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INSIGHT

New U.S. Sanctions on Venezuela

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In August 2019, the Trump Administration expanded Venezuela-related sanctions by blocking all assets and interests of the Nicolás Maduro government in the United States. It also authorized sanctions against those who materially support the Maduro government or others already designated for sanctions, with exemptions for humanitarian aid.

Since recognizing Juan Guaidó, head of the National Assembly, as interim president of Venezuela in January 2019, the Administration has increased sanctions on the Maduro government in an effort to compel Maduro to leave office so a Guaidó-led transition government can convene free and fair elections. Sanctions have put economic pressure on the Maduro government, primarily by accelerating the decline in Venezuela's oil production and making it difficult for the Maduro government to sell oil in international markets. Sanctions, however, have not yet led to a political transition and arguably have contributed to deteriorating humanitarian conditions.

New Sanctions

Executive Order (E.O.) 13884, signed by President Trump on August 5, 2019, blocks all property of the Maduro government within the United States and prohibits all transactions within the United States involving the Maduro government. Several parts of the Maduro government, including specific government officials, the central bank, and the state-owned oil company, *Petróleos de Venezuela, S.A.* (PdVSA), were subject to sanctions under earlier U.S. actions. E.O. 13884 applies sanctions to all

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Venezuelan government entities and state-owned enterprises. According to U.S. National Security Adviser John Bolton, the new sanctions strive to "cut off Maduro financially, and accelerate a peaceful democratic transition."

E.O. 13884 also calls for sanctions against non-U.S. individuals or entities determined by the Secretary of the Treasury, in consultation with the Secretary of State, to have "materially assisted, sponsored, or provided financial, material, or technological support for, or goods, or services to or in support of" the Maduro government. The order calls for sanctions on those determined to have "acted or purported to act for or on behalf of, directly or indirectly" of the Maduro government. These sanctions on foreign individuals and entities include blocking U.S. assets and denying entry into the United States.

Simultaneously with the signing of E.O. 13884, Treasury's Office of Foreign Assets Control (OFAC) amended 12 previously issued Venezuela-related general licenses and issued 13 new general licenses. The licenses permit transactions involving humanitarian support, the Venezuelan National Assembly and Guaidó-led interim government, and Venezuela's mission to the United Nations, among others.

Some analysts characterized the new sanctions as a U.S. embargo against Venezuela. However, an embargo refers to a complete ban on trade with a particular country; E.O. 13884 is narrower and targets the Maduro government rather than transactions with Venezuelan individuals or private companies.

Potential Implications

Because many parts of the Maduro government already are subject to sanctions and several licenses have been granted, there are questions about the latest sanctions' potential impact. The sanctions could have implications for CITGO, a U.S.-based subsidiary of PdVSA; foreign companies that transact with PdVSA; and humanitarian conditions in Venezuela.

- **CITGO.** Following January 2019 sanctions on PdVSA, the National Assembly voted to appoint a new CITGO board of directors. The new board has taken over payments on bonds previously issued by PdVSA. The bonds are collateralized by a majority ownership position in CITGO, a valuable asset in the PdVSA portfolio. If the bonds enter into default, the bondholders could potentially seize CITGO. After President Trump signed E.O. 13884, Guaidó argued that the latest sanctions shield CITGO from seizure by creditors. However, the law firm Clearly Gottlieb, which represents some Venezuelan bondholders, issued a report that it does not see a basis for such statements, maintaining that bondholders are still authorized to collect on collateral in the event of default. Nevertheless, speculation remains that OFAC could provide additional guidance on the sanctions' implications on CITGO before a $913 million bond payment comes due in late October 2019.
- **Foreign Entities Engaged in Transactions with PdVSA.** Many foreign companies conduct business with PdVSA, including joint venture oil production, petroleum trade, and oilfield services. PdVSA's joint ventures include companies in France, Norway, Spain, China, Japan, India, and Russia. Additionally, Venezuelan crude oil is increasingly exported to foreign countries, following January 2019 sanctions prohibiting U.S.-Venezuela petroleum trade. Most Venezuelan crude oil exports are destined for China and India, and nearly all exports to India go to refineries owned by Russia's Rosneft. Recent exports also have gone to Malaysia, Spain, Germany, and Sweden. PdVSA has been acquiring diluents—blended with Venezuelan crude oil to facilitate transportation and processing—from Russia. Should this cooperation with the Maduro government continue, these companies could be subject to E.O. 13884 sanctions.
- **Humanitarian Conditions in Venezuela.** With oil comprising 95% of Venezuela's exports, declining oil production caused by years of corruption and mismanagement has

- contributed to a humanitarian crisis. The combined effects of U.S. sanctions imposed from 2017 to 2019 likely accelerated that decline. The Maduro government has retained the military's loyalty thus far by distributing revenue from licit and illicit enterprises and repressing internal dissent. Some analysts, however, speculate that the stronger U.S. sanctions could worsen the humanitarian crisis without hastening Maduro's departure. Others argue that the sanctions' impact on the Venezuelan people may be somewhat minimized by OFAC's authorizations to permit personal remittances, humanitarian-related transactions, and support from international organizations.
- **Effects on Negotiations.** Since May 2019, Guaidó and Maduro have engaged in talks, facilitated by Norway, to try to end the standoff, but prospects for a negotiated solution to the crisis remain uncertain. The most recent U.S. sanctions resulted in the Maduro government temporarily walking away from the talks. Many analysts caution that U.S. sanctions could prolong the current stalemate by not allowing Maduro a dignified way to leave power. Others assert that U.S. assurances that Maduro could go into exile without facing prosecution if he allowed free and fair elections to occur could help move negotiations forward.

For recently updated information on Venezuela, see CRS In Focus IF10230, *Venezuela: Political Crisis and U.S. Policy*, and CRS In Focus IF10715, *Venezuela: Overview of U.S. Sanctions*.