonably mitigate the fallout to the U.S. energy industry. In punishing the profiteers of Venezuela's misery, the Trump Administration cannot afford not to handicap themselves.

PDVSA Is a Tool of the Maduro Regime

Venezuela's oil industry is consolidated under a state enterprise known as PDVSA. It is the main source of revenue for the country, as oil exports account for 98 percent of export earnings.⁵ Over the past 20 years, the oil sector has become an apparatus of the governing United Socialist Party of Venezuela (PSUV). U.S. and Venezuelan authorities not affiliated with Maduro's regime have found rampant corruption in the state oil company. Networks of Venezuelan officials have used the company to launder money, and they have also stolen tens of billions in oil revenues.⁶ Both Hugo Chavez and Nicolas Maduro have used PDVSA as a political tool of the state, hiring unskilled regime loyalists and compelling employees to support the government.⁷

In 2017, Maduro appointed a National Guard general with no experience in oil to run PDVSA, presumably to maintain the military's loyalty.⁸ Handing control of PDVSA to the National Guard signaled a deepening intent to continue using PDVSA as a tool of the regime. At this point, PDVSA was already struggling with operational problems, as well as declining production and exports. In 2008, PDVSA was extracting 3.2 million barrels per day (bpd). Ten years later, the numbers have plunged. It started 2018 producing 1.52 million bpd and ended at 1.15 million bpd.⁹ The drop in oil exports has coincided with a decline in global oil prices, further decreasing

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The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

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Venezuela's oil export revenues. Earnings in 2008 were \$89.1 billion, and then sharply plummeted to \$20.9 billion in 2018.¹⁰

PDVSA's activities are not limited to Venezuela, which presents additional complications for the U.S. The company has joint ventures and refineries with over a dozen companies located in the U.S., the Caribbean, and Central America. Companies in U.S. partner nations like Belize, the Dominican Republic, Jamaica, and the Kingdom of the Netherlands will be impacted by the sanctions. The majority of the Central American and Caribbean joint ventures are a result of the regime's PetroCaribe program, a strategic effort to make the Caribbean dependent upon Venezuelan energy.¹¹ U.S. oil company CITGO is majority-owned by PDVSA. Additionally, about half of Venezuela's oil is processed in U.S. refineries.

There is little reason to expect U.S. sanctions against Venezuela will have a significant impact on the U.S. and the global energy market. The global market is oversupplied with oil, and the U.S.'s own

production and refinement capabilities are at historic highs. Venezuela's oil exports are nearly four times less than they were a decade ago, and that number has fallen sharply over the past two years. U.S. industries have been preparing for the collapse of PDVSA. U.S. refineries will have to turn to other sources to replace Venezuelan oil in the interim until the political transition in Venezuela occurs.

While overall markets will not be affected, U.S. oil companies with transactions in progress have been unable to obtain their cargo. The U.S. has issued general licenses to U.S. companies authorizing certain activities, allowing them to wind down operations with PDVSA. The licenses require that any funds that would otherwise go to PDVSA will now go to a blocked account inaccessible by the Maduro regime and current PDVSA leadership. The licenses should allow for the completion of transactions already in progress.

Yet purchases of crude transactions by U.S. companies are not prepaid, as payment occurs on a periodic basis. According to Reuters, there are report-

1. Donald J. Trump, "Executive Order on Taking Additional Steps to Address the National Emergency with Respect to Venezuela," Executive Order No. 13850, January 28, 2019, <https://www.whitehouse.gov/presidential-actions/executive-order-taking-additional-steps-address-national-emergency-respect-venezuela/> (accessed February 14, 2019).
2. "Drug Trafficking Within the Venezuelan Regime: The 'Cartel of the Sun,'" Insight Crime, May 17, 2018, <https://www.insightcrime.org/investigations/drug-trafficking-venezuelan-regime-cartel-of-the-sun/> (accessed February 5, 2019).
3. "FARC in Venezuela," Insight Crime, November 17, 2015, <https://www.insightcrime.org/venezuela-organized-crime-news/farc-in-venezuela/> (accessed February 4, 2019).
4. News release, "Treasury Targets Hizballah in Venezuela," U.S. Department of Treasury, June 18, 2008, <https://www.treasury.gov/press-center/press-releases/pages/hp1036.aspx> (accessed February 5, 2019), and "Hezbollah's Backing of Maduro May Shine Light on Links With Venezuela," Insight Crime, January 29, 2019, <https://www.insightcrime.org/news/analysis/does-hezbollah-backing-maduro-confirm-venezuela-terrorist-links/> (accessed February 6, 2019).
5. Organization of the Petroleum Exporting Countries, "Venezuela: Facts and Figures," https://www.opec.org/opec_web/en/about_us/171.htm (accessed February 5, 2019).
6. Alexandra Ulmer and Marianna Parraga, "In Political Storm, Venezuela State-Run Oil Company PDVSA Drifts Further," Reuters, August 8, 2017, <https://www.reuters.com/article/us-venezuela-oil/in-political-storm-venezuela-state-run-oil-company-pdvsa-drifts-further-idUSKBN1AO10M> (accessed February 5, 2019).
7. Ibid.
8. Alexandra Ulmer and Marianna Parraga, "Special Report: Oil Output Goes AWOL in Venezuela as Soldiers Run PDVSA," Reuters, December 26, 2018, <https://www.reuters.com/article/us-venezuela-pdvsa-military-specialreport/special-report-oil-output-goes-awol-in-venezuela-as-soldiers-run-pdvsa-idUSKCN1OP0RZ> (accessed February 5, 2019). Venezuela's National Guard is one of the five services of the National Bolivarian Armed Forces. Unlike its U.S. equivalent, Venezuela's National Guard operates as a branch of the military with domestic law enforcement authority. See Brian Fonseca, John Polga-Hecimovich, and Harold A. Trinkunas, "Venezuelan Military Culture," Florida International University, Steven J. Green School of International Public Affairs, May 2016, <https://gordoninstitute.fiu.edu/policy-innovation/military-culture-series/brian-fonseca-john-polga-hecimovich-and-harold-trinkunas-2016-venezuelan-military-culture.pdf> (accessed February 6, 2019).
9. Organization of the Petroleum Exporting Countries, *OPEC Monthly Oil Market Report*, January 17, 2019, https://www.opec.org/opec_web/static_files_project/media/downloads/publications/MOMR%20January%202019.pdf (accessed February 14, 2019).
10. Ulmer and Parraga, "Special Report: Oil Output Goes AWOL in Venezuela as Soldiers Run PDVSA."
11. Petroleos de Venezuela, S.A., "PDVSA In the World," http://www.pdvsa.com/index.php?option=com_content&view=article&id=6581&Itemid=898&lang=en (accessed February 6, 2019).

edly two dozen tankers carrying 18 million barrels of Venezuelan crude oil, a total of two weeks' worth of Venezuela's oil production. The majority of the tankers belong to U.S. companies, unable to purchase the cargo.¹² Chinese and Indian refineries are expected to absorb some (but not all) of PDVSA's refinery needs.

Venezuela's Humanitarian Crisis

As a result of the regime's mismanagement and corruption of PDVSA, Venezuela's economy is spiraling out of control. Venezuela's soaring levels of debt, combined with inflation rates over 100,000 percent and a worthless currency have led to consumer prices rising over *1.3 million percent* in 2018 alone.¹³

The economic meltdown is most acutely seen in the country's dire humanitarian crisis. Ninety percent of Venezuelans live in poverty, and there are severe shortages of food and medicine.¹⁴ Over 3 million Venezuelans have fled the country in what has sparked Latin America's largest refugee crisis. Neighboring Colombia has resettled more than 1.1 million Venezuelans, while stressing the country's limited resources. In addition to providing support for Venezuelans, Colombia faces the daunting task of combating surging cocaine production as well as demobilizing their terrorist organization, the Revolutionary Armed Forces of Colombia (FARC). Colombia is the U.S.'s largest foreign aid recipient in Latin America and the top cocaine-producing country in the world.

Maduro's efforts to stem the humanitarian crisis have worsened the situation. Corrupt military officials are in control of the country's food management system. An Associated Press investigation discovered that they traffic in food products and earn profits at the expense of starving Venezuelans.¹⁵

Penalizing Corrupt Officials While Advancing U.S. Interests

There is no question that the regime of Nicolas Maduro must go. The Trump Administration has been working to ensure this happens. U.S. policy-

makers face the challenge of preventing the regime from enriching itself, while simultaneously not worsening the humanitarian conditions.

The U.S. has the additional dilemma of maintaining positive relations with partner nations and reasonably protecting U.S. companies who have a financial stake in PDVSA. The U.S. must also develop further means of increasing pressure on the regime to ensure a peaceful transition of power. In order to succeed, the U.S. should:

- **Strengthen multilateral humanitarian assistance within Venezuela and in neighboring countries.** Even though Maduro continues blocking entry of humanitarian aid, the U.S. and international donors must not allow a worsening of the humanitarian crisis. As the U.S. seeks alternative means of entering in cargo shipments, the U.S. Agency for International Development can provide assistance to trusted civil society groups in currency or reloadable prepaid cards, which are easier to transport.
- **Maintain and expand a comprehensive sanctions regime against Maduro's inner circle and urge other countries to reciprocate.** Should the oil sanctions not lead to Maduro's ouster, the Trump Administration should continue ramping up pressure against enablers of the regime. Officials within Venezuela and throughout the region continue to enable the government's criminal behavior. The U.S. should work with regional partners to seize their illicit assets and pressure the regime to leave office.
- **Raise the cost on the Cuban government for their role in Venezuela's crisis.** Cuban officials have penetrated and empowered the Maduro regime. The U.S. should levy sanctions on the Cuban government, including enforcing measures in Title III of the Cuban Liberty and Demo-

12. Jessica Resnick-Ault, "U.S. Crude Settles Lower Amid Trade Concerns," Reuters, January 31, 2019, <https://www.reuters.com/article/us-global-oil/oil-prices-steady-on-supply-u-s-china-talks-in-focus-idUSKCN1PP05G> (accessed February 4, 2019).

13. International Monetary Fund, "Inflation Rate: Average Consumer Prices; Annual Percent Change," https://www.imf.org/external/datamapper/PCPIPCH@WEO/WEO_WORLD/VEN (accessed February 5, 2019).

14. Rocio Cara Labrador, "Venezuela: The Rise and Fall of a Petrostate," Council on Foreign Relations, January 24, 2019, <https://www.cfr.org/backgrounder/venezuela-crisis> (accessed February 6, 2019).

15. Hannah Dreier and Joshua Goodman, "Venezuela Military Trafficking Food as Country Goes Hungry," Associated Press, December 28, 2016, <https://www.ap.org/explore/venezuela-undone/venezuela-military-trafficking-food-as-country-goes-hungry.html> (accessed February 6, 2019).

cratic Solidarity Act.¹⁶ This would allow U.S. citizens to sue the Cuban government for seizing and profiting from their stolen property.

- **Reduce the Caribbean’s dependence on Venezuelan oil.** Maduro’s capacity to project power in the region largely stemmed from his use of petrodiplomacy. Last year, the Department of Energy finalized a rule to expedite small-scale liquefied natural gas exports (LNG), which are particularly beneficial for Caribbean, Central American, and South American countries. Increased access to America’s LNG exports will provide more choice and energy diversity for Caribbean countries.¹⁷
- **Attempt to reasonably address concerns from U.S. partners while not weakening efficacy of the sanctions.** The U.S. should be sympathetic toward partner countries like Belize, the Dominican Republic, Jamaica, and the Netherlands whose companies are temporarily impacted by U.S. sanctions. The Trump Administration should work with Caribbean joint-venture nations to find alternative sources of oil besides Venezuela.
- **Amend the Treasury general licenses to allow completion of the transactions in progress when sanctions were announced.** As currently written, the general licenses do not allow U.S. energy companies to obtain or pay for the cargo loaded onto tankers the day sanctions were announced. The Department of Treasury should let the U.S. companies finalize these transactions with PDVSA.

- **Urge the dozens of countries that recognize President Juan Guaido to only allow his administration access to Venezuelan state assets in their respective countries.** Recently, the Bank of England blocked Maduro from withdrawing \$1.2 billion in Venezuelan state assets. Other countries ought to do the same. These funds belong to the Venezuelan people—and should be used in the country’s reconstruction efforts.

Maduro Needs to Step Down

The regime has bankrupted Venezuela and forced millions into poverty and exile. Dozens of the world’s leading democracies recognize Maduro must step down. As the U.S. works to rid Venezuela of Maduro, it must address the consequences of the oil sanctions.

—*Ana Rosa Quintana is Senior Policy Analyst for Latin America and the Western Hemisphere in the Douglas and Sarah Allison Center for Foreign Policy, of the Kathryn and Shelby Cullom Davis Institute for National Security and Foreign Policy, at The Heritage Foundation.*

16. The Cuban Liberty and Democratic Solidarity Act of 1996 is the legislation that codified the U.S.’s embargo against Cuba into federal law. See The Cuban Liberty and Democratic Solidarity Act of 1996, Public Law 104-114, <https://www.treasury.gov/resource-center/sanctions/Documents/libertad.pdf> (accessed February 14, 2019).

17. U.S. Department of Energy, “U.S. Department of Energy Finalizes Rule to Expedite Approval for Small-Scale Natural Gas Exports,” July 25, 2018, <https://www.energy.gov/articles/us-department-energy-finalizes-rule-expedite-approval-small-scale-natural-gas-exports> (accessed February 7, 2019).