Are Sanctions Working in Venezuela?

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SEPTEMBER 2019

THE ISSUE

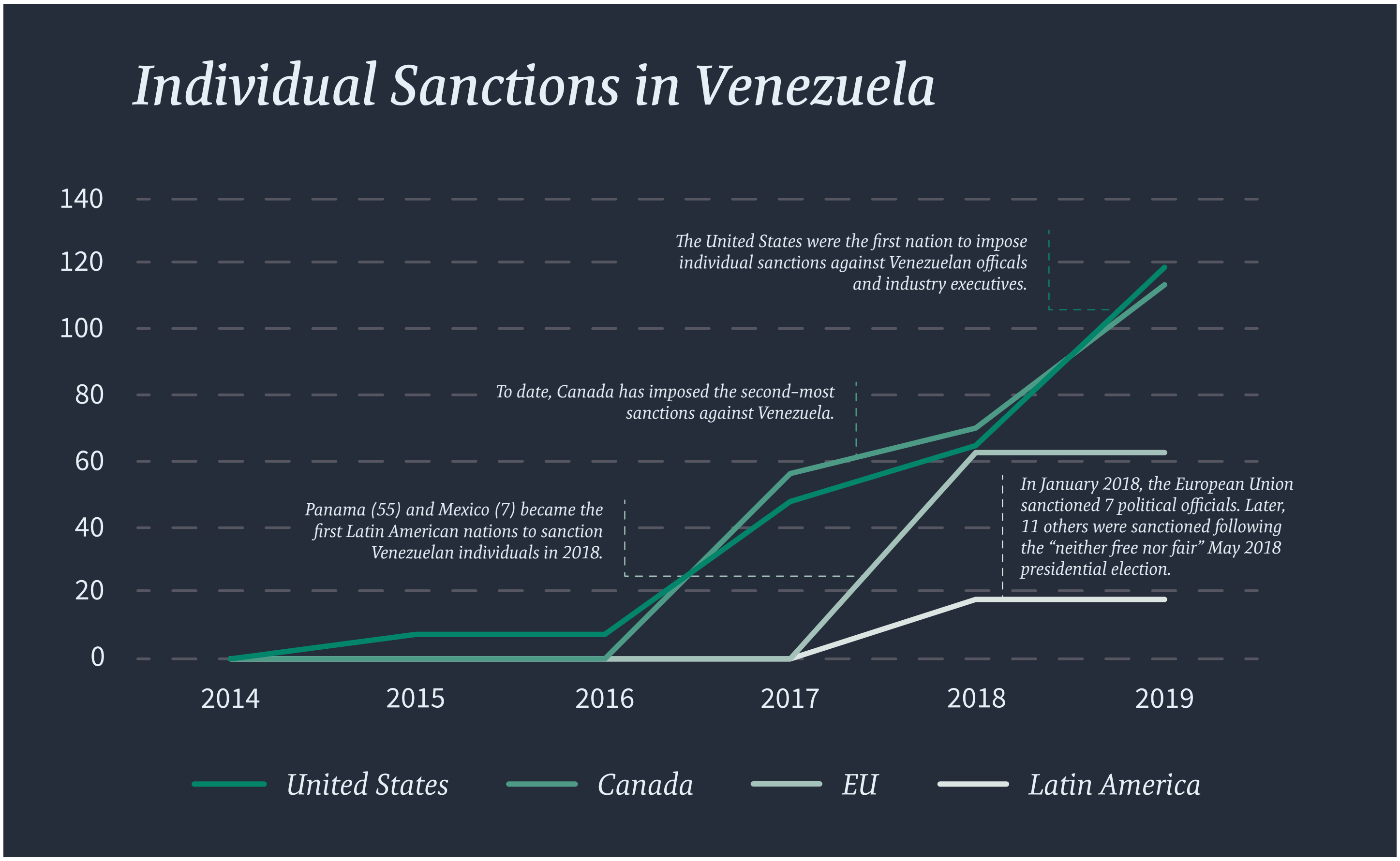
As the United States, the Lima Group, the European Union, and other like-minded nations continue to increase pressure on the regime of Nicolás Maduro with diplomatic measures such as challenging his government's legitimacy, the question remains as to whether sanctions are an effective measure for changing the behavior of the Venezuelan regime and pushing Maduro to step down. Despite external support by Russia, Cuba, China, and a few others, Maduro is more alienated on the world stage than ever before. That said, stiff sanctions and diplomatic isolation have not yet convinced Maduro to negotiate his exit while his regime has proven to be resilient and adaptable. As the humanitarian crisis deteriorates further, a debate has raged on among policymakers who worry that sanctions may be worsening conditions for Venezuelan citizens. This brief provides clarity on this complex issue. This report will assess the efficacy of past sanctions, as well as their impact on standards of living in Venezuela, and provide recommendations for improving policy in this area.

FAST FACTS

- By 2016, one year before financial sanctions were first implemented by the United States, the Venezuelan bolívar had already hit an inflation rate of 255 percent. Inflation has now surpassed 1 million percent and is projected to be 10 million percent by year end.
- Oil production in Venezuela dropped from roughly 2.4 million barrels per day in 2015 to about 1 million barrels per day at the end of 2018 before broad sanctions against PdVSA were implemented.
- Venezuelans lost an average of 24 pounds between 2016 and 2017. Over the same period, severe child malnutrition reached 15.5 percent.
- In addition to the European Union, five countries (the United States, Canada, Switzerland, Mexico, and Panama) have issued sanctions to address the Venezuelan crisis.

BACKGROUND: SANCTIONS ON VENEZUELA

Under the Obama administration, the United States implemented the first sanctions on Venezuela. In December 2014, the U.S. Congress passed the Venezuela Defense of Human Rights and Civil Society Act, which directed President Obama to impose sanctions on Venezuelan security forces who violently repressed student protests. The president codified the act in 2015 by revoking the assets and visas of eight individuals in the Maduro administration. Later, the act was extended through 2019, and the Department of Treasury sanctioned dozens of government and military officials for charges including support for terrorism, drug and human trafficking, human rights violations, corruption, money laundering, other financial crimes, and illiberal behavior.



INDIVIDUAL SANCTIONS

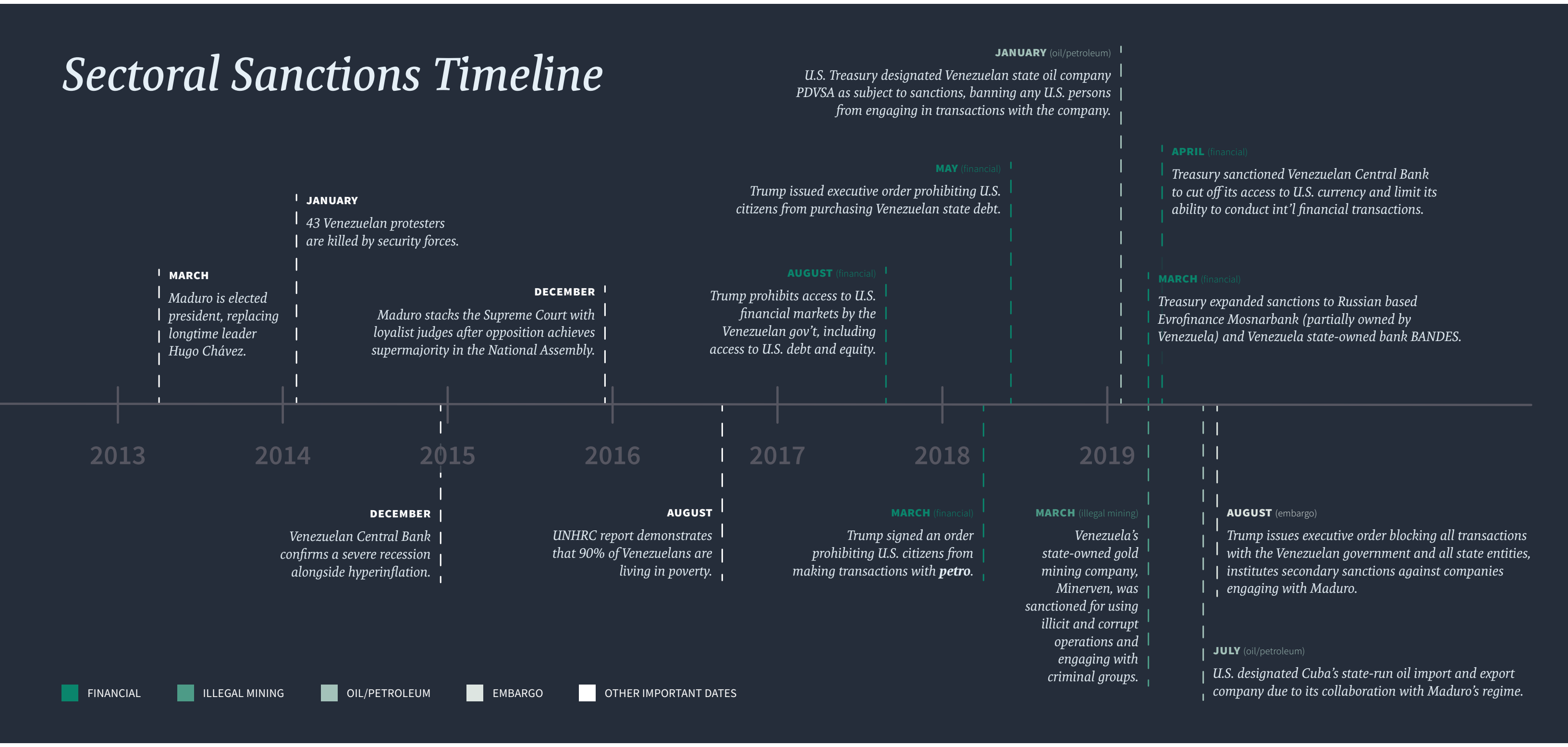
To date, the United States has sanctioned 119 individuals and 47 entities from or related to Venezuela, many of whom were also designated by Canada, Mexico, Panama, and the European Union. While the current administration has demonstrated a width and breadth of sanctioning techniques, the most notable policy shift since President Trump's 2017 inauguration has been the gradual transition from individual to sectoral sanctions. These are distinct policy tools: individual sanctions block the assets and movement of persons deemed to be aiding the regime while sectoral sanctions prohibit transactions with certain companies which are engaged in illicit actions on behalf of the government.

SECTORAL SANCTIONS

When President Trump took office, he continued the authorization of sanctions against individuals deemed to be working on behalf of Maduro's regime, including Maduro's family, vice president, and ministers and advisors in his inner circle. However, a change in course took place when the president issued an August 2017 executive order prohibiting U.S. citizens from purchasing Venezuelan government debt, specifically targeting Venezuela's state-owned oil company Petróleos de Venezuela S.A. (PdVSA). This mandate also restricted the Venezuelan government's access to U.S. debt and equity markets to limit Maduro's ability to finance illicit activities and pay off military officials.

In March 2018, the president banned U.S. citizens from engaging in transactions with *petromoneda* (better known as petro), an unsuccessful government-controlled cryptocurrency designed by the regime to circumvent financial sanctions. After Maduro's illegitimate reelection in May 2018, a new order cut off the Venezuelan government and all its subsidiary entities from international debt financing, additionally blocking corrupt Venezuelan officials from selling off public assets in exchange for kickbacks.

Pursuant to a November 2018 executive order laying out a framework for sanctioning Venezuelan companies deemed to be complicit in deceptive or corrupt practices, the Treasury Department designated PdVSA as subject to sanctions, blocking its property and interests and banning transactions with U.S. citizens this past January. These sanctions did not go into effect until June 2019, however. In March, the U.S. administration targeted Venezuela's state-operated gold mining company Minerven for illicit and corrupt operations and engagements with criminal gangs and militia groups to financially benefit the regime. Several government, private sector, and military persons were sanctioned for their involvement in illegal mining.



A month later, Treasury sanctioned the Central Bank of Venezuela, cutting off its access to U.S. currency and limiting its capacity to conduct international transactions. Further targeted sanctions were unleashed against a web of Cuban and Russian companies, including banks, oil importers, and shipping companies who have engaged with PdVSA and provided cash to Maduro's government.

In early August, President Trump announced a complete embargo against the Venezuelan government, blocking all transactions with some exceptions for humanitarian aid. Additionally, he granted Treasury the power to implement secondary sanctions against foreign and domestic entities engaging with Maduro's regime.

ARE SANCTIONS CAUSING THE HUMANITARIAN CRISIS?

Sanctions **did not** cause the economic or humanitarian crisis in Venezuela as dire conditions in Venezuela preceded the implementation of sanctions. By 2016, a year before any financial or sectoral sanctions hit the country, Venezuela's economy was already enduring severe hyperinflation, which surpassed a rate of 800 percent. Between 2013 and 2016, food imports fell 71 percent and medicine and medical equipment imports dropped 68 percent. Over the same period, infant mortality increased by 44 percent. By the time sanctions were introduced, Venezuelans earning the minimum wage could only afford 56 percent of the calories necessary for a family of five. Over two million Venezuelans had already fled the country at this point.

The extent of the humanitarian damage suffered before sectoral sanctions indicates that the blame cannot be placed on the sanctions themselves. As an example, Venezuela's Central Bank confirmed in 2014 that plummeting oil prices had triggered a severe economic contraction with simultaneous hyperinflation. Under the guise of austerity, Maduro announced cuts to major social services upon which millions of citizens relied.

THE IMPACT OF SANCTIONS: AN ONGOING DEBATE

Despite the country's economic deterioration occurring before the application of broad sanctions, some still blame the imposition of U.S. sanctions for degrading standards of living in Venezuela. A CEPR report from April 2019 claims that 40,000 people have died as a result of these sanctions, an assertion based on a comparison of oil production between Venezuela and Colombia before and after the 2017 sanctions.

This conclusion was challenged by the Brookings Institution, which pointed out crucial differences between each country's oil industry. Additionally, they illustrated that worsening determinants of the humanitarian condition in Venezuela predated the imposition of sanctions and have gone on for years.

Other critics of current sanctions policy have instanced the fact that 68 percent of Venezuelans believe that U.S. sanctions have worsened their quality of life. Supporters of strict sanctions policy have cited Maduro's years-long Hands Off Venezuela propaganda campaign that has arguably poisoned the well of public opinion.

The real impact of economic sanctions on humanitarian conditions is obscured by several confounding variables, the most notable of which is Maduro's lack of interest in stopping the bleeding.

For decades, Venezuelan success has been contingent on global oil prices. Data from the Organization of Petroleum Exporting Countries (OPEC) suggests that oil accounts for 98 percent of the country's export revenues. The government's dependence on these revenues to finance basic social spending has in part produced the current crisis. Venezuelan oil production plummeted by millions of barrels prior to the introduction of U.S. economic sanctions, reflecting a lack of economic diversity and intolerance for non-state competition in oil extraction which has once again left the nation's prosperity precariously tied to oil prices.

Economic mismanagement is just one side of the story, however. The Maduro regime has been unflinching in its efforts to centralize power and undermine democracy. In addition to amending the constitution several times, Maduro created a new legislative body to override a National Assembly with an opposition supermajority and packed the Supreme Court with loyalist justices. Maduro and his coconspirators are complicit in a 20-year process of institutional collapse, large-scale corruption, economic negligence, and suppression of individual rights.

A July 2019 report from the U.N. Commission on Human Rights illustrates the excesses of Venezuela's authoritarian status. A crippling economic spiral has been exacerbated by extrajudicial killings, political imprisonment without due process, and pervasive violence due to the presence of groups such as FARC, ELN, Hezbollah, drug cartels, and pro-government colectivos.

MITIGATING THE COLLATERAL DAMAGE OF SANCTIONS

Sanctions are undoubtedly cutting off financing to the Maduro regime, limiting the government's ability to import food and medicine amid economic freefall. However, reversing sanctions against Maduro and giving the regime access to revenues will not fix the humanitarian crisis for three main reasons:

- Although government revenues have been used in the past to bankroll social programs, Maduro's regime has neglected to provide food and medicine to the Venezuelan people. Instead, they have directly profited from these revenues, funding illicit projects and buying the loyalty of military officials. Sanctions are designed to choke off these earnings, weakening Maduro's grasp on power and therefore accelerating the restoration of democracy.
- According to the Venezuelan constitution, Maduro has not been the legitimate president of the country since January 10th, 2019. Over 50 countries have denounced his regime and recognized Juan Guaidó as interim president until free and fair elections can be held. Granting financial access to Maduro only serves to undermine calls for free and fair elections. Instead, the legitimate government of Venezuela should be given authority over the nation's resources and institutions.
- Alternative approaches to the humanitarian crisis can more effectively relieve the suffering of Venezuelans without empowering Maduro with the state's assets and resources.

Sectoral sanctions may be causing harm to vulnerable civilians who are already suffering under hyperinflation and crumbling job prospects. Therefore, any medium- to long-term sanctions strategy must be combined with a plan to provide aid to the Venezuelan population, 90 percent of whom cannot afford necessities. By limiting the finances to the Maduro regime and replacing it with a series of programs intended to provide food and aid to the Venezuelan people, both goals can be accomplished. One option, an oil-for-food initiative, could take advantage of Venezuela's bountiful natural resources—it has the largest known reserves of oil in the world. While previous oil-for-food programs have had mixed results, thorough international oversight would limit the risk of corruption. Perhaps a greater challenge would be the fact that Maduro still controls the country's territory and its vast oil reserves.

Maduro has shut out foreign aid from abroad, including the United States, Canada, and the European Union, describing their contributions as a violation of sovereignty. Under his command, Venezuela's borders with former allies Brazil and Colombia have been shuttered, bringing the delivery of crucial humanitarian aid to a near halt. Additionally, Maduro has abused Venezuela's subsidized food program CLAP to punish political dissenters; 83 percent of Maduro's supporters receive benefits, as opposed to 14 percent of independents. New methods are in order to address this challenge.

Noting Maduro's apparent disinterest in improving conditions for Venezuelans, concerned governments should pursue an unconventional approach for distributing aid. The main goals of any central strategy are clear: reducing hunger and malnourishment, increasing access to medicine and health care, and fostering independent communities. Implementing this change (without giving Maduro's government the chance to skim off the top) may necessitate the use of technologies such as blockchain and cryptocurrency.

Although Internet access is limited due to frequent power outages and generalized economic hardship, microfinancing could be allocated via cryptocurrency to central locations like churches or community centers and distributed by local representatives. Such a system would reduce the risk of corruption and ensure that rural and indigenous populations receive the aid they desperately need. While the volatility of cryptocurrencies raises concerns regarding their use as a medium of exchange, stablecoins such as MakerDAO, a decentralized currency pegged to the U.S. dollar, provide an unprecedented opportunity to direct funds effectively while reducing Maduro's economic power. After all, the Venezuelan bolívar is projected to hit an inflation rate of 10 million percent this year.

The international community must consider the costs of implementing sanctions alongside the benefits. Multilateral cooperation among the United Nations, the Lima Group, the Organization of American States, and nongovernmental organizations operating in the region is paramount to filling in the gaps. A strategy of person-to-person aid, whereby contact with the Maduro regime is minimized and relief can be transferred directly to those in need by interested international actors, should be adopted.

THE EFFICACY OF SANCTIONS

There is significant evidence of the impact of sanctions on Maduro's power. Not only have targeted economic sanctions limited his ability to finance his regime's antidemocratic activities and human rights abuses by reducing oil and illegal mining earnings, but they have also strained his inner circle. His control over state institutions and assets is slipping along with public confidence in his regime. The United States has instituted a strategy of risk; the current administration's interminable threat to impose further sanctions leaves Maduro and his accomplices unsure as to how far it will go, forcing them to fear the worst.

Most recently, sanctions have increased leverage for democratic forces within Venezuela. Maduro recently agreed to send a delegation to Barbados to reopen talks with the opposition after dialogues stalled earlier this year. The increased pressure of sanctions was a key factor in his decision to negotiate with political adversaries, as he and his inner circle are more limited than ever in their capacity to travel and engage with financial assets.

That said, there are areas for improvement in sanctions strategy. The first important step is to encourage multilateral adoption of currently targeted sanctions. Unilateral sanctions, even from the most powerful economy in the world, have limited results. In addition to incorporating allied neighbors Colombia and Brazil, the United States should take advantage of the Lima Group, which has recently taken a strong stance on Maduro's crusade against democracy. If this is successfully achieved, the strategy can be extended outward to the Organization of American States and perhaps even the United Nations (although Chinese and Russian veto power on the Security Council would make this difficult).

The United States and its allies must use sanctions deliberately as a tool to shut down Maduro's criminal activities. By closing off criminal sources of revenue for him and his cohorts in Venezuela, Maduro's relative exit costs can be lowered, which will in turn increase the likelihood of a peaceful transition. While barriers to exiting power are always high, sanctions can isolate Maduro to the point where resigning is a welcome alternative.

Another method could be the reallocation of assets recovered from sanctioned officials in the Venezuelan government and military. These assets could be forfeited to nongovernmental organizations helping the most deprived Venezuelans. While such a process requires cutting through significant red tape, the legitimate government led by Guaidó would be well served to ensure that the victims of malevolence in Venezuela are compensated in some manner.

Lastly, the international community can integrate innovative ideas for sanctioning businesses, especially those that are paramount to U.S. economic interests in the region. Several U.S. companies, most notably Chevron, currently operate in the Venezuelan oil sector and in turn must navigate sanctions. One past example is that Citgo, a subsidiary of PdVSA, was wrested from Maduro's control and made responsive to Guaidó's administration. The same strategy could be applied to Venezuela's financial sector, specifically its centralized and semiprivate/state-owned banks. The United States should distinguish between institutions that are operating in sole service of Maduro's regime and those that can play a role in providing an economic future for the country. This will require creativity as well as flexibility. It is also necessary to retract sanctions placed on state entities once they are proven to be legitimately controlled.

THE DAY AFTER: LIFTING SANCTIONS

The resonant answer from diplomatic officials as far as the future of sanctions has been fairly persistent: sanctions against Venezuela will be scaled back once democracy is restored. The vast majority of sanctions are individually targeted and mandated by executive order, rendering them easily reversible. However, a consistent answer does not always reflect a consistent standard, especially when discussing an end goal as complex and multilayered as the reinstitution of Venezuela's democracy. There is a need to clarify this standard while qualifying short-term expectations as to the efficacy of sanctions in provoking a reversal in Venezuela's trajectory.

Interim president Juan Guaidó has laid out three principles characterizing the reparation of Venezuelan democracy. First, he argues, Maduro must resign (or face removal) from power. Secondly, a transitional government, arguably one that includes opposition members, Chavistas, and the support of the military, must be formed. Lastly, democratic elections must be carried out in a manner that satisfies the Venezuelan constitution and international standards.

Sanctions can take time to have their intended effect and, even when successful, are not sufficient to dismember and rebuild a government. They are simply a tool for coercing good behavior. In order to help Venezuelans restore their democracy, sanctions are key to increasing pressure on the Maduro regime. But a focus on targeted sanctions is not enough. Having a feasible exit ramp for Maduro and his inner circle while having a compassionate effort at humanitarian assistance are crucial. ■

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The authors would like to thank CSIS adviser Ambassador William Brownfield for his valuable insights and input in this brief.

This brief is made possible by general support to CSIS. No direct sponsorship contributed to this brief.