



Sanctions, Economic Statecraft, and Venezuela's Crisis

Case Study

By Francisco Rodríguez

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212 S. Main St., Ste. 1
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www.fourthfreedomforum.org
www.sanctionsandsecurity.org

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About the Case Study

Since the end of the Cold War, multilateral and unilateral sanctions have become an essential instrument of global and national foreign policy. They are imposed to address international challenges to peace and security, including ending civilian wars and territorial aggression, and thwarting nuclear proliferation, mass atrocities, and terrorism.

Yet, over the past decade sanctions have become deeply entangled in major humanitarian disasters. In the Democratic Republic of the Congo, South Sudan, Syria, and Yemen, sanctions have failed to stifle massive violence, and conversely, ample evidence points to socioeconomic deterioration. Unilateral sanctions imposed by powerful states have contributed to significant, negative socioeconomic impacts on innocent civilians, which became more pronounced during the global COVID-19 pandemic.

To fully scrutinize the humanitarian impact of sanctions, the Sanctions and Security Research Project commissioned case studies on Iran and Venezuela, and collaborated with the Carter Center's project on Syria, which recommend stronger safeguards to prevent negative humanitarian impacts and offer ways of improving the effectiveness of sanctions and strengthening of incentives.

This case study on Venezuela was prepared by Francisco Rodríguez, 2021-22 International Affairs Fellow in International Economics, Council on Foreign Relations and Director, Oil for Venezuela.

E-mail: frodriguez@oilforvenezuela.org

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Acronyms

BCV	Central Bank of Venezuela
CDS	Credit Default Swaps
COVAX	COVID-19 Vaccines Global Access
FinCEN	Financial Crimes Enforcement Network
GDP	gross domestic product
ICC	International Criminal Court
IGME	United Nations Inter-Agency Group for Child Mortality Estimation
IMF	International Monetary Fund
JVs	joint ventures
OFAC	Office of Foreign Assets Control
OPEC	Organization of Petroleum Exporting Countries
PDVSA	Petróleos de Venezuela, S.A.
PWT	Penn World Table
SDRs	Special Drawing Rights
SFVs	special financing vehicles
TBD	thousand barrels per day
UNHCR-IOM	UN Refugee Agency International Organization for Migration
USD	United States Dollar

Abstract

This case study summarizes the evidence on the effect on Venezuela's economic and social conditions of economic sanctions and other actions of economic statecraft taken by the United States and its allies in response to the country's political crisis. The preponderance of evidence indicates that sanctions and other statecraft measures—including the formal recognition of a government with no *de facto* control over the territory—have had a strong and significant negative effect on the Venezuelan economy. These actions have made a sizable contribution to declining oil production, exacerbating the country's fiscal crisis, and contributing to one of the largest documented peacetime economic contractions in modern history. Many arguments commonly voiced to dispute the effects of sanctions, such as those that appeal to temporal precedence of other causes of the country's crisis, are either factually incorrect or premised on fallacious logic. Reforming the sanctions regime will be a complex task, given the interaction with other statecraft measures and a broader toxification of the country's economic relations. Reform attempts should include the introduction of an oil-for-essentials program, support for political humanitarian agreements, issuance of clearer compliance guidelines, introducing an explicit differentiation between strategic and nonstrategic sanctions, and seeking multilateral alignment with international actors on key strategic issues including that of government recognition.

Introduction

Venezuela is undergoing the largest economic contraction in recorded Latin American economic history, with its gross domestic product (GDP) contracting by 74.3 percent over the last eight years. Measured in terms of real per capita income, between 2012 and 2020 living standards fell by 71.8 percent.¹ This is the sixth largest contraction in world history and the largest one in Latin American history since 1950 (see Tables 1 and 2). It is also the second largest contraction in the world outside of war.² The contraction is not only deep when measured by the trough-to-peak ratio: it is also particularly intense, with the decline occurring over a relatively reduced period, at an annual rate of 14.1 percent. And it may not be over yet: the International Monetary Fund (IMF) expects GDP to fall by an additional 7.9 percent in 2021 and 2022, bringing the total contraction in output to 76.3 percent.³

Beyond GDP, other data on living standards signals an economy that has fallen apart. Although data on many other socioeconomic indicators is sparse given a nearly absolute dearth of official statistics, what is available is consistent with a decline in living standards that is unprecedented in the nation's history. For example, authorities stopped publishing income poverty data in 2015, probably a reflection of how dismal the figures had become. Yet a consortium of leading national universities estimated income poverty at 94 percent in 2021, up from 48 percent in 2014.⁴ Nearly one in three Venezuelan children have abnormally low height for their age⁵ as a result of acute malnutrition. The country has spent four years in hyperinflation, making it the third longest episode in documented history.⁶

During much of this period, several countries, including the United States and the members of the European Union, imposed various forms of sanctions on the Venezuelan economy, its government, and some top officials. To what extent have these sanctions contributed to the collapse in living standards?

1 Due to the migration exodus, the drop in per capita GDP is lower than that of absolute GDP.

2 I measure the cumulative decline in per capita GDP from each local maximum—provided that there is no higher local maximum before it—to each successive local minimum and rank the largest declines in the results. I used Penn World Table (PWT) version 10.0 data for all countries, except Cuba, for which I used the World Bank series. Data are not uniformly available from 1950 for all countries, as some series start at later years. I use the national accounts constant price GDP data given that my purpose is to compare growth performance across economies, as recommended by Robert C. Feenstra, Robert Inklaar, and Marcel P. Timmer, “The Next Generation of the Penn World Table,” *American Economic Review* 105, no. 10 (2015): 3150–82.

3 The most recent official national accounts data published by the Central Bank of Venezuela (BCV) is for the first quarter of 2019. For 2019 and 2020, I use the consensus estimates across analysts surveyed in FocusEconomics, “LatinFocus Consensus Forecast,” August 2021.

4 “Encuesta Nacional de Condiciones de Vida,” Universidad Católica Andrés Bello, 2021, <https://www.proyectoencovi.com/>; Anitza Freitez Landaeta, *Condición de vida de los venezolanos: entre emergencia humanitaria y pandemia. ENCOVI 2021* (Caracas: Universidad Católica Andrés Bello, 2021).

5 “Encuesta Nacional de Condiciones de Vida.”

6 Phillip Cagan, “The Monetary Dynamics of Hyperinflation,” in *Studies in the Quantity Theory of Money*, ed. Milton Friedman (Chicago: The University of Chicago Press, 1956): 25–117. An economy enters hyperinflation when its monthly inflation rate surpasses 50 percent and exits it when the monthly rate spends 12 months below that threshold. Venezuela entered hyperinflation by that standard in December 2017 according to data published by BCV and in November 2017 according to a competing index published by the opposition-controlled National Assembly elected in 2015 (2015AN). Given that the country's last monthly inflation print above 50 percent was in December 2020, its hyperinflation ended at the close of December 2021 unless that month's print (unreleased yet at the time of writing) exceeded the threshold. If it did not, as we consider most likely, Venezuela's hyperinflation lasted 49 months (52 months in the 2015AN series), making it the world's third longest documented hyperinflation, after Nicaragua (70 months) and Greece (68 months).

Table 1. Largest Output Contractions, World, 1950–2020

Rank	Country	Trough-to-Peak Ratio (Percentage Decline)	Period	Years	Average Percentage Decline	Years of Initial GDP Lost	Armed Conflict
1	Liberia	-89.2%	1974–1995	21	-8.7%	-733.7%	Intrastate conflict
2	Kuwait	-86.8%	1970–1991	21	-8.1%	-1134.3%	Interstate conflict
3	Iraq	-77.2%	1979–1991	12	-8.2%	-365.5%	Interstate conflict
4	Democratic Republic of the Congo	-75.7%	1974–2002	28	-4.8%	-1190.9%	Interstate conflict
5	United Arab Emirates	-73.4%	1970–2010	40	-3.0%	-1726.9%	Peacetime
6	Venezuela	-71.8%	2012–2020	8	-14.1%	-258.6%	Peacetime
7	Tajikistan	-71.4%	1990–1996	6	-18.6%	-289.9%	Intrastate conflict
8	Lebanon	-70.7%	1974–1976	2	-44.3%	-102.1%	Intrastate conflict
9	Georgia	-70.6%	1990–1994	4	-25.2%	-214.8%	Intrastate conflict
10	Iran	-66.6%	1969–1988	19	-4.5%	-793.4%	Inter and intrastate conflicts
11	Djibouti	-66.2%	1971–1991	20	-5.1%	-827.2%	Peacetime
12	Yemen	-65.6%	2010–2019	9	-10.6%	-386.5%	Intrastate conflict
13	Republic of Moldova	-64.8%	1990–1999	9	-10.1%	-474.5%	Peacetime
14	Azerbaijan	-61.0%	1990–1995	5	-16.8%	-187.5%	Intrastate conflict
15	Saudi Arabia	-59.9%	1974–1987	13	-6.1%	-358.9%	Intrastate conflict

Source: Own calculations, Penn World Table 10.0, World Bank.

Table 2. Largest GDP Contractions, Latin America, 1950–2020

Rank	Country	Trough-to-Peak Ratio (Percentage Decline)	Period	Years	Average Percentage Decline	Years of Initial GDP Lost	Armed Conflict
1	Venezuela	-71.8%	2012–2020	8	-14.1%	-258.6%	Peacetime
2	Nicaragua	-58.4%	1977–1993	16	1.3%	-683.9%	Intrastate conflict
3	Haiti	-45.4%	1980–2010	30	-0.7%	-928.3%	Peacetime
4	Cuba	-37.7%	1985–1993	8	-5.5%	-94.6%	Peacetime
5	Peru	-32.5%	1975–1992	17	-2.1%	-219.0%	Intrastate conflict and Peacetime
6	El Salvador	-27.9%	1978–1983	5	-6.2%	-94.2%	Intrastate conflict
7	Bolivia	-26.1%	1977–1986	9	-3.3%	-114.1%	Peacetime
8	Argentina	-23.6%	1979–1990	11	-2.3%	-135.3%	Peacetime
9	Chile	-23.0%	1971–1975	4	-6.2%	-45.6%	Intrastate conflict
10	Bolivia (Plurinational State of)	-22.5%	1951–1958	7	-3.3%	-112.0%	Intrastate conflict and Peacetime

Source: Own calculations, Penn World Table 10.0, World Bank.

Are they the primary contributor, an aggravating factor, or simply a minor cause of the country's economic crisis? What does the country's data tell us about the relative impact that they have relative to other causes, including poor economic policies, corruption, mismanagement, and external shocks?

Some Methodological Caveats

Answering these questions is not easy. One reason is that modern empirical analysis has at best a limited ability to help us discern the causes of single events. Statistical methods are best at helping us identify partial and total correlations and time patterns of variation in multiple events. They can be helpful in allowing us to discern whether the patterns observed across multiple events are consistent with certain causal hypotheses. Even in those cases, the ability to decisively settle causality issues with nonexperimental data is limited. And even the methods that come closest to satisfactorily addressing causality issues in nonexperimental data—such as the use of exogenous sources of variation through instrumental variables techniques—are essentially unavailable in the assessment of highly endogenous policy variables such as sanctions decisions.

This problem is much more difficult when we want to understand the causes of a single intervention in a specific case (e.g., whether sanctions have contributed to the deterioration of a specific country's living standards). Assessing the effect of a single intervention is conceptually different from asking the broader question of whether that intervention applied to several targets will have, on average, a significant effect. The latter question, while potentially also clouded by econometric identification issues, can be addressed by marshalling multiple experiences, for example by measuring the average decline of living standards in a sample of sanctioned countries and comparing it with the evolution of the same indicators in a sample of nonsanctioned countries. In contrast when we focus on a single experience, we have only one instance of variation over time in the dependent variable (living standards) and the independent variable (sanctions). It is like trying to do econometrics with one observation: there will be many potential correlates, and thus many potential explanations, of the observed results.

An example from another discipline may help to clarify the issue. There is a strong overarching consensus in the scientific community regarding the contribution of greenhouse gases generated by human activity since the pre-industrial period to the increase in the earth's temperature. Yet climate scientists are generally cautious not to attribute any specific episode of extreme weather to the warming effect of human activity. One can conclude that extreme weather events are in general more probable as a result of human activity without definitively establishing that humanly induced warming is the cause behind the most recent heat wave. In the same way, one may be able to conclude that economic sanctions negatively impact the economy and humanitarian conditions of target countries while leaving open the possibility that other factors may have contributed to the deterioration of indicators in the case of Venezuela.

This is not to say that research on these issues is futile. Rather, it is important to understand the type of question that we need to ask, and the type of answer that we need to expect. Single-event studies of nonexperimental data will never yield answers that decisively put to rest other potential causal hypotheses. This doesn't mean it is not worth asking the question and assessing what direction the evidence points to. On the contrary, given the potential human implications, understanding what the evidence suggests about the plausibility of alternative causal hypotheses is crucial.

Yet the standard that we should adopt in any investigation on this issue is necessarily, at best, one of preponderance of evidence. In other words, it is essentially impossible to completely rule out nonsanctions explanations of the Venezuelan collapse, nor, for that matter, of any country on which sanctions have been imposed. This is not because the data are supportive of alternative explanations, but because of the inherent limitations of quantitative statistical analysis in assessing causal hypotheses in nonexperimental studies of single events. To use another analogy, your doctor may not be able to prove to you that smoking caused your lung cancer. It is possible that you may also have a genetic predisposition and have suffered from exposure to other potential causes. What your doctor may be able to tell you is that the best chance you have of saving your life is to quit smoking.

What We Talk About When We Talk About Sanctions

On 12 June 2021 Venezuelan President Nicolás Maduro said that a payment of USD 10 million made by the Venezuelan government to the COVID-19 Vaccines Global Access (COVAX) system for the distribution of COVID vaccines to developing countries had been blocked by the government of the United States. “What is this called? Criminal theft, criminal sanctions, criminal actions of the United States of North America against Venezuela,” said Maduro, publicly demanding that U.S. President Joe Biden unblock the funds.⁷

This example serves to illustrate the enormous confusion created by using the sanctions label to refer to the plethora of policy measures taken by other countries to address the Venezuelan political crisis. Strictly speaking, the incident that Maduro was referring to had little if anything to do with sanctions. Maduro’s complaint arose in response to a letter by COVAX saying it had been notified by Swiss bank UBS that four transfers received from the Venezuelan government to complete the payment for access to the COVAX system had been blocked and placed under investigation.⁸ Yet UBS’s decision was not a direct consequence of sanctions for the simple reason that the United States has no jurisdiction over Swiss banks and Switzerland has not imposed any economic sanctions on Venezuela that could have led to the blocking of the payment. In fact, in the same letter, COVAX confirmed that it had received 12 payments for a total of USD 110.0 million. Indeed, UBS subsequently processed the remaining four payments, despite there being no change in U.S.-Venezuela sanctions regulation.

The UBS incident was not, properly speaking, a sanctions incident. Rather, it appears to have been a classic case of overcompliance in which the Swiss bank acted with an abundance of caution to ensure it did not indirectly facilitate illegal transactions by processing a transfer of funds of suspect origin. Yet there is a broader sense in which Maduro’s objections, while imprecise, were on point: it is hard to imagine that a large European financial institution would refuse to process a payment by a government to an international organism on money-laundering concerns unless this government was severely affected by the stigma of international condemnation caused by the foreign policy decision of many Western countries to treat Venezuela like a pariah state.

This example suggests that a strict definition of sanctions, which refers only to the explicit regulatory restrictions on carrying out commercial and financial transactions with the Venezuelan government or its officials, may be insufficient to assess the effect of the panoply of foreign policy decisions taken in response to the Venezuelan crisis by other governments. For this reason, in this paper I prefer to refer to *Venezuela-targeted actions of economic statecraft*, including but not limited to:

- Personal sanctions aimed at restricting commercial and financial transactions with governmental officials, individuals, and entities controlled by or connected to the government of Nicolás Maduro;

7 France24, “‘Robo criminal:’ Maduro Exige a Biden ‘Desbloqueo’ de Fondos Para el Covax,” AFP, 12 June 2021, <https://www.france24.com/es/minuto-a-minuto/20210612-robo-criminal-maduro-exige-a-biden-desbloqueo-de-fondos-para-el-covax>.

8 Jorge Arreaza (@jaarreaza), Twitter, 10 June 2021, 1:10 p.m., <https://twitter.com/jaarreaza/status/1403036779238862853>.

- Sectoral sanctions that restrict commercial or financial transactions with the Venezuelan government and its controlled entities;
- Instructions issued by financial regulators aimed at imposing high burdens on processing transactions involving entities controlled by or linked to the Venezuelan government;
- Recognition and transfer of financial and physical assets of the Venezuelan government or its entities to the interim government headed by the president of the National Assembly elected in 2015, Juan Guaidó; or
- Implicit or explicit threats to impose economic restrictions on actors of countries other than the sanctioning country if they decide to do business with the Venezuelan government and the entities it controls. These are also known as secondary sanctions.

It is also worth noting that any assessment of these actions should evaluate both their direct and indirect effects on the socioeconomic outcomes of the target country. In other words, while decisions to restrict or delay economic transactions, such as those taken by UBS, cannot be directly attributed to sanctions regulations, a more reasonable case can be made that they are a by-product of the decision by foreign governments to deploy a diverse set of actions of economic statecraft aimed at restricting economic interactions with the Venezuelan government.

One last important point: at times it will prove very difficult to distinguish from the effect of sanctions and the more general increase in the reputational costs of doing business with the Venezuelan government, a process that I refer to as *economic toxification*. This is not surprising, because sanctions are in themselves part of that broader toxification process. That is, sanctions would likely never have been imposed had there not emerged a strong belief among groups influential in public opinion that the access of the Venezuelan government to resources should be limited. The advocacy and lobbying efforts that created a fertile ground for adopting sanctions were also bound to affect the willingness of many economic actors to engage in business with the Maduro government. Sanctions and other statecraft measures are endogenous variables that are hard to disentangle from their broader causes.

Two cases in point are the decision by the opposition-controlled National Assembly in 2017 to warn foreign banks that it would not recognize loans made to the Maduro government⁹ and the condemnation by opposition leaders and intellectuals of the May 2017 purchase by Goldman Sachs of USD 2.8 billion in bonds of the national oil company held by the country's central bank at a deep discount.¹⁰ Neither of these constituted an action of a foreign government. In fact, each of them emerged from actions of either domestic or diaspora political actors. Yet both impacted the Venezuelan state's access to financing. Although it would be inappropriate to label them as either sanctions or even statecraft measures, it would also be inappropriate to ignore that, together with other statecraft actions, they form part of a broader political process in which political actors critical of the Maduro government set out to impede it from accessing sources of foreign exchange.

9 Evan Romero-Castillo, "Deutsche Bank Pone en Riesgo su Reputación," DW, 21 April 2017, <https://www.dw.com/es/deutsche-bank-pone-en-riesgo-su-reputaci%C3%B3n/a-38541387>.

10 Landon Thomas Jr., "Goldman Buys \$2.8 Billion Worth of Venezuelan Bonds, and an Uproar Begins," *New York Times*, 30 May 2017, <https://www.nytimes.com/2017/05/30/business/dealbook/goldman-buys-2-8-billion-worth-of-venezuelan-bonds-and-an-uproar-begins.html>.

Why Sanctions

One of the many problems of Venezuela-targeted statecraft actions is that they seem to seek to achieve several objectives that, while obviously related, are not always necessarily consistent with each other. For example, personal sanctions imposed by the United States and Europe are almost invariably presented as seeking to punish specific instances of human rights violations or acts of corruption in which certain individuals played a well-defined role. However, on some occasions, they are used more directly to respond to specific decisions of Venezuelan branches of government that are seen as lending support to the Maduro regime. For example, the United States sanctioned eight Venezuelan supreme court justices in May 2017 in response to a decision stripping power from the opposition-controlled congress, and the European Union sanctioned three electoral council members in 2021 for overseeing a parliamentary election that the opposition boycotted.¹¹

There is little doubt that the primary and overriding goal of most sanctions and statecraft actions on Venezuela is generating political change. What that political change may look like is not always clear, although the basic idea is that of inducing or triggering a reestablishment of functioning democratic institutions, including elections that the sanctioning countries consider free and fair. There is broad consensus among sanctioning governments that Venezuela does not have these institutions and that Maduro stays in power not because he won a democratic election, but because he subverted pre-existing democratic institutions.

However, one should stop short of referring to this view as reflecting a consensus of the international community. After the inauguration of Maduro for a second term in 2019 the United States, as well as a large number of European and Latin American countries, declared that they recognized Juan Guaidó, president of the opposition-controlled National Assembly elected in 2015, as the country's legitimate interim president. By the end of 2020, 56 countries had issued statements formally announcing recognition of Guaidó. But 18 countries, including China, India, Turkey, and Russia, formally reiterated recognition of Maduro as president, while another 120 countries issued no statement. Even among those 56 countries that recognized Guaidó as president, only 10 formally ended diplomatic relations with the Maduro government and recognized a Guaidó-appointed diplomatic representative. Rather than a consensus, there appears to be a wide plurality of views in the international community regarding both Maduro's democratic legitimacy and the extent to which the international community should intervene in Venezuela's politics. This is one of the reasons why the United Nations has not been used as a forum to advance Venezuela-related sanctions.

The specific demands the Maduro government would have had to comply with to get these sanctions lifted is not altogether clear. Initially, the U.S. government explicitly demanded that Maduro abandon power and that the military recognize the interim presidency of Juan Guaidó. Guaidó claimed to hold power provisionally as president of the opposition-controlled National Assembly given the absence of a

11 Office of Foreign Assets Control, U.S. Department of Treasury, "Changes to the Specially Designated Nationals List Since 1 January 2017," <https://www.treasury.gov/ofac/downloads/sdnnew17.pdf>; Official Journal of the European Union, "International Agreements," L61, Vol. 64, 22 February 2021, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2021:061:TOC>.

democratically elected leader.¹² In March 2020, the United States rolled back some of its demands while at the same time making them more explicit when it published a “Democratic Transition Framework for Venezuela” according to which both Maduro and Guaidó would cede their claim to power and recognize a transitional Council of State formed by representatives of both parties, and committed to lifting sanctions imposed on previous authorities as long as they recognized the new institutions.¹³ Although the framework has not been officially withdrawn—and can still be found on the State Department website—recent statements by the Biden administration have been much more vague, stating that “the only outcome of this crisis is a negotiation that leads to a democratic solution.”¹⁴ In August 2021, after the start of negotiations in Mexico between the Maduro government and the opposition, the United States issued a statement supporting the talks and restating its call for elections that “abide by international standards for democracy,” while reiterating the Biden administration’s “willingness to review sanctions policies if the regime makes meaningful progress in the announced talks.”¹⁵

That these strategies have so far been ineffective in generating regime change in Venezuela is not surprising. One result that stands out from the empirical sanctions literature is that sanctions are rarely effective in generating regime change.¹⁶ Part of the problem has to do with correctly aligning incentives. To have a chance at being successful, sanctions should offer a target a choice in which complying with the sender’s demands is preferable to the status quo. This can sometimes be the case when sanctions seek modest goals such as policy changes but is much more improbable if the target is being asked to relinquish power and is at the same time being threatened with international criminal prosecution.¹⁷

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- 12 John Bolton (@AmbJohnBolton), Twitter, 31 January 2019, 1:58 p.m., <https://twitter.com/AmbJohnBolton/status/1091032929562775552>; Alex Ward, “Trump Just Issued an Ultimatum to the Venezuelan Military: Abandon Maduro or Else,” *Vox*, 18 February 2019, <https://www.vox.com/world/2019/2/18/18229695/venezuela-trump-military-guaido-maduro>.
- 13 Office of the Spokesperson, U.S. Department of State, “Democratic Transition Framework for Venezuela,” Fact Sheet, 31 March 2020, <https://2017-2021.state.gov/democratic-transition-framework-for-venezuela/index.html>.
- 14 The White House, “Background Press Call by Senior Administration Officials on Venezuela,” 8 March 2021, <https://www.whitehouse.gov/briefing-room/press-briefings/2021/03/08/background-press-call-by-senior-administration-officials-on-venezuela/>.
- 15 U.S. Embassy in Venezuela, “Joint Statement on Venezuela Negotiations,” Media Note, 14 August 2021, <https://ve.usembassy.gov/joint-statement-on-venezuela-negotiations/>.
- 16 Gary Clyde Hufbauer, Jeffrey J. Schott, and Kimberly Ann Elliott, *Economic Sanctions Reconsidered: History and Current Policy*, 2nd ed. (Washington, DC: Institute for International Economics, 2007); David S. Cohen and Zoe A.Y. Weinberg, “Sanctions Can’t Spark Regime Change: The Trouble with Trump’s Approach to Venezuela and Iran,” *Foreign Affairs*, 29 April 2019, <https://www.foreignaffairs.com/articles/united-states/2019-04-29/sanctions-cant-spark-regime-change>.
- 17 In March 2020, the Trump administration indicted Maduro and key government figures on charges of drug trafficking and terrorism (narcoterrorism) (“Why the U.S. Placed a \$15 Million Bounty on Venezuela’s Maduro,” *The Christian Science Monitor*, 27 March 2020). In September 2018, the governments of Argentina, Chile, Colombia, Paraguay, Peru, and Canada asked the Prosecutor’s Office of the International Criminal Court (ICC) to investigate the commission of crimes against humanity by the Maduro government. The ICC prosecutor concluded on 3 November 2021 its preliminary examination of the Venezuela case and decided to open a formal investigation. (International Criminal Court, “Venezuela I,” 2021, <https://www.icc-cpi.int/venezuela>).

Channels of Causation

The logical starting point for assessing the effects of sanctions and other statecraft actions on the Venezuelan economy is by studying their effect on the country’s oil sector (see Table 3). The reason for this is two-fold. First, the oil sector has clearly been the primary focus of the most important measures taken by the United States—by far the most active pursuer of this strategy—regarding Venezuela. Both the January 2019 designation of PDVSA, the Venezuelan state-owned oil and natural gas company, and the February-March 2020 secondary sanctions on PDVSA partners, were directly aimed at the country’s oil sector. Even the August 2017 financial sanctions, which were in principle aimed both at the government and PDVSA were, for all practical purposes, targeted at the sectors of the oil industry that were the only recipient of international financing by the country at the time.

Table 3. Periods of Decline in Venezuela’s Oil Production (Annualized Percentage Change)

Period	Main Events	Bloomberg	OPEC -Direct Communication	OPEC - Secondary Sources	U.S. Energy Information Administration
January 1999 – January 2002	Beginning of Chávez administration; Venezuela starts enforcing OPEC quotas	-2.5%	5.7%	-2.8%	-4.5%
January 2002 – January 2008	Oil strike and recovery, rising oil prices	-1.0%	-1.3%	-1.2%	-0.8%
January 2008 – December 2015	Global financial crisis and recovery	-0.4%	-2.1%	-0.2%	-0.1%
December 2015 – September 2017	Oil prices decline to 12-year low	-9.1%	-10.6%	-10.4%	-8.9%
September 2017 – December 2020	Financial, oil, and secondary sanctions	-38.3%	-38.0%	-36.7%	-44.0%

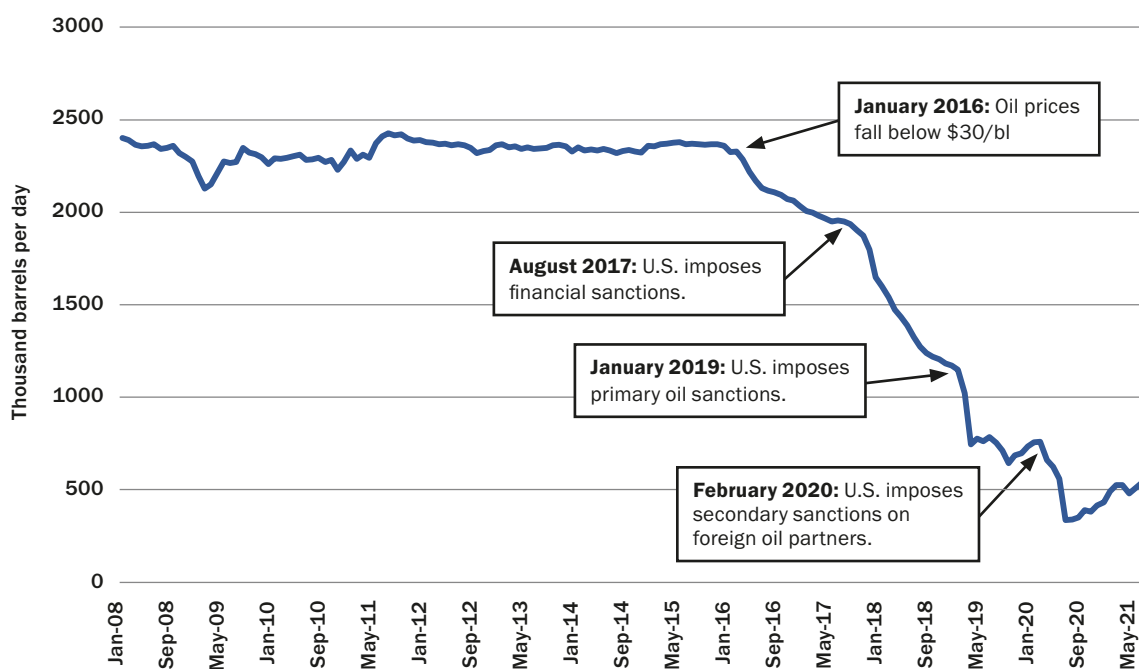
Sources: Bloomberg, Organization of the Petroleum Exporting Countries, Energy Information Administration.

Second, by and large oil revenues are the most important determinant of changes in Venezuelan economic growth. This is a consequence of the economy’s high dependence on oil exports, which in 2016—the last year prior to financial sanctions—accounted for 95 percent of all exports. An extensive literature review has analyzed the Venezuelan economy’s oil dependence and has traced the large swings in its economic growth to changes in oil revenues. Furthermore, Venezuela’s humanitarian crisis is essentially a consequence of the collapse of its per capita income discussed in the previous section.

Therefore, it makes sense to expect any effect of statecraft actions aimed at the oil industry to have had important repercussions for the economy's health.¹⁸

Figure 1 plots the evolution of Venezuela's oil production between 2008 and 2021, according to data reported by secondary sources to the Organization of Petroleum Exporting Countries (OPEC). This series shows remarkable stability until 2016, and a sustained decline after that. The series also shows four inflection points associated with clear changes in trends. The series begins to decline at the start of 2016, then sees an acceleration of that decline around September 2016, and then suffers two discrete declines around January 2019 and February 2020.

Figure 1. Venezuela's Oil Production, 2008–2021



Sources: Own calculations, OPEC Secondary Sources.

Three of these four inflection points are associated with sanctions events. The other one, at the start of 2016, occurs at a time of deep convulsions in global oil markets, with the price of a Venezuelan basket of oil falling by 76 percent from its mid-2014 levels to a 12-year low of \$24/barrel in February 2016. Many high-cost producers in the region, including Colombia, Mexico, and Argentina, suffered similar declines in that period. Yet oil production stabilized or recovered in these other cases when oil prices began rising again in late 2016. In contrast, the decline of Venezuelan oil production accelerated from a monthly growth rate of -1.0 percent between January 2016 and August 2017—the month of imposition of financial sanctions—to -3.1 percent per month over the following 16 months. The series then suffers two

18 See Francisco Rodríguez and Jeffery D. Sachs, "Why Do Resource-Abundant Economies Grow More Slowly?" *Journal of Economic Growth* 4 (1999): 277–303; Ricardo Hausmann, "Venezuela's Growth Implosion: A Neo-Classical Story?" in *In Search of Prosperity*, ed. Dani Rodrik (Princeton, NJ: Princeton University Press, 2003); Ricardo Hausmann and Roberto Rigobón, "An Alternative Interpretation of the 'Resource Curse': Theory and Policy Implications," Nber Working Paper Series 9424, 2002; and Ricardo Hausmann and Francisco Rodríguez, "Why Did Venezuelan Growth Collapse?" in *Venezuela before Chávez: Anatomy of an Economic Collapse* (University Park, PA: The Pennsylvania State University Press, 2014) for alternative characterizations of this relationship. A summary of the channels through which oil production can impact growth can be found in chapter 4 of Francisco Rodríguez, *Scorched Earth: The Political Economy of Venezuela's Collapse, 2013-2020* (unpublished book manuscript, 2021).

additional discrete jumps: a 35.2 percent drop (405 thousand barrels per day, [tbd]) between January and March 2019—immediately after the imposition of oil sanctions and recognition of the Guaidó government on January 2019—and a 55.7 percent drop (423 tbd) between February and June 2020. This latter decline occurred after the imposition of secondary sanctions on Russian and Mexican companies, which were in charge of most of the international commercialization of Venezuelan oil at the time.

Despite the earlier caveats on the interpretation of data, evidence like that shown in Figure 1 is quite unusual in a time-series context and strongly indicative of a causal effect. To use an analogy, they are like seeing a person suffer three different episodes of anaphylactic shock after three different episodes in which she consumed shellfish. Had there been only one episode, there would be reasonable doubt as to whether the cause of the reaction was a seafood allergy or another external factor. It is much harder to argue that this is the case in face of several successive reactions to the same trigger. Figure 1, in other words, is the rare time-series equivalent of a smoking gun.

Despite this evidence, it is not rare to find arguments disputing the effect of sanctions on oil production in the policy debate. Roughly speaking, three counterarguments have been voiced. I discuss each of them in turn.

The underperformance of the Venezuelan oil industry began long before sanctions. Some scholars and commentators have claimed that the decline of Venezuelan oil production is simply a continuation of a long-running trend. According to this argument, the decline in Venezuela's oil production began long before sanctions, and the search for reasons for the decline must be sought in pre-sanctions decisions or events.

Of course, establishing that there are factors apart from sanctions that impact negatively on oil production in no way negates evidence regarding the effect of sanctions. The only world in which A impacting C negates the effect of B on C is one in which explanations are assumed to be unicausal, and there is no reason to think that oil production is one of them. In fact, Figure 1 shows at least one period of decline in oil production which is clearly prior to sanctions. To the best of my knowledge, no serious scholar has made the claim that sanctions are the only cause of the underperformance of Venezuela's oil sector or of its economy.

Furthermore, as I discuss in greater detail below, arguments about pre-existing trends are only of limited informational value in evaluating causal hypotheses. Assessing causal hypotheses requires first and foremost the construction of a reasonable counterfactual telling us what we expect would have been the evolution of the dependent variable in the absence of the intervention. There are many cases in which the most reasonable counterfactual is not a continuation of the pre-intervention trend. For example, if the decline in oil output in 2016 and early 2017 was caused by the plunge in oil prices, it would appear reasonable to expect that decline to be stemmed when oil prices began recovering. The most reasonable counterfactual in that case would not be a continuation of the decline in output but rather its stabilization or recovery.

Arguments about pre-existing trends often point to longer-run data or other series showing a decline. At times they also point to the decline in Venezuela's market share relative to a set of comparison countries such as other OPEC members.¹⁹ The choice of data series is not trivial, because there is one series that does present a more continued decline: the one produced directly by the Venezuelan government and communicated as the official series to OPEC.

Table 3 shows all available series of Venezuelan oil production. Three of them (OPEC secondary sources, U.S. Energy Information Administration, and Bloomberg) are based on data from independent agencies, whereas one (OPEC direct communication) is the official series produced by the Venezuelan government.

19 Ricardo Hausmann and Frank Muci, "Don't Blame Washington for Venezuela's Oil Woes: A Rebuttal," *Americas Quarterly*, 1 May 2019, <https://www.americasquarterly.org/article/dont-blame-washington-for-venezuelas-oil-woes-a-rebuttal/>.

Of the four series, only the official series shows a significant decline, at an annual rate of 2.1 percent, over the January 2008–December 2015 period. The other three series are essentially stable over the 2008–2015 period, with annual declines of between 0.1 percent and 0.4 percent yearly (which imply essentially negligible cumulative declines of 0.4–3.0 percent over the eight-year period).

The first important point worth highlighting is that all four series show accelerations in the rate of decline after the imposition of sanctions. Therefore, all series are consistent with sanctions having an impact on production. The only difference is that the official series shows a slower rate of decline starting earlier, whereas the independent agency data show virtually no decline in the eight-year period prior to 2016.

Which series should we trust? There have always been serious concerns about the reliability of the official series, which many observers have argued was consistently inflated in the initial years of the Chávez administration. Note that during 1999–2002, this series shows production growth even as the other series showed declines. On that argument, the government felt a need to exaggerate oil production at a time in the past, and that need could have become less pressing and thus generated a spurious decline. Alternatively, the government has always contended that independent agencies carry out an incomplete assessment of production, for example by omitting some oil products from the count. Even if we take the latter argument at face value, it would appear to be desirable to have as homogeneous a series as possible to evaluate the effects of an intervention.²⁰

This is not to deny that the Venezuelan oil industry had underperformed its peers for years because of Chávez-era policy choices. Most prominent among these was the decision to significantly raise taxes on the state-owned oil industry, as well as to burden it with direct financing of social programs. This much is clear from the fact that the country's output went from accounting for 10.5 percent of total OPEC production in 1999 to 7.5 percent in 2015. It is also true that Venezuela suffered a nontrivial decline in oil output which, according to the independent agency data, ranged from 12.6–16.9 percent during the first nine years of Chávez's presidency (the official data stated a 9.3 percent increase in that period). However, it is difficult to disentangle the effects of stricter enforcement of OPEC quotas from the 2002–2003 oil strike and underinvestment, mismanagement, and politicization.

Nevertheless, petrostates don't usually kill the goose that lays the golden egg. They are, after all, interested in self-preservation. Over time, authorities came to grudgingly accept a model of oil sector management which relied significantly on joint ventures with private sector multinationals such as Chevron, Eni, and Total, and state-controlled firms of allied countries such as China's CNPC or Russia's Rosneft. This partly occurred through PDVSA ceding *de facto* operational and financial control to the minority foreign partners. Originally intended as vehicles to renegotiate the terms of pre-Chávez operational agreements, these joint ventures became islands of productivity in the country's oil sector and generated pockets of growth that contributed to the stabilization of output in the 2008–2015 period. It would be these joint ventures with foreign multinationals that would be particularly hit by the 2017–2020 sanctions.

The post-2017 decline in oil output was caused by other drivers. Some authors have proposed the growing militarization of the oil industry, the corruption investigations that led to a leadership purge in 2017, investment cuts in the aftermath of the decline in prices, and the default on the national oil

20 That is, assume that the independent agencies count just crude production whereas the official series includes some products that the Venezuelan government believes should be counted in the output data. If the official series declined but the independent agency series did not decline in the 2008–2015 period, this means that the decline was driven by falling output of these additional products. In contrast, the fact that the post-2015 decline occurs in all series means that it is also occurring in the crude production series. On this interpretation, the interesting result is that all series would be consistent with the idea that events on or after 2016 impacted crude oil production, while some longer-trend factors may be impacting on the production of oil products. Ideally, one would want to separate out both components. In the absence of disaggregated data, the series from independent agencies allow us to isolate the effect on crude oil output, which is relevant in and of itself and is by far the largest contributor to oil export revenues.

company's debts of November 2017, as alternative causes of the collapse in production.²¹ As noted above, it is difficult to decisively reject any of these hypotheses as alternative potential causes of any of the three inflection points noted above. For example, it is true that the leadership purge, militarization, and default roughly coincided with the acceleration in the rate of decline of oil production observed in the second half of 2017. It is more difficult to use them to account for the three separate inflection points noted above.

There are other problems with these alternative explanations. Relative to historical standards, the militarization of the oil industry as measured by the percentage of PDVSA board members from the military, was not unusually high in late 2017. Corruption investigations leading to leadership purges in other state-owned oil companies (e.g., Petrobras in 2014) do not typically have much of an effect on output. Furthermore, there is a clear difference in the performance of nonsanctioned entities of PDVSA which were under the effects of the same management changes, but which were shielded from the effect of sanctions by U.S. licenses. A case in point is Venezuela's oil-based refiner CITGO, which saw the arrest by Venezuelan authorities and replacement of most of its board in late 2017 yet continued to experience robust production growth in the post-sanctions period. In contrast to PDVSA's domestic operations where production plummeted, CITGO was protected by an Office of Foreign Assets Control (OFAC) license during this period.²²

The hypothesis of investment cuts being the driver of output losses merits special consideration. PDVSA investment did in fact decline by 50.6 percent between 2014 and 2016 due to falling oil revenues. The decline in oil production seen in early 2016 is most likely a response to these investment cuts. However, even after this decline, investment levels as well as physical indicators of investment, such as completed wells and active rigs, stayed within their historical ranges of variation during this period. In fact, 2014 investment was abnormally high by historical standards.²³ Thus there was nothing unprecedented in the 2015–2016 investment levels, and certainly nothing that would have led observers to expect a severe fall-off in production. In fact, oil industry analysts were predicting a stabilization of Venezuelan oil output, and economic analysts were predicting modest economic growth fueled by the recovery of oil prices as late as mid-2017.²⁴ The severe decline in oil production was completely unforeseen even by the forecast models that took full account of the well-known decline in investment at the time.

Financial sanctions were redundant because the country was already locked out of capital markets in 2017. One of the most prominent arguments voiced by sanctions skeptics regards the alleged lack of capital market access by the Venezuelan government by the time that financial sanctions were imposed in 2017.²⁵ According to this argument, Venezuela already faced prohibitive yields due to high expectations of default in early 2017, making any additional impediment to borrowing generated by sanctions redundant and irrelevant. Any decline in production observed after that moment, according to this argument, should be attributed either to other drivers, or to the closure of international financial markets ultimately caused by the policies that led to over-indebtedness and not to sanctions.

21 José Ramón Morales Arilla, "Sanciones: ¿Causa o Consecuencia de la Crisis?" Prodavinci, 5 October 2019, <https://prodavinci.com/sanciones-causa-o-consecuencia-de-la-crisis/>; Dany Bahar, Sebastian Bustos, Jose R. Morales, and Miguel A. Santos, "Impact of the 2017 Sanctions on Venezuela: Revisiting the Evidence," Global Economy and Development at Brookings Institution, May 2019, https://www.brookings.edu/wp-content/uploads/2019/05/impact-of-the-2017-sanctions-on-venezuela_final.pdf.

22 Office of Foreign Assets Control, U.S. Department of the Treasury, "Blocking Property of the Government of Venezuela," General License 7C, 5 August 2019, https://home.treasury.gov/system/files/126/venezuela_gl7c.pdf.

23 Francisco R. Rodríguez, "Sanctions and Oil Production: Evidence from Venezuela's Orinoco Basin," Working paper, 26 March 2021, <https://franciscorodriguez.net/2021/03/26/sanctions-and-oil-production-evidence-from-venezuelas-orinoco-basin/>.

24 IPD Latin America, "Venezuela/PDVSA 2017 Oil Outlook," 2017; FocusEconomics, "Latin America Consensus Forecast," December 2017.

25 Bahar et al., "Impact of the 2017 Sanctions on Venezuela."

The redundancy argument is factually incorrect because there were important channels of financing, which were heavily used at the time of the sanctions, through which the Venezuelan oil industry obtained funding at a reasonable cost. Although it is true that the country would not have been able to place a large sovereign bond issuance at the time, joint ventures (JVs) with multinationals, which accounted for 56 percent of production in the 12 months before the August 2017 financial sanctions, had access to financing through loans by their partners. The financing cost of these arrangements was particularly low (around 6.5 percent annual) as payment was secured with revenue flows of incremental production deposited in offshore special financing vehicles (SFVs). Financial sanctions put an end to these deals that were crucial to the growth of JV production, which was behind the stabilization of oil output in the 2008–2015 period.

The argument also sidesteps the important point that while yields on Venezuelan debt had risen markedly when oil prices had tumbled in 2016, they should have also fallen significantly as oil prices recovered in 2017. Prior to U.S. sanctions, prices on Venezuelan Credit Default Swaps (CDS), a direct proxy for the market's perceived probability of default, displayed a $-.92$ correlation with oil prices. After the sanctions, that correlation turned positive and rose to $+.79$. There is no other reasonable explanation for this other than that the increased expectations of default were directly driven by the imposition of sanctions. I estimate that in the absence of sanctions, the implicit one-year probability of default reflected in CDS prices would have fallen to 8.5 percent in late 2017, contradicting the assertion that a sovereign default at the time was a foregone conclusion.²⁶

Yet, even if we accept for the sake of argument the claim that the country lacked access to capital markets in late 2017, this does not imply that the sanctions were redundant. Neither companies nor countries lose permanent access to capital markets as a result of solvency problems. Rather, they tend to renegotiate their debts until they agree with creditors on payment schedules with which they can comply. Although it is certainly possible that the financial stress generated by the period of low oil prices and high debt levels would have forced PDVSA to restructure its debt in 2017 or shortly thereafter, the most likely outcome would have been a restructuring that would have allowed the company to regain access to markets within a reasonable span of time. By impeding issuance of new debt, the 2017 sanctions made such a restructuring impossible—an impediment that was strengthened in 2019 by the transfer of the authority to restructure that debt to the Guaidó administration. Therefore, the most important consequence of financial sanctions was not the temporary loss of access to finance caused by a solvency problem, but the permanent loss of the capacity to address this solvency issue as a consequence of impeding any renegotiation of the country's debt.

26 Rodríguez, *Scorched Earth*.

Econometric Evidence

There are several previous attempts to use statistical methods to assess the effect of economic sanctions on the country's oil production. Although it is important to recognize the methodological difficulties discussed previously that are associated with making strong inferences in this type of data, these results can serve to strengthen or weaken the plausibility of alternative explanatory hypotheses. Judged according to the preponderance of evidence criteria outlined above, they lend significant weight to the view that sanctions had an economically significant negative impact on Venezuelan oil production.

In 2018, I first pointed to the acceleration of the decline in oil production after the August 2017 financial sanctions and contrasted this experience with that of neighboring Colombia, which suffered a similar decline in production during the 2016 slump in oil prices yet saw production stabilize after oil prices recovered in 2017.²⁷ Weisbrot and Sachs rely upon this observation to claim that it is virtually certain that sanctions made a substantial contribution to the increase in mortality observed between 2017 and 2018.²⁸ Hausmann and Muci take issue with this claim, alleging that Colombia is an inadequate comparison group for Venezuela as a result of structural and longer-run trend differences.²⁹ They also suggest that the decline in oil production after 2019 is more likely attributable to the electricity blackouts suffered in Venezuela at the time.

In 2019, I showed that the post-2017 drop in Venezuelan oil production is anomalous not just in comparison to Colombia, but to a much broader set of oil producing countries.³⁰ Bilateral comparisons with 36 other oil producing countries show that the only country that suffered a change in trend similar to Venezuela in that period was Yemen, whose oil fields were the target of a Saudi bombing campaign at the time. Put differently, the collapse in Venezuela's oil production is of a dimension that we only see when armies blow up oil fields.

In 2021, I use cross-country oil production panel data to choose an adequate counterfactual using synthetic control methods,³¹ which construct a comparison unit as a linear combination of other oil producers that approximates accurately the values of a set of predictors of oil.³² The results of this method, shown in Figure 2, predict that in the absence of the 2017 financial sanctions, Venezuela's oil production would have remained stable after August 2017. The method thus attributes the loss of

27 Francisco Rodríguez, "Crude Realities: Understanding Venezuela's Economic Collapse," WOLA, 20 September 2018, <https://www.venezuelablog.org/crude-realities-understanding-venezuelas-economic-collapse/>.

28 Mark Weisbrot and Jeffery Sachs, "Economic Sanctions as Collective Punishment: The Case of Venezuela," Center for Economic and Policy Research, April 2019, <https://cepr.net/images/stories/reports/venezuela-sanctions-2019-04.pdf>.

29 Hausmann and Muci, "Don't Blame Washington for Venezuela's Oil Woes."

30 Francisco R. Rodríguez, "Sanctions and the Venezuelan Economy: What the Data Say," *Latam Economics Viewpoint*, June 2019, <https://franciscorodriguez.net/2020/01/11/sanctions-and-the-venezuelan-economy-what-the-data-say/>.

31 Rodríguez, *Scorched Earth*, ch. 7.

32 Alberto Abadie and Javier Gardeazabal, "The Economic Costs of Conflict: A Case Study of the Basque Country," *American Economic Review* 93, no. 1 (March 2003): 112-132; Alberto Abadie, Alexis Diamond, and Jens Hainmueller, "Synthetic Control Methods for Comparative Case Studies: Estimating the Effect of California's Tobacco Control Program," *Journal of the American Statistical Association* 105, no. 490 (2010): 493-505.

797 thousand barrels per day of production, or USD 16.4 billion a year at current prices to sanctions.³³ Equipo Anova uses a regression discontinuity design to estimate the break in trend oil output at the time of sanctions and estimates that they are associated with a decline of 698 thousand barrels per day, or USD 14.4 billion a year in current oil prices.³⁴ Oliveros presents counterfactual exercises based on extrapolations of prior trends and concludes that sanctions can be associated with a decline in production of 616–1,023 thousand barrels per day, or USD 12.7–21.0 billion a year at current oil prices.³⁵ The range of estimates from these different exercises (USD 12.7–21.0 billion) would be equivalent to between 1.9 and 3.1 times the country’s estimated 2020 exports.

Figure 2. Venezuela and Synthetic Control Group Production, 2005–2018

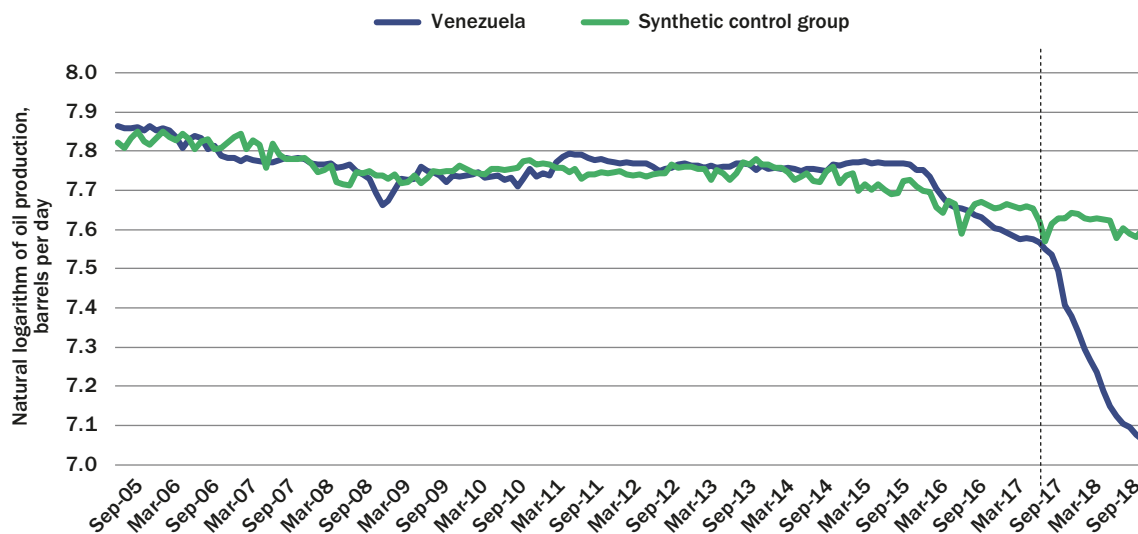


Chart displays the evolution of oil production in Venezuela and a synthetic control group. The synthetic control group is created by the method of Abadie, Diamond, and Hainmueller (2010). Pretreatment period begins in September 2005 and thus has a 12-year length. Controls include domestic oil consumption, per capita GDP, refining capacity, oil reserves, and the Polity Index. All variables except for the policy index are represented in logs. Donor pool includes all nonsanctioned countries with a per capita GDP of less than USD 40,000 in 2014.

Source: Rodríguez (2019).

I also use the cross-country oil production data to estimate the average effect of sanctions on oil production in target countries.³⁶ The time-series data clearly shows very sharp drops in production at the time of imposition of sanctions in several other cases, including Iran, Iraq, and Libya. It also shows complete or near-complete production recoveries soon after the lifting of sanctions (or, in the case of

33 All calculations use a current price of USD 56.4 per barrel of Venezuelan oil. Venezuela has not published data on its average basket price since March 2020. We estimate the current price based on the historical relationship between the Venezuelan basket and the price of Venezuela’s Merey crude blend, published monthly by OPEC.

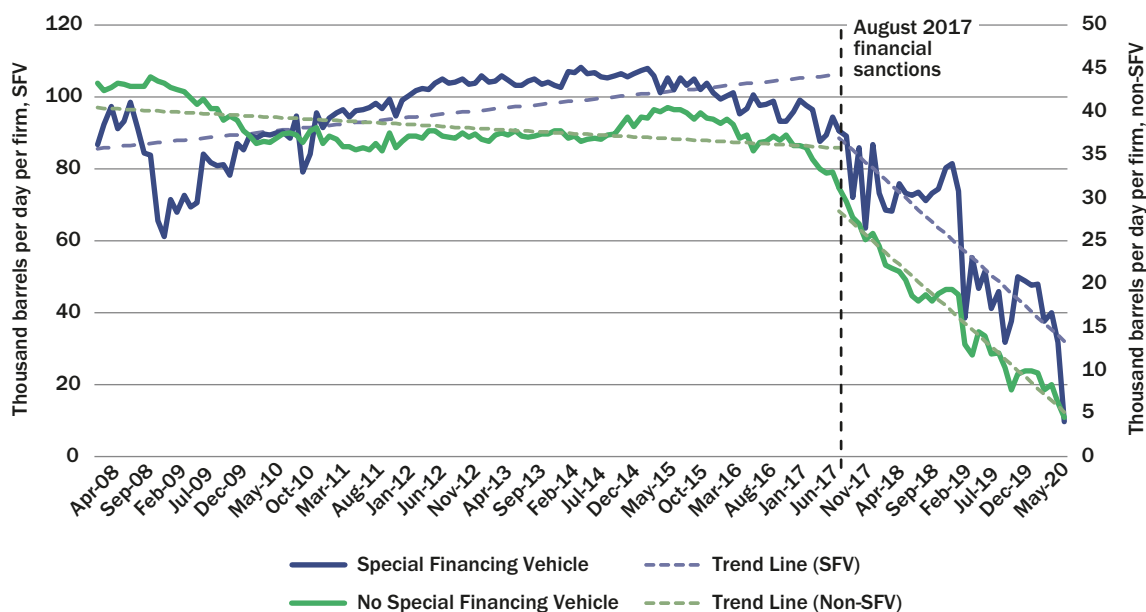
34 Equipo ANOVA, “Impacto de las Sanciones Financieras Internacionales Contra Venezuela: Nueva Evidencia,” *Anova Policy Research* 3, no. 1, January 2021, <https://politikaucab.files.wordpress.com/2021/01/anova-policy-brief-sanciones.pdf>.

35 Note, however, that these estimates use different end points, so that the magnitudes of decline are not completely comparable. Rodríguez uses September 2005 to September 2018 (Rodríguez, “Sanctions and the Venezuelan Economy”); Oliveros uses October 2014 to July 2020 (Luis Oliveros, “Efecto de las Sanciones Financieras y Petroleras sobre Venezuela,” WOLA, October 2020, <https://www.wola.org/wp-content/uploads/2020/10/Oliveros-Resumen-FINAL.pdf>).

36 Rodríguez, *Scorched Earth*, 2021.

Iraq, after the start of the oil-for-food program in 1996). Using a panel of 38 oil producers, I find that oil sanctions are associated on average with a decline of between 48 and 52 percent of the target country's oil output. Applied to Venezuela, this would imply a decline of between 556 and 596 thousand barrels per day, or USD 11.4–12.3 billion annually.

Figure 3. Production in Firms with and without Pre-Sanctions Financial Access, 2008–2021



Source: Rodríguez (2021).

In my study *Sanctions and Oil Production*, I take a different approach and study the effect of sanctions on within-country variation in production across production blocs in the country's Orinoco basin.³⁷ Using a differences-in-differences specification, I compare the effect of the 2017 financial sanctions on firms that had access to external finance at the time of sanctions through the SFV arrangements discussed above with those that lacked such access (Figure 3). By controlling for industry-wide time-varying factors, the differences-in-differences method sweeps out the effect of causes of variation in oil sector performance that affected the whole sector, including militarization, leadership purges, and investment cuts, focusing instead on the differential impact of financial access. I find that financial sanctions significantly affected the growth of SFV firms relative to non-SFV firms, supporting the hypothesis that the closing of access to international capital markets was an important driver of oil production. I also find that around 46 percent of the loss of production of SFV firms can be explained as a result of sanctions. The implication for the whole economy depends on whether we adopt a passive counterfactual scenario, in which only SFV firms would have continued to have access in the absence of sanctions, or an active scenario in which the Maduro administration would have extended the use of the highly successful SFV arrangements to the whole industry in the absence of sanctions. The range of estimates is thus broad from a quantitative standpoint, ranging from 235 to 1,142 thousand barrels per day, or USD 4.8–23.5 billion per year.

37 Rodríguez, "Sanctions and Oil Production."

Table 4. External Financial Assets and Emergency Financing Unavailable as Result of Statecraft Actions (USD mn.)

Sources of Funds	Amount
Joint Ventures	6,989
CITGO	1,484
Novo Banco	1,667
Bank of England Gold*	1,855
New York FED Holdings	5
CITIBANK Gold Swap Holdings**	342
Deutsche Bank Gold Swap Holdings	122
Treasury of France***	49
Euroclear	1,400
Clearstream	453
North Capital	238
Sumitomo	415
Total Deposits in Foreign Accounts	15,019
IMF	8,025
IMF SDR Issuance	5,081
World Bank	1,360
IADB	408
CAF	350
Total Potential Access to Multilateral Financing	15,224
Total	30,243

* 32 tons valued at avg price over the last 30 days of USD 1803.1/troy oz.

** Partly committed to financing operations of the Guaidó AN

*** Whereabouts unknown. Guaidó administration officials speculate it could have been taken by Maduro officials. Status pending French Treasury response.

Source: Own calculations, CITGO, Oil company financial statements, Bank of England, IMF, World Bank, IADB, CAF, Government of Venezuela, Press Reports.

Broader Effects on State Activities

The effect of sanctions and other statecraft actions on the Venezuelan economy is not restricted to their impact on oil production. There is substantial anecdotal evidence that these decisions have significantly hindered the capacity of economic and humanitarian actors in the broader economy to carry out transactions since 2017. They have also impacted other dimensions of the oil business through effects that may not be directly observable in current production levels, but which have impacted the health of the sector and thus its capacity to contribute to broader growth.

As already mentioned, the 2017 financial sanctions impeded both the government and all its entities, including the state-owned oil company, from restructuring its debts. Venezuela's public sector external debt stood at USD 162.5 billion, or 261 percent of GDP, at the end of 2020. It is worth noting that the rapid increase of the debt-to-GDP ratio in recent years, from only 71.3 percent in 2014, is a consequence primarily of the decline in GDP, part of which has been caused by sanctions, and not of an increase in gross indebtedness over this period. Nevertheless, it is clear that at such a high debt ratio, the normalization of the country's access to international financial markets would require a debt restructuring.

A restructuring of the country's debt is impeded by the harsh reality that the virtual totality of it takes the form of New York law-based obligations. The August 2017 financial sanctions bar any issuance of new debt, which would be needed to carry out the exchange of new for old debt needed for a debt restructuring. Furthermore, any restructuring would have to be subscribed by the interim government of Juan Guaidó, who holds the legal representation of the Venezuelan state before U.S. courts but does not control the revenue flows needed to service the new debt. Because of its inability to restructure its debt and regain access to capital markets, the country has been forced to run a balance of payments surplus, which has averaged USD 4.3 billion (4.9 percent of GDP) over the 2017–2020 period, further depressing the country's imports.

The country has also been unable to access the sources of international financing that distressed economies often have access to as part of the international financial system. None of the multilateral banks that Venezuela has appealed to in the past have been willing to lend to it because of the country's governance crisis. For example, the IMF has refused to consider a request from Venezuela to access its nonprogram Rapid Financing Access facility, which would have enabled it to request financing of up to 150 percent of its quota, or USD 7.7 billion, as part of the IMF's expanded COVID-19 relief initiatives. Nor will it be able to access USD 5.1 billion of the August 2016 issuance of Special Drawing Rights (SDRs) approved by the IMF board to provide liquidity to support the pandemic response. The reason, according to IMF spokespersons, is that the institution has not reached sufficient consensus on the question of which of the two governments to recognize.³⁸

38 Patricia Laya and Eric Martin, "Venezuela Cut Off from Share of IMF's \$650 Billion New Reserves," *Bloomberg*, 16 April 2021, <https://www.bloomberg.com/news/articles/2021-04-16/venezuela-cut-off-from-share-of-imf-s-650-billion-new-reserves>.

Sanctions and other statecraft measures have impeded the government from accessing the bulk of its funds deposited in the international financial system. Table 4 groups together estimates of the value of external financial assets that the Maduro administration is unable to access. The reasons for the loss of access is varied, yet in one way or another comes back to sanctions decisions and other statecraft actions. For example, U.S.-based subsidiaries of PDVSA, such as the CITGO refining company, maintain substantial cash holdings because of unpaid dividends. Access to these funds was blocked initially by the 2017 financial sanctions, which barred dividend repayments. Even if access to these funds is unblocked, say by issuance of an OFAC license, only the Guaidó administration would be able to use them. As another example, there are USD 1.9 billion in funds in accounts of Venezuela's Central Bank held at the Bank of England and UK subsidiaries of private banks, which are currently the subject of a legal dispute being heard by the UK judiciary between the Maduro and Guaidó-appointed boards of the central bank.

Over the past two years, the Maduro government has been able to maintain or regain access to some limited channels to process international payments. Despite this, the use of these mechanisms is hindered by the cautiousness with which financial institutions approach dealings with the Venezuelan state. Because Maduro appointees do not have the legal authority to move funds through U.S. banks, any transaction involving the Maduro government is automatically flagged as a money-laundering operation and blocked by U.S. institutions. This means that even a transfer originating in a non-U.S. bank cannot be received by U.S. entities. Dealing with these issues has generated serious complications and delays, such as occurred with the UBS decision to block some payments made by Venezuela to the COVAX system for purchase of anti-COVID vaccines in June 2021.

The lack of access to a large amount of funds deposited in the international financial system and the impediments to the carrying out of international financial transactions have thus made it more difficult for the Venezuelan government to carry out transactions vital for addressing key aspects of its humanitarian crisis. This does not necessarily mean that they are the only, nor even the most important, impediment to the carrying out of these transactions. For example, access to some of these funds can easily be unlocked through a Guaidó-Maduro agreement, but these agreements have proved elusive. For example, in March 2021 the Guaidó and Maduro teams reached a tentative deal to cooperate by using Guaidó's access to the U.S. payments system to make COVAX payments, yet the deal broke down due to irreconcilable differences on implementation.

Effects on Private Sector and Nongovernmental Organizations

In principle, all U.S. and European sanctions on Venezuela are “smart” sanctions, in that they impede transactions with specific actors but do not directly preclude transactions with the country. This is true both in the case of so-called personal sanctions, as well as the broader sectoral or economic sanctions, thus making it difficult to distinguish between them. For example, there is no legal prohibition on importing or exporting oil or oil products between Venezuela and the United States, but there is a designation that impedes any transactions between U.S. persons and the state-owned oil company PDVSA or its subsidiaries. It just so happens that this company happens to hold a constitutionally mandated monopoly of Venezuela’s oil trade.

There is no specific bar on transactions with private sector actors, except for those who have been directly sanctioned because of their links to the government. On the other hand, U.S. executive orders empower the Treasury Department to block property of those who are determined to have “materially assisted” the Venezuelan government,³⁹ a term that is sufficiently vague to allow much of the domestic private sector to potentially fall under a cloud of suspicion. More generally, the Financial Crimes Enforcement Network (FinCEN) has issued various alerts since 2017 recommending that financial institutions exercise extreme caution when processing transactions that could be directly or indirectly linked to the Venezuelan government.⁴⁰

The case can be made that, at least during the Trump administration (2017–2021), the issuance of country specific FinCEN directives was strongly linked to sanctions programs, and thus are adequately conceptualized as actions of economic statecraft. Table 5 lists the six country-specific FinCEN directives issued by the Trump administration. Of these, two concern Venezuela whereas the other four concern other countries in which the U.S. had a strong sanctions program (Iran, Nicaragua, South Sudan, and North Korea). There are eight countries that have worse corruption than Venezuela in Transparency

39 Office of Foreign Assets Control, U.S. Department of the Treasury, “Authorizing Certain Administrative Transactions with the Government of Venezuela,” Executive Order 13884, 5 August 2019, https://home.treasury.gov/system/files/126/venezuela_gl35.pdf.

40 Financial Crimes Enforcement Network, “Advisory on Widespread Public Corruption in Venezuela,” FIN-2017-A006, 20 September 2017, <https://www.fincen.gov/sites/default/files/advisory/2017-09-20/FinCEN%20Advisory%20FIN-2017-A006-508%20Compliant.pdf>; Financial Crimes Enforcement Network, “Updated Advisory on Widespread Public Corruption in Venezuela,” FIN-2019-A002, 3 May 2019, <https://www.fincen.gov/sites/default/files/advisory/2019-05-03/Venezuela%20Advisory%20FINAL%20508.pdf>.

International's 2017 Corruption Perceptions Index for which FinCEN did not issue a country-specific directive during the Trump administration.⁴¹

Table 5. Country-Specific FinCEN Directives (2017–2020)

2019-A002	5/3/19	Updated Advisory on Widespread Public Corruption in Venezuela
2019-A006	10/11/18	Advisory on the Iranian Regime's Illicit and Malign Activities and Attempts to Exploit the Financial System
2018-A005	10/4/18	Advisory to Financial Institutions on the Risk of Proceeds of Corruption from Nicaragua
2017-A008	11/2/17	Advisory on North Korea's Use of the International Financial System
2017-A006	9/20/17	Advisory to Financial Institutions on Widespread Political Corruption in Venezuela
2017-A004	9/6/17	Advisory to Financial Institutions on Political Corruption Risks in South Sudan

Source: FinCEN.

Expectably, these decisions had a chilling effect on the willingness of many international actors to do business not only with the Venezuelan government, but also with any entities linked to Venezuela that could hypothetically be said to be associated with the government or its officials. One area where the impact was felt seriously was in the willingness of financial institutions to service Venezuelan clients, given the associated compliance costs and risks.⁴² For many international financial institutions, the easiest (and less expensive) solution was to suspend all or most transactions with persons or firms of Venezuelan origin or with links to Venezuela.

For example, in September 2019, after the issuance of sanctions barring transactions with the Venezuelan government, Florida financial institutions restricted the access of some customers' access to accounts while they asked for OFAC to clarify whether they could still serve current and former employees of the Venezuelan government. Although OFAC subsequently issued a license exempting former and current government contractors, it gave no guidance on how to treat current state employees who are not sanctioned.⁴³ Even before the oil sanctions, a board member of the Florida International Bankers' Association told BNAméricas: "We're seeing transactions rejected when the transactions didn't really have anything to do with sanctions activity, and there are banks that are just saying 'no, we just don't want to deal with the risk.'"⁴⁴ In April 2019, the New York Federal Reserve barred Puerto Rican offshore

41 These are Afghanistan, Equatorial Guinea, Guinea-Bissau, Libya, Somalia, Syria, and Yemen. It is also unclear that there is a significant recent deterioration of corruption in Venezuela so as to merit a change of stance in the financial regulatory authority with respect to it. Venezuela ranked 165th of 176 countries in the 2012 index and 169th of 180 countries in the 2017 index (Transparency International, *Corruption Perceptions Index 2017*, 2018). Although advisories were issued regarding Libya in 2011 and Syria in 2011 and 2013, both were framed at the time as advisories "on recent events" (similarly to other Arab Spring countries), and point to specific events such as "current unrest." See Financial Crimes Enforcement Network, "Updated Advisory to Financial Institutions on Recent Events in Syria," FIN-2013-A002, 15 April 2013, <https://www.fincen.gov/sites/default/files/advisory/FIN-2013-A002.pdf>.

42 Mengqi Sun, "Evolving Venezuela Sanctions Pose Problems for Banks," *Wall Street Journal*, 25 February 2019.

43 Luc Cohen, "Florida Banking Group Pushed for Sanctions Exemption for Ordinary Venezuelans," Reuters, 17 September 2019, <https://www.reuters.com/article/us-venezuela-usa-sanctions/florida-banking-group-pushed-for-sanctions-exemption-for-ordinary-venezuelans-idUSKBN1W22Q3>.

44 "US Banks Walking the Venezuela Tightrope," BNAméricas, 31 August 2018, <https://www.bnamericas.com/en/news/us-banks-walking-the-venezuela-tightrope>.

banks, many of which are owned by Venezuelans, from opening the Fedwire account necessary to obtain direct access to the U.S. financial system.⁴⁵

It is difficult to ascertain the direct impact of these phenomena as the primary data that would be needed to do so—the identity and nationality of account holders who have seen accounts closed or transactions blocked—is not public. According to data provided by the Venezuelan government to the UN Office of the High Commissioner on Human Rights, the median time of a bank transfer rose from two days in 2017 to 45 days in 2020 and bank commissions rose from 0.5 percent to 10 percent over the same period. An online survey carried out by local news outlet *El Pitazo* (a news media that is generally highly critical of the Maduro government) found that 49.3 percent of account closures of Venezuelans were issued without notification, 29.4 percent received vague explanations, and only 20.0 percent were preceded by a notification that recipients found adequate. Venezuela is one of only three Latin American countries whose residents are forbidden from opening new accounts in the United States (the other two are Cuba and Nicaragua).⁴⁶

Many providers of services to Venezuelans have decided to restrict their activities out of a concern for being seen to violate sanctions. Because of the overly broad “material assistance” clause, any activity that could be seen as serving entities linked to the Maduro regime can be potentially characterized as a sanction’s violation. This poses a particularly acute problem for international providers of services to Venezuelan clients, as there is no simple way to ensure that a large firm does not have persons or entities linked to the government among its clients. In October 2019, these concerns led Adobe to cancel all Venezuelan Adobe accounts.

The Adobe decision was reverted three weeks later after a public outcry led OFAC to issue a license allowing Adobe to operate in Venezuela.⁴⁷ Not all firms, however, were able or willing to lobby effectively for a license. The decision of Oracle to cancel contracts with all partners in Venezuela, also taken initially in October 2019, continues to stand. So does the decision by Sedo, a German web service provider who had operated for 15 years in Venezuela.⁴⁸ In May 2020, AT&T-owned DirecTV announced its departure from Venezuela, alleging that it could not at the same time comply with U.S. sanctions and Venezuela’s legislation, which demands that the cable TV provider broadcast state-owned PDVSA TV and Globovision, both of which are sanctioned. In October 2019, UK interbank transfer company Transferwise shut down operations in Venezuela, citing the combination of sanctions and domestic regulatory requirements.⁴⁹ In June 2020, peer-to-peer Bitcoin exchange banned all transactions made through or involving state-owned Bank of Venezuela, the nation’s largest commercial bank, which accounts for 44 percent of all deposits in the country,⁵⁰ from its system.⁵¹

Overcompliance has also directly affected the functioning of humanitarian agencies. In March 2019 Cecodap, a Venezuelan children’s advocacy group, had its bank accounts closed without explanation in what its chairman said were decisions likely related to sanctions. Feliciano Reyna, the founder of Acción

45 VOA, “Reuters: Fed de Nueva York Toma Medidas Contra Bancos de Puerto Rico Tras Sanciones a Venezuela,” *Voz de America*, 18 April 2019, <https://www.vozdeamerica.com/a/reuters-fed-de-nueva-york-toma-medidas-contra-bancos-de-puerto-rico-tras-sanciones-a-venezuela/4882182.html>.

46 EZFrontiers, “Cómo Abrir Una Cuenta Bancaria en Estados Unidos desde Venezuela,” n.d., <https://ezfrontiers.com/como-abrir-una-cuenta-bancaria-en-estados-unidos-desde-venezuela/>.

47 Adobe, “Adobe Compliance with U.S. Executive Order|Venezuela,” 27 April 2021, <https://helpx.adobe.com/x-productkb/policy-pricing/executive-order-venezuela.html>.

48 Anicar González, “Empresa Sedo Suspendió Dominios de Internet en Venezuela,” *Noticias-Ahora*, 8 August 2019, <https://www.noticias-ahora.com/sedo-dominios-internet-venezuela/>.

49 *El Nacional*, “Transferwise Suspendirá Servicios en Venezuela Desde el 21 de Octubre,” *El Nacional*, 8 October 2019, <https://www.elnacional.com/economia/transferwise-suspendera-servicios-en-venezuela-desde-el-21-de-octubre/>.

50 Sudeban, “Estadísticas,” March 2021.

51 Jose Antonio Lanz, “Paxful Prohibe Intercambiar Bitcoin a Través del Banco de Venezuela,” *Decrypt*, 11 June 2020, <https://decrypt.co/es/32024/paxful-prohibe-intercambios-bitcoin-banco-de-venezuela-sanciones-trump>.

Solidaria, an organization that distributes medicine and medical equipment in Venezuela, told the *Wall Street Journal* in August 2019 that his organization had been repeatedly asked by the bank to answer questions regarding its transactions and commercial activities, imposing significant extra burden on the staff.⁵²

Humanitarian impacts do not always derive directly from sanctions but are sometimes generated rather by the direct implications of other statecraft measures. One prominent example is the inability of the government to continue funding transplant surgeries for hundreds of children patients of cancer and other life-threatening illnesses through the Simon Bolívar foundation, the charitable arm of the PDVSA-owned CITGO Petroleum Corporation. According to a July 2021 statement by six United Nations experts, the suspension of the program due to the unwillingness of financial institutions to process Venezuelan state payments had led to the deaths of 14 children between 2017 and 2020.⁵³ In this case, the binding constraint is not inability to transfer funds—as CITGO has a license for its day-to-day operations—but the lack of control by the Maduro administration of CITGO as a consequence of the U.S. recognition of Guaidó's interim presidency.⁵⁴

As is almost invariably the case with other instances of sanctions, the U.S. government has issued a spate of licenses aimed at ensuring that humanitarian operations are exempted from the impact of sanctions. The limitations of these exceptions are well-known: it is difficult for humanitarian actors to structure activities and process funds without running afoul of sanctions and even more difficult to convince financial institutions that this is the case.⁵⁵ In the case of Venezuela, the recognition problem adds another layer of complication. Because the Maduro government does not have the legal authority, from the standpoint of U.S. law, to undertake transactions in representation of the Venezuelan government, then any transaction even indirectly related to the Venezuelan government headed by Maduro is, technically, a money-laundering operation. U.S. banks are thus legally precluded from processing or even indirectly facilitating Maduro government transactions, independent of whether there are humanitarian exceptions or not.

It is hard to quantify the aggregate effect of all these restrictions. Perhaps one of the most important signs of their relevance is how often key economic and humanitarian actors bring them up in policy and regulatory discussions. Ricardo Cussano, a former president of Fedecámaras—the national business federation, an organization that has over the past two decades taken strong positions against the Chávez and Maduro governments—claimed that United States sanctions had been “as harmful as the expropriations of 2007–08”⁵⁶ and that they “affect the people and businessmen who have nothing to do

52 Kristin Broughton and Dylan Tokar, “Humanitarian Groups Face Banking Challenges as Venezuelan Sanctions Escalate,” *Wall Street Journal*, 16 August 2019.

53 UN Human Rights Office of the High Commissioner, “Venezuela: Save Lives of Cancer Patients Endangered by U.S. Sanctions - Experts,” 21 July 2021, <https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=27328&LangID=E>.

54 CITGO, “CITGO Simón Bolívar Foundation Responds to False Maduro Regime Accusations,” News Release, 2020, <https://www.citgo.com/press/news-room/news-room/2020/citgo-simon-bolivar-foundation-responds-to-false-maduro-regime-accusations>. (The Guaidó administration has not explained why it did not continue funding the program, yet the fact that the recipients were based in Venezuela was likely an impediment. The Guaidó administration has also rejected Maduro accusations of mismanagement of the foundation.); Julio Borges (@JulioBorges), Twitter, 22 January 2021, <https://twitter.com/JulioBorges/status/1352602589494439936> (in January 2021, Guaidó Foreign Affairs Commissioner Julio Borges stated through a Twitter message that the interim government was in the obligation of offering a transparent explanation of all “cases that have generated doubts in public opinion,” listing the Simon Bolívar Foundation among them).

55 See for example, Carter Center, “Navigating Humanitarian Exceptions to Sanctions Against Syria Challenges and Recommendations,” October 2020, https://www.cartercenter.org/resources/pdfs/peace/conflict_resolution/syria-conflict/navigating-humanitarian-exceptions-in-syria-oct2020.pdf; Justine Walker, “Navigating Humanitarian Exceptions regarding International Sanctions,” In-House Community, 14 April 2020, <https://www.inhousecommunity.com/article/navigating-humanitarian-exceptions/>; Alice Debarre, “Safeguarding Humanitarian Action in Sanctions Regimes,” *International Peace Institute*, 24 June 2019, <https://www.ipinst.org/2019/06/safeguarding-humanitarian-action-in-sanctions-regimes>.

56 “Fedecámaras: Las Sanciones de EEUU Fueron Tan Nefastas Como las Expropiaciones,” *Tal Cual Digital*, 10 December 2019, <https://talcualdigital.com/ricardo-cusanno-las-sanciones-de-eeuu-fueron-tan-nefastas-como-las-expropiaciones/>.

with the policies developed by Maduro.”⁵⁷ In December 2019, UN Human Rights Chief Michelle Bachelet stated that her office “has received information indicating that financial institutions’ over-compliance with recent economic sanctions continues to negatively impact the economy and public services at all levels.”⁵⁸

Most strikingly, an overwhelming majority of Venezuelans reject economic sanctions—while a plurality supports personal sanctions and would agree with using them as leverage in finding a negotiated solution to the country’s crisis (Table 6). In an August 2021 survey by local polling company Datanálisis, 76.4 percent of respondents said that they were in disagreement with U.S. oil sanctions on Venezuela (16.8 percent expressed their support). In contrast, 43.4 percent supported and 35.0 percent opposed personal sanctions imposed in connection with personal crimes. Sixty-eight point four percent support their being made more flexible to address the humanitarian crisis, and 51.8 percent would support their use to negotiate improved conditions for upcoming regional elections. Seventy-eight percent said that the sanctions had been harmful for the country (5.8 percent believed that they were beneficial) while 62.8 percent claimed to have been directly affected negatively by the sanctions. It is worth highlighting that respondents to this survey are also highly critical of Maduro—79.4 percent view his job in office negatively and 88.4 percent view the country’s situation negatively—so that the strong opposition to economic sanctions does not appear to stem from fears of expressing views different from those of the government.⁵⁹

57 El Pitazo (@ElPitazoTV), Twitter, 18 February 2020, <https://twitter.com/ElPitazoTV/status/1229877907054563331?s=20>.

58 UN Human Rights Office of the High Commissioner, “Venezuela: High Commissioner Bachelet Details Plans for New Human Rights Assistance,” 18 December 2019, <https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=25438&LangID=E>.

59 All results are from Datanálisis (Informe Omnibus, Agosto 2021), except for the question on the personal effect of sanctions, which is from Datanálisis (Informe Omnibus, October 2019).

Table 6. Venezuelan Attitudes toward Sanctions, Related Issues

Question	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Dk/da
Do you agree with the oil sanctions imposed by the United States on Venezuela?	76.4%		-	16.8%		6.8%
To what extent do you agree or disagree with personal sanctions?	12.2%	22.8%	13.4%	25.8%	17.6%	8.2%
To what extent would you agree or disagree that economic and financial sanctions on the country can be relaxed for humanitarian purposes?	1.6%	13.8%	10.4%	52.4%	16.0%	5.8%
To what extent do you agree or disagree with negotiating the easing of economic sanctions in exchange for electoral conditions for regionals?	6.4%	19.0%	14.8%	38.4%	13.4%	8.0%
Question	Harmful	Harmful but necessary to drive Maduro from power	Useless to change Maduro's behaviour	Beneficial		Dk/da
With regard to the economic, oil, and financial sanctions applied by various countries in order to change the government of Nicolás Maduro, you believe that they will be...	63.0%	20.8%	9.0%	3.4%		3.8%
Question	I would not vote him/her	Negative but non-decisive	Neutral	Positive but non-decisive	I would vote him/her	Dk/da
How would your intention to vote be affected if a candidate running for elected office has publicly expressed support for U.S. sanctions on Venezuela?	29.2%	11.0%	32.0%	8.4%	3.2%	16.2%
Question	Negative		Neutral	Positive		Dk/da
What kind of impact do you think the U.S. sanctions against the government of Nicolás Maduro have had on the Venezuelan economy?	71.2%		17.8%	4.6%		6.4%
How do you evaluate Maduro's work for the country?	79.4%		-	16.8%		3.8%
How do you evaluate Venezuela's current situation?	88.4%		-	11.4%		0.2%
How do you evaluate U.S. sanctions on yourself? (October 2019)	62.8%		25.6%	5.1%		6.5%

Source: Datanálisis, Informe Omnibus October 2019 and Informe Omnibus Agosto 2021. All questions from August 2021 survey except the last one, which is from October 2019. August 2021 survey has sample of 500 respondents and margin of error of ± 4.38 percent. October 2019 survey has sample size of 800 respondents and margin of error of ± 3.46 percent.

Effects on Socioeconomic Indicators

Venezuela has limited recent data on many socioeconomic indicators, reflecting an almost generalized data blackout from official entities. Furthermore, the little data that continues to be published tends to be the few indicators that do not show a significant deterioration, offering us a somewhat biased picture of the evolution of living conditions. For example, the National Institute of Statistics has not published income poverty estimates since the first half of 2015, although it has updated its Gini coefficient measure, which uses the same data for its calculation and shows a sustained long-term decline in inequality, up to 2020.

On the other hand, it is not difficult to infer that most socioeconomic indicators should have deteriorated rapidly over the past few years, in line with the decline in per capita income. There is an extensive literature on the links between GDP per capita and a vast array of health and broader living standards indicators.⁶⁰ Nearly all the cross-national variation in health outcomes can be explained because of per capita income and other socioeconomic variables that do not vary over short periods of time.⁶¹ Past time-series data on socioeconomic indicators for Venezuela also shows a very strong correlation of most indicators with income. It would be surprising if a collapse in GDP, such as what we have seen in the 2012–2020 period, were not reflected in broader measures of living standards.

The patterns observed in the emigration data are certainly consistent with the idea that the country's economic contraction has caused significant hardship among those living in Venezuela. Over the course of the past five years, 4.8 million persons have left the country, a number equivalent to 16.0 percent of the country's 2015 population. Emigration appears to have reached its highest intensity in 2018, when 2.3 million persons left in a single year, as shown in Table 7. Not surprisingly, this is also the year following the first financial sanctions, the start of the collapse in Venezuela's oil production, and the economy's entry into hyperinflation.

A similar pattern, though with some interesting features, is present in the data on infant, under-five, and neonatal mortality collected by the United Nations Inter-Agency Group for Child Mortality Estimation (IGME) from Venezuelan authorities. Figure 4 shows the time series, which includes data up to 2018, together with the IGME estimates. The data shows a strong increase in 2016, which breaks a pattern of long-term decline. Somewhat interestingly, the official series also shows some improvement in 2017 and 2018 relative to 2016, although the model-based IGME estimates remain stable.

60 Lant Pritchett and Lawrence H. Summers, "Wealthier is Healthier," *Journal of Human Resources* 31, no. 4 (Autumn 1996): 841-868; United Nations Development Programme, *Human Development Report 2010: The Real Wealth of Nations - Pathways to Human Development*, 2010, <http://hdr.undp.org/en/content/human-development-report-2010>.

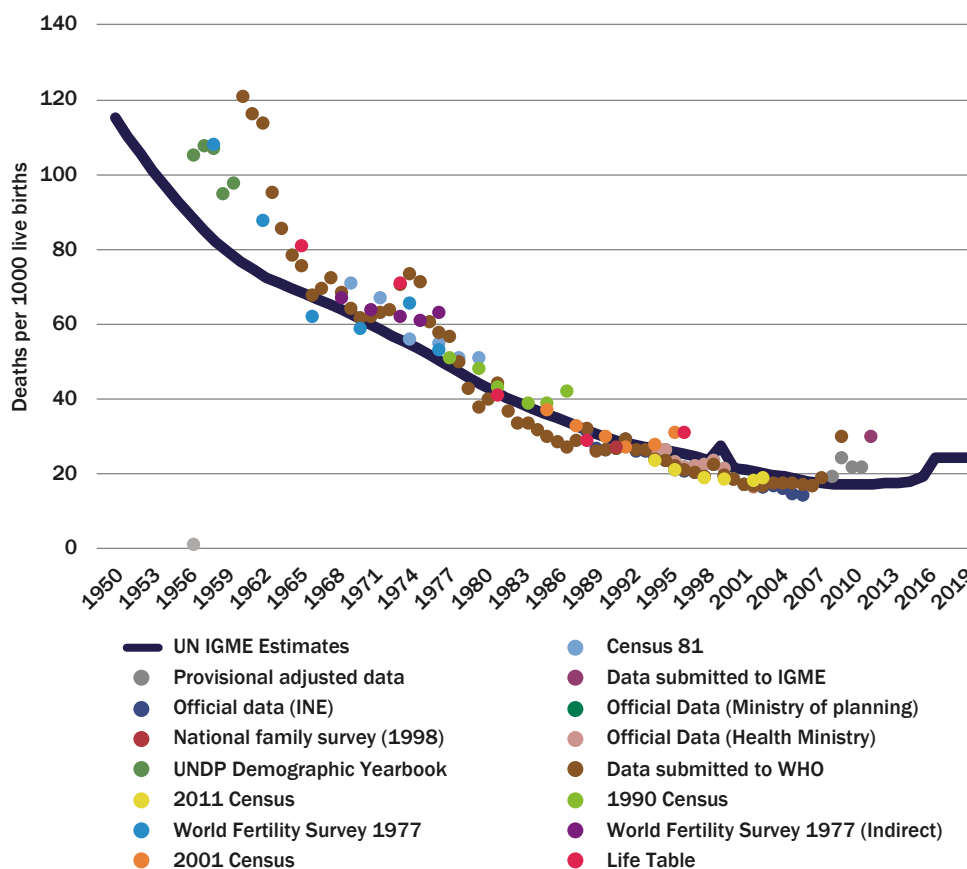
61 Deon Filmer and Lant Pritchett, "The Impact of Public Spending on Health: Does Money Matter?" *Social Science & Medicine* 49, no. 10 (November 1999): 1309-1323.

Table 7. Venezuelan Emigrants by Destination Country

	2015	2017	2018	2019	2020	2021
Total	809,234	1,586,507	3,908,681	4,785,203	5,210,303	5,667,835
Colombia	162,397	544,065	1,237,030	1,630,903	1,771,501	1,742,927
Peru	2,351	26,239	768,148	863,613	1,043,460	1,049,970
Ecuador	8,901	39,519	263,000	385,042	431,230	432,866
Chile	8,001	119,051	288,233	371,163	457,324	457,324
Brazil	3,425	35,000	96,000	224,102	262,475	261,441
Argentina	12,856	57,127	130,000	145,000	179,203	174,333
Panama	9,883	36,365	94,400	94,596	121,198	121,598
USA	255,520	290,224	351,144	351,144		
Spain	165,895	165,895	323,575			
Others	180,005	273,022	357,151	719,640	943,912	1,427,376

Sources: Own calculations, UNHCR-IOM Inter-Agency Coordination Platform for Refugees and Migrants from Venezuela.

Figure 4. Infant Mortality Rate Estimates, 1950–2019



Source: Own Calculations, United Nations Interagency Group for Child Mortality Estimation.

Some authors have suggested that because the bulk of the deterioration in these indicators began prior to the first sanctions in 2017, sanctions do not play an important causal role in their deterioration.⁶² For example, Bahar et al. argue that between 2013 and 2016, prior to the first sanctions, food imports fell by 71 percent, and the increase in infant mortality also preceded the first sanctions. This leads the authors to conclude that “rather than being a result of U.S.-imposed sanctions, much of the suffering and devastation in Venezuela has been ... inflicted by those in power.”⁶³ The temporal precedence argument has also gained wide currency in policy circles and public discussions. When a UN special rapporteur visited Venezuela to study the effect of sanctions, a human rights nongovernmental organization that is strongly critical of the government launched a campaign with the hashtag #LaCrisis Fue Primero (#TheCrisisWasFirst).

The pre-existing trends argument is problematic for several reasons. The first one is empirical: we simply do not have data on many socioeconomic indicators to construct an adequate measure of how much these indicators have deteriorated in the post-sanctions period, nor can we assert at this stage that the post-sanctions deterioration has come to an end. For what it’s worth, the data that we have show the contrary: of the 72 percent contraction in per capita income that occurred between 2012 and 2020, 46 percentage points, or around two-thirds, occurred between 2016 and 2020, during which sanctions were imposed.

More importantly, the post-sanctions share of the deterioration in living standards is not an accurate measure, nor even a reasonable upper bound, for the effect of sanctions. The reason is simple: to estimate the effect of sanctions, we would need to compare the evolution of socioeconomic indicators that we have observed with a counterfactual of how they would have evolved without sanctions. To argue that the post-sanctions change is a reasonable estimate or an upper bound for the effect of sanctions, we would have to argue that socioeconomic conditions would not have improved in the absence of sanctions from 2017 onward. Yet, as we have already seen, the post-2016 period was one of rising oil prices in which export revenues would likely have increased significantly if oil production had not declined. If we accept the idea—which the evidence surveyed above overwhelmingly supports—that sanctions negatively impacted oil production, then we should accept that the most likely scenario for the Venezuelan economy in the post-2016 period in the absence of sanctions would have been one of increasing oil revenues, economic recovery, and the improvement in socioeconomic indicators.

Put differently, what the pre-sanctions deterioration in living standards shows us is that Venezuela suffered a major external shock when oil prices plummeted during the 2014–2016 period. Certainly, the 2014–2016 contraction can and should be attributed to bad policy, because it reflects the inexistence of adequate buffers against such a shock resulting from government overspending during the period of high oil prices. But the fact that the economy contracted in a period prior to the sanctions tells us little about the effect that sanctions had in succeeding years. This is more so given that there are good reasons why we would have expected the economy either to stabilize, or to recover, in the absence of sanctions.

Social and economic phenomena are quite obviously multi-causal, so there is no reason why both sanctions and mismanagement cannot both have significantly contributed to Venezuela’s economic collapse. Yet the estimate of the magnitude of the effect caused by factors other than sanctions does not necessarily have a bearing on the question of interest of this study, which is the magnitude of the effect of sanctions on these results.

62 See, for example, Dany Bahar, “Chavismo Is the Worst of All Sanctions: The Evidence Behind the Humanitarian Catastrophe in Venezuela,” Brookings Institution, 22 May 2019, <https://www.brookings.edu/blog/up-front/2019/05/22/chavismo-is-the-worst-of-all-sanctions-the-evidence-behind-the-humanitarian-catastrophe-in-venezuela/>; Hausmann and Muci, “Don’t Blame Washington for Venezuela’s Oil Woes;” and Kenneth Rapoza, “No, U.S. Sanctions Are Not Killing Venezuela. Maduro Is,” *Forbes*, 22 May 2019, <https://www.forbes.com/sites/kenrapoza/2019/05/03/no-u-s-sanctions-are-not-killing-venezuela-maduro-is/?sh=6d8428334343>.

63 Bahar et al., “Impact of the 2017 Sanctions on Venezuela,” p. 9.

On the contrary, attempts to address discussions about the incidence of sanctions by reference to the magnitude of the effects of other causes incorrectly conflates two issues: that of the absolute effect of sanctions, and that of their effect relative to other causes. Relative effects are much harder to estimate than absolute effects, as they require adequately identifying the contribution of several other causes.⁶⁴ To the best of our knowledge, no serious attempts have been made to estimate the relative effect of sanctions. Rather, the contributions surveyed in this paper relate solely to the magnitude of absolute effects.

This methodological nuance, however, has tremendous effects on the interpretation of research in a highly politicized debate. It is not unusual—in fact quite frequent—to find authors criticized for blaming the crisis on sanctions. Bahar, for example, characterizes Weisbrot and Sachs as “blaming the damage on agents other than Maduro and the Chavista governments.”⁶⁵ Even if we accept that a positive exercise of parameter estimation allows us to allocate blame,⁶⁶ doing so would require an estimation of relative and not of absolute effects, which neither Weisbrot and Sachs nor Bahar have done.

Responding to estimates about the negative effects of sanctions by highlighting the negative effect of other factors is simply a variant of the well-known “straw man” fallacy: replacing a valid argument with a false one that is easier to refute, thus failing to address the substance of the valid argument in question. That is, the argument “sanctions have significantly contributed to Venezuela’s crisis” is replaced by the false argument “sanctions are the only cause of Venezuela’s crisis,” which is then easily refuted by pointing to other causes. Regrettably, straw man fallacies can be rhetorically very effective, and it is thus not surprising to see them repeatedly used in numerous policy debates. Discussions about the impact of Venezuela sanctions are no exception.

In any case, from the standpoint of international decision making and policy design in sender countries, it is unclear that the debate on the relative attributions of responsibilities in the country’s crisis is of much relevance. What is relevant is the estimation of the magnitude of the effect of sanctions on the country’s living standards, and the ways in which these policy interventions can be redesigned to attenuate those negative effects. Presumably, the international community is interested in designing policy interventions that will not further damage the well-being of Venezuelans, instead of simply arguing that they are not causing as much damage as Maduro.

64 In some research designs (e.g., ordinary least squares with correlated regressors) absolute effects cannot be estimated without accounting for other potential causes because of omitted variable bias. However, that is not the case for most quasi-experimental identification methods (e.g., instrumental variables, difference-in-differences), which focus on isolating the effect of specific causes.

65 Bahar, “Chavismo Is the Worst of All Sanctions”; Weisbrot and Sachs, “Economic Sanctions as Collective Punishment.”

66 There is a distinction between an exercise of positive economics, which is the identification of a potential causal effect, and the normative allocation of blame and responsibility, which is a complex ethical issue. A judge’s decision to sentence a criminal to death—or an executioner’s actions to carry out that sentence—can cause the convict’s death, but few people would argue that the judge or executioner ought to be blamed for that death.

Reshaping Venezuelan Statecraft

I have argued in this study that the preponderance of the evidence strongly supports the contention that economic sanctions and other actions of economic statecraft aimed at the Venezuelan government have strongly impacted the country's economic and humanitarian conditions. Although there is certainly some variation across estimates and room for differing interpretations of the data, it is hard to deny that they have had a sizable negative impact on living conditions in the country.

How to fix this is a much more difficult question to answer. I have also argued that many of the effects on the country's economy come from the interaction and combination of sanctions and other statecraft measures, some of which are very unlikely to be reversed in the absence of major political changes. Furthermore, these actions have been taken in a context of a more general process of toxification of the economy—that is, of an increase in the reputational and regulatory costs of engaging with or being perceived as engaging with the Venezuelan government—a process that policy makers have only a limited capacity to reverse.

Nevertheless, these realities do not leave policy makers without measures that can attenuate the collateral effect of sanctions and other statecraft measures on Venezuelans. In this last section, I outline several principles that could serve as a guide for a reform of the system.

Reinsert Venezuela in the global economy through an oil-for-essentials program. Venezuela's humanitarian crisis is the consequence of a large-scale economic crisis. That economic crisis is in turn the result of the severing of the trade and financial links of Venezuela to the global economy. Much like occurred with Iraq in the 1990s, it is impossible to address Venezuela's humanitarian crisis without recovering the national economic capacity to generate the export revenue needed to pay for imports of essentials. Any serious attempt to protect Venezuelans from the collateral effect of their political crisis will require designing a mechanism to allow Venezuela to regain access to global oil markets.

The idea of an oil-for-food or oil-for-essentials program has been suggested since the adoption of oil sanctions in 2019.⁶⁷ Two detailed proposals have also been laid out by nongovernmental actors.⁶⁸ Among the key challenges are avoiding the design problems that led to the corruption associated with

67 Rodríguez, "Sanctions and the Venezuelan Economy"; Dorothy Kronick, "A Backup Plan Is Needed to Prevent Venezuelan Famine," *New York Times*, 28 February 2019, <https://www.nytimes.com/2019/02/28/opinion/venezuela-maduro-famine.html>; Chris Murphy, "Murphy Univision Op-Ed: Trump Administration Failed with Its Venezuela Policy, Here's How to Fix It," 21 November 2019, <https://www.murphy.senate.gov/newsroom/press-releases/-murphy-univision-op-ed-trump-administration-failed-with-its-venezuela-policy-heres-how-to-fix-it>; Nicholas Kristof, "Venezuela's Kids Are Dying. Are We Responsible?" *New York Times*, 23 November 2019, <https://www.nytimes.com/2019/11/23/opinion/sunday/venezuela-us-sanctions.html?>; and Ibsen Martinez, "Venezuela: ¿petróleo por alimentos?" *New York Times*, 19 January 2021, <https://www.nytimes.com/es/2021/01/19/espanol/opinion/biden-venezuela-petroleo.html>.

68 Oil for Venezuela, "A Humanitarian Oil Agreement for Venezuela: Protecting Venezuelans from the Collateral Impact of the Political Crisis," October 2019, https://en.oilforvenezuela.org/pdf/Humanitarian_Oil_Agreement-October2019.pdf; Boston Group, "Mecanismo Venezolano de Venta de Petróleo para la Ejecución de Proyectos Humanitarios a través de Organismos Multilaterales (ONU)" (unpublished manuscript, May 2021).

the Iraq program. The work of the Volcker⁶⁹ and Duelfer⁷⁰ commissions studying the shortcomings of that program give some guidance for how this should be done. For example, an impartial body, instead of the sanctioned government, needs to be made in charge of the assigning of oil sales contracts to preclude the government from collecting side payments from such assignments.

In order for an oil-for-essentials program to contribute to addressing the country's humanitarian and economic crisis, its launch should lead to a significant recovery in oil production. Prior experience of other sanctioned economies that have seen strong recoveries in production with the lifting or flexibilization of sanctions suggest that it is reasonable to expect the same to happen with the adoption of an oil-for-essentials program for Venezuela. That noted, it would be wise to be cautious regarding the capacity of recovery in production given the current disarray of the Venezuelan oil industry. Nevertheless, the same governance agreements of an oil-for-essentials program could be used to administer the use of funds in blocked deposits, or that can be obtained through international institutions (see Table 4) in order to direct them toward the purchase of goods and inputs essential to addressing the country's humanitarian crisis.

Strongly support framework for political humanitarian agreements. For the reasons discussed in the preceding pages, sanctions are not the only binding constraint on Venezuela's reinsertion into the global economy. Even if all sanctions were lifted, the country would be unable to export oil to the United States, to tap multilateral banks or capital markets or move funds through much of the global financial system. This is because each of these actions would require the consent of the Guaidó administration, which is recognized as Venezuela's government by the United States, the United Kingdom, and several other key nations. Therefore, barring the unlikely event that these nations would recognize Maduro again, some type of political agreement will be necessary to take advantage of any flexibility offered by the sanctions regime.

Therefore making sanctions more flexible to attenuate their humanitarian impact necessarily goes hand-in-hand with getting the parties to Venezuela's political conflict to agree on mechanisms to jointly administer—or delegate administration for—the resources obtained through these programs. This could take the form of the creation of co-governance institutions staffed by representatives of the government and the opposition to administer the program, as well as an agreement on the oversight mechanisms. The international community could signal strongly its willingness to support these co-governance agreements, for example, by a promise of economic assistance from multilateral organizations.⁷¹

The recent start of negotiations in Mexico City between Venezuela's mainstream opposition and the Maduro government provides an opportunity to advance in the creation of these co-governance agreements. A partial agreement signed on 9 September 2021, regarding social protection measures, created a Social Assistance Roundtable to address issues related to health and nutrition as well as a commission to study the effect of sanctions overcompliance on the availability of resources to fund social assistance initiatives.⁷² The parties also agreed on an agenda for further talks that would include the issue of access to IMF SDRs.

69 Independent Inquiry Committee into the United Nations Oil-for-Food Programme, Paul Volcker, Chairman, *Manipulation of the Oil-for-Food Programme by the Iraqi Regime*, 27 October 2005.

70 Charles Duelfer, *Comprehensive Report of the Special Advisor to the DCI [Director of Central Intelligence] on Iraq's WMD [Weapons of Massed Destruction]*, 3 Volumes (Baghdad, Iraq: Central Intelligence Agency, September 2004).

71 Jeffrey D. Sachs and Francisco Rodríguez, "A Pandemic Is No Time for U.S. Economic Sanctions," Project Syndicate, 25 March 2020, <https://www.project-syndicate.org/commentary/economic-sanctions-during-pandemic-immoral-american-policy-by-jeffrey-d-sachs-and-francisco-rodriguez-3-2020-03>.

72 A joint statement by the Venezuelan parties followed the second round of negotiations in Mexico City, 6-9 September 2021, facilitated by Norway and accompanied by the Netherlands and Russia. Norway Ministry of Foreign Affairs, "Acuerdo Parcial para la Protección del Pueblo Venezolano," September 2021, <https://www.regjeringen.no/contentassets/19c6154838324e1d935e6108998e935b/acuerdo-parcial-para-la-proteccion-social-del-pueblo-venezolano.pdf>.

Further progress is for the time being stalled after the Maduro government suspended its participation in the talks, accusing the U.S. of violating an envoy's diplomatic immunity.⁷³ It is not atypical for negotiations in highly polarized settings to hit snags, and the Mexico talks are in themselves the resumption of Norway-mediated talks first begun in May 2019. It is reasonable to expect these negotiations—or some variant thereof—to continue, potentially providing a framework humanitarian agreement. Perhaps paradoxically, there are also strong incentives for the parties to reach agreements around the protection of offshore oil industry assets, as in the absence of agreements they would most likely be seized by creditors. The demand to incorporate other opposition and civil society groups in the negotiations should be seriously considered, especially in light of the results of recent regional elections in which three out of five non-government votes went to opposition movements not currently represented in the Mexico talks.

Issue clear guidance to reduce incentives for overcompliance. Although overcompliance by financial institutions in Venezuela-related transactions is likely to persist in any scenario, clearer guidelines by OFAC could help reduce its adverse effects. Since this guidance often needs to be given on a case-by-case basis, OFAC will need to devote more resources to developing the capacity to respond rapidly and proactively to compliance-related enquiries from financial institutions, possibly establishing an explicit fast-track procedure for humanitarian cases.

OFAC, rather than financial institutions, should bear the burden of establishing whether there are reasons to block transactions by humanitarian actors. One way to do this is by having OFAC issue a list of organizations cleared to carry out humanitarian programs in Venezuela and for which banks would be authorized to approve transactions with less stringent requirements than those adopted for noncleared entities. In cooperation with financial institutions, OFAC could carry out random audits of cleared entities to detect possible changes in conduct.

Another dimension in which OFAC could improve its approach would be by clearly delimiting the effect of personal sanctions from those of sectoral sanctions or sanctions on the government and its entities. Current OFAC interpretations prohibit negotiations with a blocked person even if the blocked person is acting on behalf of a nonblocked entity.⁷⁴ This is extremely problematic because it impedes individuals subject to personal sanctions from acting on behalf of a government agency. This muddling of decisions aimed at restricting personal transactions with those who are relevant to the actions of governments contributes to confounding the causes and procedures associated with sanctions and generating incentives for overcompliance. There is no logical reason why a sanction aimed at an individual should restrict the ability of a state to carry out its functions. In other words, if OFAC wants to impede transactions by a government agency, it can do so by directly sanctioning the agency, rather than to imposing a sanction on individuals for this activity.

Distinguish between strategic and nonstrategic sanctions. Broadly speaking, there are two reasons why it makes sense for governments to use sanctions. One of them is as a substitute for law enforcement when the sending government believes that it has an obligation to punish violations of human rights and corruption in countries that do not have a robust judicial system to do so.⁷⁵ Another one is as a policy tool for use in addressing foreign policy objectives by creating selective incentives that

73 The case is *USA v. Saab Moran et al*, No. 1:19-cr-20450 (FLA. 25 July 2019). Saab, a Colombian businessman indicted for money laundering in the United States, was detained while in transit in Cape Verde and extradited to the United States. Venezuela claims that Saab was a diplomatic envoy to Iran, but both Cape Verde and the United States refused to recognize his diplomatic status. The case illustrates the complex implications of nonrecognition, including the fact that it allows host states to ignore any diplomatic status granted to envoys of the nonrecognized government.

74 Office of Foreign Assets Control, U.S. Department of the Treasury, "Entities Owned by Blocked Persons (50% Rule)," 13 August 2014, <https://home.treasury.gov/policy-issues/financial-sanctions/faqs/400>.

75 Cécile Fabre, *Economic Statecraft: Human Rights, Sanctions, and Conditionality* (Cambridge, MA: Harvard University Press, 2018).

can serve to induce certain actions by targets.⁷⁶ These two objectives can be and often are at odds. When sanctions are used to punish persons responsible for alleged crimes, then it becomes much harder to credibly promise to lift the sanctions if the conduct of the sanctioned person changes. That is, the aim of using sanctions strategically to extract concessions conflicts with the deeply-held belief that justice should be blind to strategic considerations. This makes sanctions lose their capacity to be used as a credible tool for negotiating policy changes.

One way to address this issue is to clearly delimit between the different uses of sanctions by creating two regimes: strategic and nonstrategic. The main difference is that strategic sanctions should be easily reversible, whereas there should be a much higher bar for reversing nonstrategic sanctions. Strategic sanctions should be lifted as soon as the associated conditions of change of conduct are verified. On the other hand, there should be a presumption that nonstrategic sanctions are irreversible and will not be lifted unless the person is exonerated by a competent and credible court when such a court can function. The creation of this dual track could allow the strengthening of incentives for a change in conduct associated with reversible sanctions. It also would allow recipients of sanctions relief to benefit from a more rapid detoxification (because the signal that sanctions are reversible will serve as a signal that there is no strong evidence of criminal activity).

In the case of nonstrategic (i.e., irreversible) sanctions that are closely linked to alleged criminal activity, the sanctioning country could make greater efforts to actively involve law enforcement in attempts to charge targets. In the case of corruption allegations, this can typically be done through the Foreign Corrupt Practices Act in the United States if the U.S. financial system was used to launder money. In other cases, the U.S. could actively engage Venezuela's Supreme Tribunal in Exile and Prosecutor's Office, both of which are recognized by the Guaidó administration, and task them with carrying out these prosecutions.

Alternatively, the creation of a transitory Venezuelan judicial authority that can deal with these cases can be taken up in negotiations between the government and opposition groups. The creation of a judicial transitional authority in the framework of broader political negotiations between the parts could serve as the first steppingstone toward the creation of a more solid transitional justice system to operate in the country once a political transition becomes possible.

Seek multilateral convergence on key strategic issues, including government recognition. The United States remains an outlier with respect to the international community on two key fronts: it is the only country to have imposed economic (as opposed to personal) sanctions on Venezuela, and one of the few countries that has no formal diplomatic engagement with the Maduro government. Most European countries, while having formally recognized the interim Guaidó administration in the past, have in practice maintained diplomatic relations with the Maduro administration. The argument in favor of such an approach is strong, as engagement with governments that have territorial control is a prerequisite of any strategy to safeguard American citizens and interests abroad. There are also significant costs to the Venezuelan emigrant community and the country's economy from the lack of access to services provided by embassies and consulates.

The United States should seek to converge with its multilateral partners, especially Europe and other Latin American countries, on a common framework for Venezuela. This could include lifting sanctions targeted at the Venezuelan economy while concentrating on personal sanctions—although, as pointed out above, such a decision would require broader political humanitarian agreements to be effective. It would also require reassessing the decision to recognize the interim government in its current form.

The legal and political arguments in favor of recognition of the current interim government have grown increasingly tenuous after the expiration of the constitutional term of the National Assembly elected in

76 David Baldwin, *Economic Statecraft* (Princeton, NJ: Princeton University Press, 2020).

2015. The results of the November regional elections, in which opposition parties that do not support Guaidó received three out of every five opposition votes, suggest that it is time to rethink the concept of the interim government and seek to replace it with arrangements that are more truly representative of the plurality of Venezuelans' political views. One possible approach would be supporting political negotiations that allowed the replacement of the interim government by a broader body with participation of all political groups, including Chavismo, tasked exclusively with the protection of assets and the conduct of diplomatic relations with those governments that do not engage with the Maduro regime.⁷⁷

77 Francisco Rodríguez, "What should be done with Venezuela's interim government?," 17 November 2021, <https://franciscorodriguez.net/2021/11/17/what-should-be-done-with-venezuelas-interim-government/>.



The Sanctions & Security Research Project is a leading source of scholarly expertise and analysis on the use of economic sanctions and incentives as instruments of peacemaking and international law enforcement. The project was designed as a research collaboration between the University of Notre Dame and the Fourth Freedom Forum of Goshen, Indiana, and provides research, consulting services, and policy recommendations to governments and organizations seeking to make sanctions and incentives more effective ways to resolve conflict and enforce international norms. The project devotes special attention to United Nations sanctions, especially for controlling nuclear weapons proliferation.

