Edited by
Ronald Balza Guanipa

ON VENEZUELA-RELATED SANCTIONS

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PROLOGUE

Ronald Balza Guanipa

The writing of this book began after the Venezuelan presidential elections of July 28, 2024, when the National Electoral Council, supported by the rest of the public powers, announced totalized results without the publication of disaggregated records from each polling station. China, Russia, Iran, Syria and Palestine accepted them; the United States, the European Union, Brazil and the United Nations did not, among dozens of governments and organizations that expressed immediate recognition or rejection, or demanded the publication of the voting tallies before pronouncing themselves.

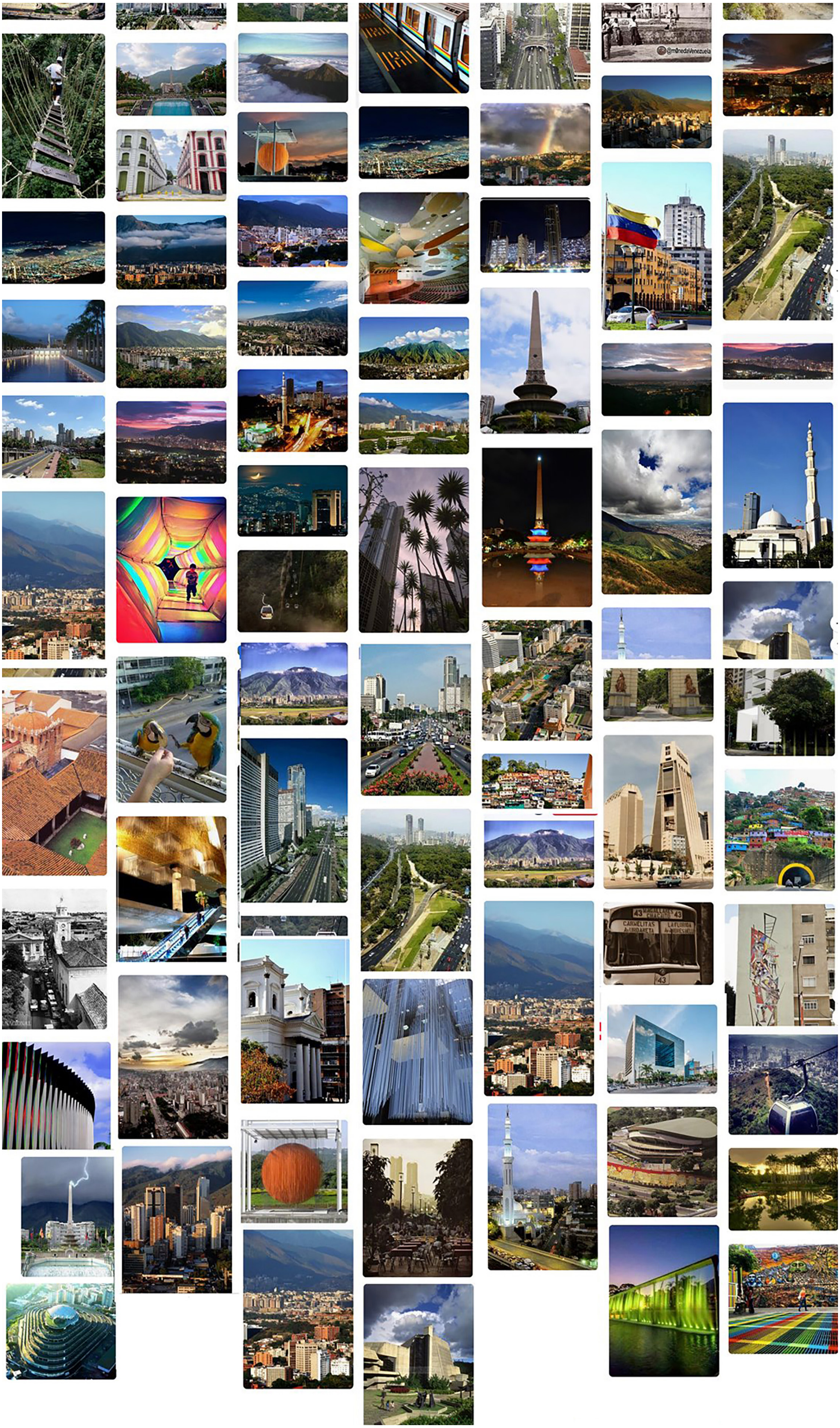
The elections took place in a very complex national and international context, for many reasons. One of them was the decision of the governments of the United States and the European Union, among others, to impose sanctions on governments whose policies they have sought to modify. One of them has been the Nicolás Maduro's government, with increasingly severe measures since the approval, by the U.S. government, of the *Venezuelan Defense of Human Rights and Civil Society Act*, on December 18, 2014. One day after the publication of the Barbados Agreements, signed between the Maduro's government and the Unitary Platform with the mediation of the Kingdom of Norway on October 17, 2023, the U.S. government decided to approve temporary licenses to alleviate sanctions on oil, mining and financial activities. Their lifting was conditioned on the fulfillment of "concrete steps" regarding electoral conditions and release of political prisoners, in terms acceptable to the U.S. government. The dissatisfaction of the Biden administration with the facts observed since July 28 was expressed in the imposition of new personal sanctions on September 12, 2024. However, the lines of foreign policy to be followed by the United States since January 20, 2025 are still unknown. During his second term, Donald Trump, elected on November 5, 2024 with majorities in the House and Senate, will have to decide what to do with the sanctions against the Maduro's government, while deciding what to do with those imposed against the Putin's government and with the support so far granted to the Zelensky's government, fundamental to continue repelling the Russian invasion against Ukraine. In this same context, aggravated by the armed attacks in the territories of Israel and Palestine and beyond, the European Union will also have to take decisions.

Through communiqués issued from the Universidad Católica Andrés Bello (UCAB), in the midst of the peaceful demonstrations and violent actions that followed the culmination of the July 28 election day, the University Council (July 30), the Human Rights Center (July 31), the Center for Political and Government Studies (August 1) and the Council of the Faculty of Economic and Social Sciences (August 27) highlighted the essential role of transparency and the protection of human rights for the exercise of democracy. What has happened since then has caused multiple concerns. This book is dedicated to one of them: what would be the potential effects of maintaining the current sanctions against the Maduro's government after January 10, 2024?

Answering this question poses multiple challenges. One, to have useful sources of information in the absence of official information. Since 2013, more and more reports and statistical series produced by the Central Bank of Venezuela, the National Institute of Statistics, ministries and public enterprises ceased to be published. Access to national budget and public indebtedness laws and Petróleos de Venezuela, S.A. (PDVSA) reports were discontinued in 2016, and only partial summaries of national accounts and balance of payments are available until the first quarter of 2019, for example. Not having these data makes it difficult to separate the effects of sanctions from the consequences of the policies implemented since the beginning of the 21st century, the COVID-19 pandemic, the cases of corruption denounced by the government itself, and the ongoing wars, among other relevant aspects. Aware of these limitations, UCAB and the National Council for Investment Promotion (CONAPRI) of Venezuela invited a group of authors to consult studies and estimates of individuals and national and international organizations, as well as speeches, laws, press releases and other documents published by the State, in order to contribute to the examination of the possible effects of sanctions. The resulting book adds to the series of collections that UCAB has published for decades, without pretending to establish institutional positions, nor unanimous criteria among participating authors, nor to exhaust the possible approaches and alternatives.

Among the concerns discussed in this volume, one is the reduction of income from oil and non-oil formal activities, without public or private access to regular sources of financing. It is foreseeable that the effects on the exchange rate, imports, private investment and public spending will have significantly unequal consequences on employment, consumption, production, access to basic services and protection of human rights, contributing to strengthen national and international alliances in favor of the government while part of the population tries to migrate, despite the dangers of doing so. It is necessary to remember that the process described above was already observed immediately after the oil boom from 2002 to 2012, so it is not possible to ensure that, in the absence of sanctions, the government's actions will not lead to the same scenario. However, it is to be assumed that maintaining sanctions in 2025 would further deteriorate the economic, political and social conditions of life in Venezuela, with detrimental results for the most vulnerable and contrary to the interests declared by those imposing the sanctions.

Not all relevant topics could be covered in this book. For example, most of the contributions received were written before November 18, 2024, date of the passage of the BOLIVAR Act (*Banning Operations and Leases with the Illegitimate Venezuelan Authoritarian Regime Act*) by the U.S. House of Representatives; or before November 29, 2024, date of the enactment of the *Organic Liberator Simon Bolivar Law against the Imperialist Blockade and in Defense of Venezuela*, approved by the legislative, judicial and executive powers in Venezuela. However, despite its limitations, UCAB and CONAPRI considered it opportune to offer this volume for public consideration in December 2024, when a decade of sanctions against the government of Nicolás Maduro will be completed.



01

INTERNATIONAL SANCTIONS TO VENEZUELA, BALANCE OF THE CURRENT SITUATION

María Antonia Moreno

This article presents an update on International Sanctions to Venezuela (SV) in its institutional aspects and implications on the performance of the country's economy. It concludes with some lessons that help to clear the context of uncertainty posed by its possible course in the medium and immediate future. Specifically, it is found that the impact of the SV on the performance of the Venezuelan economy poses several challenges: recognizing that the institutional nature of the sanctions imposed on the country is unilateral in nature; that moving towards a design that changes their status from unilateral to global depends on collegial decisions in the United Nations Human Rights Council, which have not been fully shared by the member countries; that, therefore, minimizing their negative impact on the country's economy depends on negotiations between the governments of countries that have imposed sanctions and the different sectors of political interest in Venezuela; and, finally, that only the easing of sanctions on oil activities approved to certain private U.S. companies and the changes in the macroeconomic direction of the country, more specifically, the elimination of exchange and price controls, have allowed for a modest recovery of the Venezuelan economy in the last three years. The recent proposal of the BOLIVAR Act, which broadens the scope of US sanctioned transactions, is not good news for the maintenance of such recovery, which reinforces the need for the reestablishment of political negotiations aimed at dismantling the SV and, with it, the construction of a lasting political and economic stabilization path for Venezuela.

The institutional framework of the VS

In this section we present a summary of the current institutional framework of the SVs, showing their unilateral nature, as well as the fact that they have gone through four moments, the first focused on the imposition of sanctions on individuals, especially on high-ranking public officials; the second aimed at expanding the scope if sanctions, including economic and financial transactions between Venezuela and the U.S.; the third was characterized by marches and countermarches in the process of conditional relaxation of some sanctions; and the fourth, very recent, was the discussion of a new law in the U.S., the H.B.825, or BOLIVAR Act, passed by the House of Representatives of the U.S. Congress to tighten its relations with the Venezuelan government.

The group of countries that have imposed sanctions on Venezuela includes the USA, Canada, Panama, Switzerland, the United Kingdom and those belonging to the European Union[1] (Table 1)

Table 1 Current Legal Framework of International Sanctions on Venezuela

Country(ies)	Legal Framework	
EEUU	*Law 113-278 on the defense of human rights and civil society of Venezuela 12-18-2014*	
	Law H.R.825 Prohibition of Operations and Leases with the Illegitimate Venezuelan Authoritarian Regime or BOLIVAR Law 8-11-2024	
	6 Primary Sanctions Executive Orders	
	13692 of 9-3-2015; 13808 of 8-13-2017; 13827 of 3-19-2018; 13835 of 5-21-2018; 13850 of 1-11-2018	*
	13857 of 1-25-2019	**
	1 Executive Order on Secondary Sanctions: 13884 of 5/8/2019	***
	31 General Licenses: 2A, 4C, 7C, 10A, 18A, 21 to 27, 29, 32, 33, 34A, 35, 15C, 16C, 30A, 41, 31B, 42, 3I, 9H, 40C, 45B, 8O, 5Q, 43A, 44A (approved between 2019 and 2024)	****
European Union	15 Council Decisions: 2017/2074; 2018/90, 901, 1656; 2019/1171, 1596, 1893; 2020/898, 1700; 2021/276, 1965; 2022/2201; 2023/2498, 2686; 2024/1339	*
Canadá	Order 2017-204 del 22-9-2017	*
Panama	Resolution 2 of 3/27/2018 Technical Secretariat of the National Commission Against Money Laundering of the Ministry of Economy and Finance of Panama	*
Switzerland	Swiss Federal Council: Federal Act on the Application of International Sanctions (Loi fédérale sur l'application de sanctions internationales) RS 946.2313178.5 of 3/28/2018	*
Reino Unido	Sanctions and Anti-Money Laundering Act 2018, and amendments to continue the application of sanctions for exiting the European Union. Regulations: 2017-1094; 2019-135; 2020-590 and 591	*

* Sanctions on individuals from the public and private sectors and businessmen: President and Vice President of the Republic; Foreign Minister; Ministers of the People´s Power: Office of the President; Economy and Finance; Internal Relations, Justice and Peace; Defense; Industries and Production; Oil;

1 In April 2018, the Mexican Senate, in rejection of that year's elections, imposed the freezing of assets and the prohibition of entry to eight (8) officials in high public positions. At the moment, due to difficulties in accessing the website of the Senate of Mexico, it is unknown if the measure became implemented and its duration.

Education; Electrical energy; Culture; Feeding; Women and Gender Equality; Ecological Mining Development; New Frontier of Peace. Vice Minister of Popular Power for Internal Relations, Justice and Peace. Officials of the National Assembly: President, First Vice President, deputies. Officials of the Supreme Court of Justice: President, First and Second Vice President, Magistrates. Comptroller General of the Republic. Attorney General of the Public Ministry. Ombudsman. Officials of the National Electoral Council: Rector and Alternate Rector, President, Vice President, Secretary General. Attorney General of the Republic. Governors of the States of Zulia, Apure, Carabobo, La Guaira, Bolívar, Trujillo, Aragua. Protector of the Táchira State. Mayor of the Libertador Municipality of the Capital District. Officials of the Armed Forces, of the Security Forces. Former President of Petróleos de Venezuela (PDVSA), Former Officials, Former Governors and Former Deputies. 12 businessmen and 2 family members, 1 pilot, 3 former employees of the Presidency of the Bolivarian Republic of Venezuela, President of Mining of Venezuela (Minerven), 4 family members of public officials

** Cancellation of purchase orders to Petróleos de Venezuela, S. A. (PDVSA) and most of the shares of the Central Bank of Venezuela (BCV), except those related to personal remittances, humanitarian assistance and debit and credit card transactions.

*** Sanctions on the oil, mining, and financial sectors, as well as debt securities of Petróleos de Venezuela (PDVSA)

**** General Licenses 39B, 43 and 44 approved in 2023 expired in 2024.

Sources:
https://ofac.treasury.gov/
https://eur-lex.europa.eu/legal-content/ES/TXT/?uri=CELEX%3A02017D2074-20240515
https://www.laws-lois.justice.gc.ca/eng/regulations/SOR-2017-204/page-1.html#docCont
https://www.international.gc.ca/country_news-pays_nouvelles/2019-04-15-colombia-colombie.aspx?lang=spa
https://www.infolaft.com/lista-de-sancion-de-panama-contra-venezuela
https://www.swissinfo.ch/spa/politica/suiza-a%c3%b1ade-11-altos-cargos-venezolanos-a-la-lista-de-sanciones/45887136
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https://www.fedlex.admin.ch/eli/cc/2018/191/fr
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https://www.legislation.gov.uk/ukpga/2018/13/contents
https://www.legislation.gov.uk/uksi/2019/135/introduction/made
https://search-uk-sanctions-list.service.gov.uk/

The evolution of its legal framework begins with the *Venezuela Defense of Human Rights and Civil Society Act* passed on 12-18-2014 by the US government (Act 113-278), continuing with the approval of executive orders (EO) and general licenses (GL). H.R. 113-278 highlights the Venezuelan government's poor economic and political performance and establishes the US commitment to "...support the Venezuelan people in their efforts to achieve their full economic potential and to live in peace, strengthen representative democracy and the full application of the rule of law"[2]

The EOs establish in a more precise manner the actions aimed at complying with such law, by including provisions on: the freezing of assets and property in US territory of public officials indicated as responsible for repression, arrest or prosecution of demonstrators opposing the Venezuelan government; the blocking of property and interests located in the US in possession of sanctioned persons; the suspension of entry to the US of sanctioned persons; the blocking of assets of the Venezuelan government and of public institutions; and the prohibition of importing oil from Venezuela, among others.

On the other hand, the GL authorize actions prohibited in the EOs in the areas of oil activities in their extraction, commercialization and invoicing phases, those related to the secondary commercialization of certain bonds of the debt of Petróleos de Venezuela, SA (PDVSA), and those aimed at addressing the humanitarian emergency related to the COVID-19 pandemic, the repatriation of Venezuelans and the international mobilization of political delegates participating in the negotiations between the government and the opposition.

In the sanctions imposed by the US, two types are distinguished: primary sanctions that predominate in the period 2017-2021 and prohibit transactions specified in Executive Orders (EO) 13692, 13808, 13827, 13835, 13850 and 13857 – approved with US citizens and entities, and any person in US territory; and secondary sanctions, which begin to apply from 5-8-2019, and involve foreign persons in the transactions specified in EO 13884.

Sanctions are also distinguished against natural persons and public and private companies, and on certain economic sectors, incorporated in EO 13857 and 13884; in which the following stand out for their importance: the prohibition of transactions with US persons and/or companies of the oil, mining and financial sectors, of Venezuelan public sector institutions: PDVSA, Minería de Venezuela (Minerven), Banco Central de Venezuela (BCV), public commercial banking]; and with PDVSA debt securities.

2 https://ofac.treasury.gov/sanctions-programs-and-country-information/venezuela-related-sanctions

The laws that serve as legal basis for the sanctions of the rest of the countries began to be in force as of 2017, through which an approximate number of 260 persons have been sanctioned (senior public officials, political leaders and persons linked to the government of Nicolás Maduro).

In the case of the European Union, decision 2017/2074 of 11-13-2017 has been updated, amended and extended annually until now; and used to sanction a total of 55 individuals since then. With order 2017-204, the government of Canada has sanctioned just fewer than 100 officials. The government of Panama, based on Resolution 2 of the Technical Secretariat of the National Anti-Money Laundering Commission of the Ministry of Economy and Finance, has sanctioned 55 public officials, as well as 16 companies operating in the country owned by individuals from the high official political sphere. Switzerland, for its part, in the context of its Federal Law on the implementation of international sanctions RS 946.2313178.5 of 28-3-2018 and following the measures imposed by the European Union, has frozen funds of seven high-ranking public officials by banning them from entering the country. Likewise, United Kingdom adopts the same sanctions of the European Union after approving Regulations 2019-135 of 12-31-2020, 2020-590 of 6-15-2020 and 2020-951 of 9-3-2020. With these regulations, has imposed sanctions on 36 political leaders, two persons linked to the government and 3 military personnel.

In October 2023, the Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury temporarily suspended part of its sanctions, through amendments to some GL and the creation of 2 new ones. The decision responded to the recognition of the progress of the negotiations between the government of Maduro and the opposition, which resulted in the agreements signed in Bridgetown, Barbados on 10-17-2023[3]

The partial lifting of the sanctions involved transactions in the oil and gas sectors, the mining sector and the secondary commercialization of certain debt bonds issued by PDVSA. Specifically, GL 44 temporarily (6 months) authorized transactions including the production, extraction,

3 Partial Agreement on the Promotion of Political Rights and Electoral Guarantees for All and Partial Agreement for the Protection of the Vital Interests of the Nation, which are part of the progress of the negotiations initiated in August 2021 in Mexico City between the opposition parties represented by the so-called "Unitary Platform of Venezuela" and representatives of the Venezuelan government, which led to the signing of a Memorandum of Understanding on 8-13-2021 (G. O. No. 6,637E, 2021).

sale and export of oil or gas, the provision of related goods and services, new investments in those sectors, the payment of debt to PDVSA's creditors through the delivery of oil, and the payments occasioned by such transactions. However, the prohibition of transactions with any financial institution blocked under EO 13850, other than the BCV and Banco de Venezuela SA Banco Universal, with the Russian Federation and those contained in EO 13808 (excluding those authorized in LG44) is maintained.

The LG 43 authorized transactions of Minerven and companies owned by it with more than 50%, with the exception of those not described in said license incorporated in the EO 12884. The purpose of this license was to ensure that the external sales of Venezuelan gold were made through regular channels and that the proceeds from such sales - estimated at around USD 1.8 billion in 2022 (Transparencia Venezuela) - would be visible in Venezuela's external accounts.

Both licenses were revoked in January 2024 for non-compliance with the Barbados agreements. LG 43 was suspended on 1-29-2024, by means of LG 43A, which established a 14-day deadline for the closing of any pending transactions. On the other hand, the authorization of GL 44 was terminated on 4-17-2024, by means of GL 44A, which gave a deadline of 5-31-2024 for the closing of transactions that were in progress as of the date of its revocation.

From the process of suspension of sanctions, only G.L. 3I and 9H remain, which were amended to eliminate the prohibition of secondary trading of certain sovereign bonds and PDVSA debt securities and shares.

Recently (7-11-2024), OFAC renewed GL 8O until 9-5-2025, so that Halliburton, Schlumberger Limited, Baker Hughes Holdings LLC, Weatherford International and Public Limited Company may perform maintenance work that is essential for the preservation and security of assets and all the administrative work that they cause, involving PDVSA or any entity in which it has a direct or indirect participation of 50% or more; with certain prohibitions established therein.

OFAC also extended LG 5Q effective as of 7-3-2025, which authorizes certain transactions related to the PDVSA 2020 Bond, as of 7-3-2025, limiting its holders' access to the collateral of Citgo's shares and the collection of outstanding debts due to non-payment of interest.

H.R.825 (Banning Operations. and Leases with the Illegitimate Venezuelan Authoritarian Regime Act,' or BOLIVAR Act), passed on 8-11-2024 by the House of Representatives to prohibit the US government from contracting with a Venezuelan government authority that is not recognized as the legitimate government of Venezuela by the US, is added to the 113-278 Act. It has exceptions in cases of humanitarian assistance to the people of Venezuela, disaster relief and other urgent humanitarian assistance or life-saving measures, and/or measures in the national security interest of the United States. With its enactment, this law will add the scope of sanctioned operations to those of private companies of any other country that have commercial relations in the territory of the U.S. and that attempt to do business with Venezuelan government entities.

Implementation of sanctions in practical terms

From the review of the institutional framework of the VS outlined in the previous section, two important implications of the implementation of sanctions can be inferred:

1. The first refers to the relationship between sanctions against high-level public officials and the performance of the entities to which they are attached. Although the actions of these officials as affected by the grounds included in the list of sanctions described above would not necessarily be associated with the performance of the public entities to which they are assigned, there is evidence to show that this has been precisely the case in Venezuela. The most emblematic, due to the high national economic dependence on oil resources, is that of the state-owned PDVSA which, during the presidency of Maduro, has experienced frequent changes in the management of the company and the Ministry of People's Power for Petroleum, for reasons related to acts of corruption involving losses of extraordinary magnitude of external resources to the nation[4]. Only in the event that led to the closing of the National

4 http://www.mp.gob.ve/?s=trama+corrupci%C3%B3n+PDVSA

Superintendence of Crypto-assets (Sunacrip)[5] in March 2023, an embezzlement in the amount of 4,850 million dollars is mentioned in a loan contract under the credit line mechanism subscribed in 2012[6], amount that would represent a little more than 20% of the corruption scheme in that isolated case[7]

The Attorney General's Office of the Republic has not advanced figures for PDVSA's patrimonial losses caused in the investigations that are ongoing, but some estimate outrageous figures, such as those announced by the organization Transparencia Venezuela equivalent to the very magnitude of income generated by PDVSA during the oil boom of 2004-2014 of approximately 600 billion dollars[8]

It is not necessary to redound on the negative short and long term impact that this fact must have had on the operation of the state-owned oil company and, consequently, on the country's public finances and on the government's capacity to finance the provision of necessary public goods and services for the Venezuelan population; an impact that must be separated from the one associated with that of the sanctions weighing on PDVSA. Obviously, the same result could be expected from the cases of officials of other sanctioned public agencies (Ministries of the People's Power for Petroleum, Economy and Finance, Industries and Production, Food, Ecological Mining Development, and other non-economic areas).

2. The second implication refers to the increase in the Venezuelan space affected by the sanctions in two areas: the first refers to the approval of EO 13857 of 25-1-2019 that included the activities of PDVSA and the BCV[9] and that, consequently, gave rise to the

5 Sunacrip was created in 2017 (Official Gazette No. 6346 Extraordinary of 8-12-2017), to be in charge of regulating the Comprehensive Cryptoasset System, a regulation that allowed natural and legal persons from the public or private sector, whether or not resident in the country, to create, use and exchange cryptoassets and the Petro. (Official Gazettes No. 6370 and 6371 Extraordinary of 9-4-2018).

6 7http://www.mp.gob.ve/index.php/2022/09/01/fiscal-general-informo-sobre-detencion-del-ex-vicepresidente-de-finanzas-de-pdvsa-por-desfalco-de-4-850-millones-de-dolares/

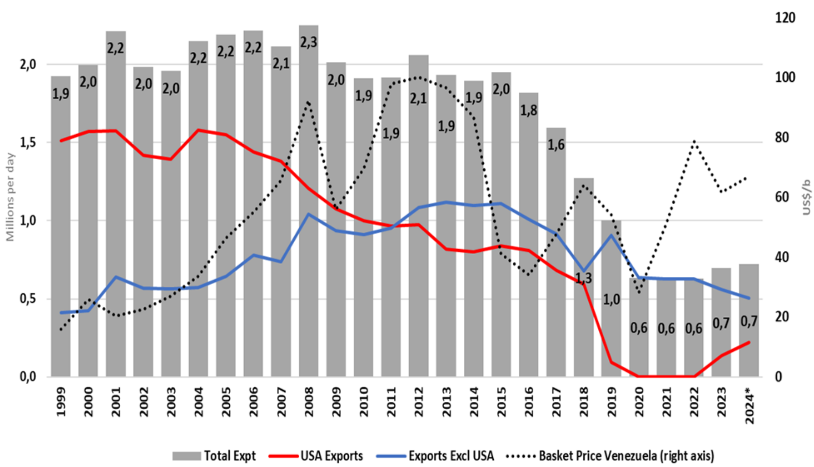
7 https://www.diariolasamericas.com/eeuu/un-saqueo-precedentes-los-25-anos-corrupcion-del-regimen-chavista-n5356820

8 https://transparenciave.org/project/petroleo-historia-6/

9 With this executive order, the term Government of Venezuela defined in EO 13692 was modified, adding "…any political subdivision, agency or instrumentality thereof, including the Central Bank of Venezuela and Petróleos de Venezuela, S.A. (PDVSA), any person owned or controlled, directly or

prohibition of oil exports from PDVSA to the US and the financial operations related to this activity from then on. The result of this decision was a fall in the volume of national oil exports based on 2018, of 20% in 2019 and 50% in the two subsequent years (Chart 1). The impact on the oil bill in those same years, discounting the fall in prices, is estimated at approximately US$ 15 billion.

Chart 1. Volume of oil exports (million bd)
and price of Venezuela's crude basket (US$/b)



Fuente: BCV, OPEP, EIA
Total Exports
USA exports: Oil Expts to USA
Expts excl USA: Total oil expts excl USA
*Cumulatice oil expts to August 2024

Subsequently, with the approval of LG 41, which authorized Chevron Corporation to temporarily resume oil operations in the country and its automatic renewals, and with the authorization of operations to oil service companies, PDVSA's exports to the US were restarted[10]. The volumes sold to this country (0.22 million bpd so far in 2024) do not offset the amounts placed between 1999

indirectly, by the foregoing, and any person who has acted or purported to act directly or indirectly for or on behalf of any of the foregoing, including as a member of the Maduro regime…".

10 Halliburton, Schlumberger Limited, Baker Hughes Holdings LLC, Weatherford International y Public Limited Company (LG 8O, as of may, 2025).

and 2018 (before the sanctions on PDVSA), which were between highs of 1.6 and lows of 0.6 million bpd in that period.

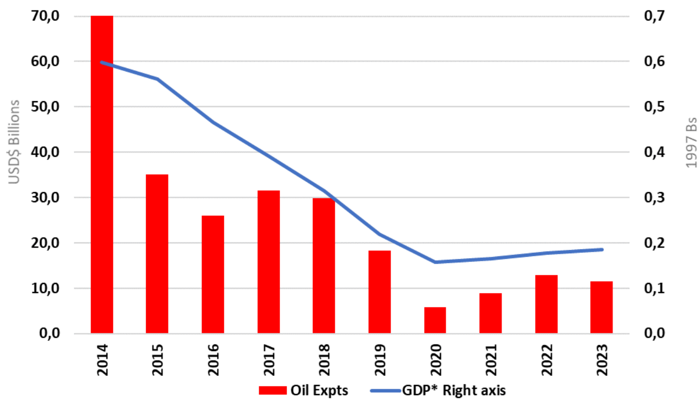
The other area refers to the possibility of secondary commercialization of the PDVSA 2020 Bond, which has as collateral 50.1% of the shares of Citgo Petroleum Corporation, a subsidiary of PDVSA in the US, based on the authorization of LG 5 of 7-19-2018; but whose application has been postponed many times (LG 5A to LG 5Q) in the period 1-22-2020/3-7-2025, due to the dispute over the legality of its issuance. However, now that this dispute has been resolved with the decision of 3-7-2024 of the Second Circuit Court of Appeals of the United States, which recognizes that Venezuelan foreign debt issuances are governed by Venezuelan laws, the extension of this delay to later periods will depend on the time taken by the restructuring process of Venezuela's foreign debt, which must include the PDVSA 2020 Bond. The economic impact of this decision is uncertain for now, depending on the outcome of the lawsuits that will continue to be made by bondholders and the complicated economic context of the country with and without sanctions.

Venezuela's socioeconomic performance in the context of sanctions

Between 2019 and 2024, the period of greatest impact of the sanctions imposed on the country, Venezuela's socioeconomic performance indicators show two trends: one of an accentuation of the deterioration of productive activity in 2019-20, which can be correlated with the fall in oil exports in those same years (Chart 2); and high levels of extreme poverty, which only fell to lower levels after 2018 due to the decrease in hyperinflation[11] (Chart 3).

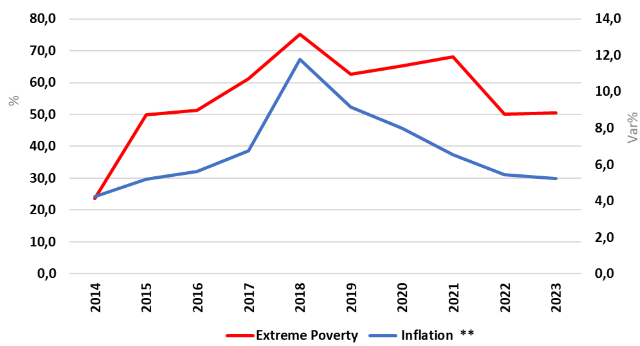
11 Hyperinflation began in December 2017, reaching its highest limit in 2018, and extending until December 2020

Chart 2. Venezuela, GDP and Oil Exports 2014-2023



Source: BCV, IIES-UCAB economic report October 2024
*GDP 1997=100 Bs (right axis); Exp_Petr: oil exports

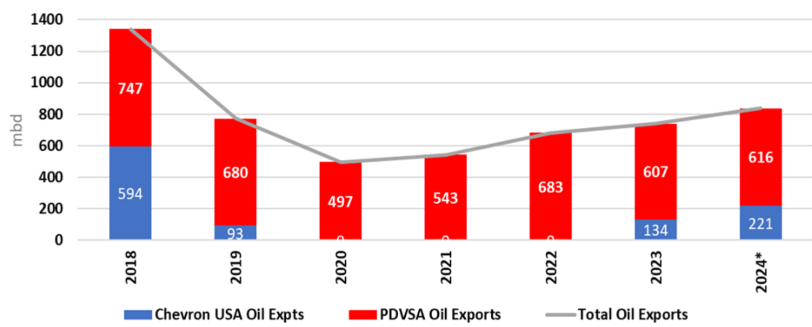
Chart 3. Venezuela, Extreme poverty and inflation 2014-2023



Sources: VCB, UCAB-NSLC
*Var% of the NCPI inlogs (right axis); **% of the population

The trend begins to change in 2021, as a result of a combination of several factors; among the most relevant, the reduction in the national and international economic effects of the pandemic, the increase in the flow of income from oil exports and remittances, and the greater deregulation of the internal economy that was expressed in the liberalization of prices, exchange freedom, and a rapid dollarization of transactions. Obviously, the increase in oil exports is almost exclusively due to the contribution of Chevron Corporation as a result of the OFAC authorization, since PDVSA's own exports remain at an average that does not exceed 650 mbd (Chart 4).

Chart 4. Venezuela, Oil exports to the US_Chevron, and Own_PDVSA (mbd) 2019-2024



Sources: OPEC, EIA

Two aspects have highlighted Chevron Corporation's participation in the national oil activity: on the one hand, there is the positive effect of its sales without the discounts that, instead, have been occurring in the placement of national crude oil in Asian markets; on the other hand, the less optimistic expectations regarding the initially established production goals, which have not been met, due to the poor conditions of the supply of essential public services (i.e. electricity and water) and the physical infrastructure of PDVSA (IIES, 2023).

Some lessons

The idea of reflecting on what is expected from sanctions in Venezuela is not trivial, because its institutional legitimacy is subject to controversies that cut across the country's economic and political direction. The main lessons that can be derived from the review of the institutional state of the SV and its practical implications presented in the previous sections are related to the issues of the motivation of the sanctions and the fragility of their institutional framework, the problem of their endogeneity and the changes in their design.

Sanctions, presented as deterrence mechanisms for governments and individuals identified as responsible for acts that violate human rights, respond to unilateral decisions by States and, therefore, their institutional foundation is not firmly established at a global level. The conflicts they cause can be brought to instances that regulate relations between the States involved, but they are not necessarily binding. For example, the resolution of the Human Rights Council of the United Nations Organization (UN) of 27-3-2023 is an exhortation... "to all States to stop adopting, maintaining, applying or complying with unilateral coercive measures contrary to international humanitarian law, United Nations Charter and the norms and principles that regulate peaceful relations between States, …"[12] For this reason, the strategic behaviors that allow sanctioned States to resist expected changes in their conduct are part of a game without formal obstacles that limit their strategies (Palestini 2023).

Given the above, stating that sanctions are negative is not enough. The arguments that they have not been successful and that, therefore, they should stop being applied (Weisbrot and Sachs, 2019; Oliveros 2020; Rodríguez 2022 and 2023)[13] must be opposed by the recognition that the country's macroeconomic direction has also contributed to the deterioration of the socioeconomic condition of Venezuelans (Bahar and Santos 2021)

Doing so, however, requires resolving the endogeneity that affects the causal relationship between the performance of the Venezuelan economy and sanctions, given the overlap of the latter with long-standing distorting macroeconomic policies. Two studies have been presented with divergent conclusions. In one case, the sanctions caused a significant drop in oil production and losses in income (Rodríguez, 2019), while the other finds that the sanctions induced a process of economic liberalization that would have allowed the stabilization of food and medicine imports (ANOVA, 2021). Resolving this incongruity of results therefore requires a greater identification effort.

12 Resolution A/HRC/52/L.18 United Nations, 27-3-2023. https://documents.un.org/doc/undoc/ltd/g23/059/37/pdf/g2305937.pdf?OpenElement
13 See also https://www.celag.org/a-report-on-the-impact-of-sanctions-on-venezuela/

An interesting approach that has been raised in the debate on sanctions to Venezuela is the need for well-designed sanctions, or sanctions that do not affect the capacities of public officials in the exercise of their responsibilities (Rodríguez, 2023). If by *well-designed sanctions* we mean those that do not interfere with the capacity of public officials to carry out their responsibilities, would this imply an agreement that there should be "global" institutional guidelines that States should follow in their intention to impose sanctions? As noted above, such guidelines do not exist because not only are there no global agreements on sanctions, but they are rejected, at least, by some signatory countries of United Nations Resolution A/HRC/52/L.18 of 27-3-2023. In the absence of well-designed sanctions, does not what has been happening remain? That is, to negotiate the relaxation of sanctions based on agreements that are complied with? Although the continuation of negotiations between the Venezuelan government, the political opposition and the mediation of the international community seemed inevitable, it is possible that the flexibility that the US government has approved so far would not have been enough to prevent negative collateral effects, especially, on the most vulnerable population groups.

A fundamental aspect to consider in this regard would be to recognize the persistence of problems not attributable to possible deficiencies in the sanctions, but rather to the conduct of the Venezuelan government itself, which is interested in obstructing any measure aimed at making them more flexible, for reasons of political economy. The allegations that PDVSA could have refinanced its debt, and that Venezuela had access to financial assistance from the International Monetary Fund and the aid of humanitarian organizations, had sanctions not been imposed and/or had well-designed sanctions been in place (Rodríguez, 2023), do not take into account the obstacles that would have arisen in each case, solely due to a deliberate lack of transparency on the part of the public sector. For example, a requirement for Venezuela to access multilateral financial assistance is that the Venezuelan government complies with Article IV of the International Monetary Fund (IMF), which has not been done since the mid-2000s[14]. A credible willingness by the Venezuelan government to restructure the country's external debt would, moreover,

14 https://www.imf.org/es/News/Articles/2021/11/24/pr21346-imf-executive-board-holds-informal-briefing-on-venezuela

constitute a positive signal for restoring the country's access to international credit markets.

In general terms, the main lessons about the current state of the SV can be summarized in the unilateral nature of the sanctions imposed by the US and other countries on Venezuela, the mechanism of negotiations to make them more flexible and reduce their negative collateral effect on economic sectors and people, and the recognition of the adjustments that must to be made in this regard, as well as the changes that the Venezuelan government must to incorporate in its economic policies, given the collapse of the flow of external resources and its negative impact on the performance of the Venezuelan economy.

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02

OIL INDUSTRY AND SUSTAINABLE DEVELOPMENT IN VENEZUELA: CHALLENGES AND STRATEGIES FOR THE FUTURE

Cristina Tovar and Juan Carlos Andrade

Introduction

The oil industry has historically been the pillar of the Venezuelan economy, playing a crucial role in generating income and in the development of the country. In a world that is moving more or less towards an energy transition, Venezuela faces the challenge of balancing its historical dependence on hydrocarbons and the extractive industry with the need to adopt more sustainable practices and diversify its energy matrix. However, in recent decades, multiple factors have significantly undermined its productive capacity to adopt many of these practices.

Indeed, oil production is currently at historically low levels, at around one million barrels per day[1], far from the production peaks reached in the past. This decline reflects disinvestment, management problems, political and economic uncertainty, and a regulatory framework that could be more efficient and competitive. All of these factors have been aggravated by international sanctions, restricting access to financing, technology, and global markets. These external measures have generated a very complex operating environment, affecting the operations of Petróleos de Venezuela, S.A. (PDVSA), its subsidiaries, and the natural gas industry, without leaving out the impact on the entire value chain, particularly the private sector, deepening the country's economic and social difficulties. The impact of sanctions has varied according to the type of measures applied, and the debate, with multiple opinions and statistics, is based on asking whether the sanctions 'caused' the economic and social crisis (origin) or if they were part of its "acceleration." It is a debate with many sides, undoubtedly crucial for the future of Venezuela.

Regardless of the effect of the sanctions, we have no doubt that they have targeted the oil industry. This document succinctly analyzes some critical

1 Direct sources, in the OPEC report for October 2024, PDVSA reported 989 thousand barrels per day (mbd), while secondary sources indicate 895,000 mbd. https://www.opec.org/opec_web/en/publications/338.htm

challenges facing this industry, starting with the essential relationship between investment and production. The impacts of international sanctions and the limitations they have imposed on the development of the sector will be explored, as well as the evolution of contractual and regulatory frameworks in response to these restrictions. The social and economic impact resulting from the decline of the sector and the importance of preserving Office of Foreign Assets Control (OFAC) licenses as a tool to sustain the industry's operations will also be addressed.

Finally, and despite the difficulties of the environment, a comprehensive plan is proposed for the recovery of the oil industry in Venezuela. This plan includes phased strategies aimed at restoring historical levels of production, modernizing the sector and promoting sustainable and more efficient investments that boost the country's economic engine. In this context, the elimination of sanctions or, failing that, the relaxation of sanctions—through licenses and comfort letters—is crucial, since it could turn challenges into valuable opportunities for the future of Venezuela and its population.

1. Investment-Production Relationship.

The hydrocarbon industry requires high levels of investment for its development and sustainability. It is a vital relationship: investment is required to maintain and increase productive capacity, as well as operational reliability. The lack of investment - together with other factors - directly affects the efficiency of the sector.

This investment has varied considerably in recent decades, depending on both external factors (global markets, prices) and internal factors, based on reserves, State policies, legal security, competitiveness, human talent, infrastructure, among others.

In cycles of high investment in Venezuela, mainly during the 70s and then during the mid-90s, the injection of capital allowed for the significant expansion of production capacity. The participation of national capital and considerable foreign investment focused on bringing technology, improving infrastructure and exploring and exploiting new deposits, and also on developing national content. The corresponding production figures reflected the result of all this investment, and Venezuela consolidated itself as an important player in crude oil production worldwide.

However, the current situation is different. Since 2014, the drastic reduction in annual investment amounts has impacted production capacity, even to cover maintenance and infrastructure improvement costs and operational reliability. This has led to a drop in production, recovered since 2023[2] after very critical periods (2019-2020) in which crude oil production fell to the lowest levels since the 1940s, and of course far from the historical production peaks[3].

The reactivation of the industry depends on many factors, investment is one of them, added to State policies and actions and a necessary reflection and study on the competitiveness of the model, the regulatory and fiscal framework, legal security and the reliability of operations. Certainly, the imposition of international sanctions is another factor of great impact. In fact, we have reviewed expert analyses that agree in indicating, that to a greater or lesser scope, which, according to the various plans for the development and reactivation of the industry - throughout the value chain - requires billions of dollars in investment[4], in addition to the high amounts to cover the costs and expenses of operations. In an environment of sanctions, disinvestment and uncertainty, this is difficult to achieve.

On the other hand, the public sector cannot take on these investment challenges alone. Within the spirit of the regulatory framework for hydrocarbons, both liquid and natural gas, private capital will continue to play a fundamental role in the development and continuity of the industry. We must remember that, in addition to capital, contributions in technology, specialized licenses, know-how, transparent contracting and procurement processes, maintenance programs and programs to maintain optimal hygiene and safety conditions in operations, measures in favor of the environment, the expansion of infrastructure and the development of national content, which attracts private investment to the country, are also essential. In fact,

2 Venezuela's oil production reached its lowest level in recent years in June 2020, at approx. 339,000 barrels per day (bpd). This historic level was due to the combination of a complex global environment in COVID, changes in markets, international sanctions, lack of investment, and operational problems at PDVSA. Based on the licenses granted by OFAC to the private sector and a huge effort to maintain PDVSA's own operations (EP) since the end of 2022, the recovery of production has been significant. Source: OPEC Historical Reports.

3 As an illustration, in PDVSA's Annual Management Reports ("IGA") for 2011, it is estimated that from 2007 to 2011, PDVSA's Operating Expenses ranged between 14 and 16 billion US dollars on average per year, with an income of almost 123 billion dollars per year.

4 Informally, we estimate that on average about 12 billion dollars are required to maintain continuous production of 1 million barrels of crude oil per day. In this sense, experts estimate an average cost of 10 dollars per barrel of operating expenses and about 8.5 billion dollars per year of capital expenditure.

having capital allows the adoption of cleaner and more efficient technologies, optimizes the production process and reduces costs. All of this, taken together, increases the productive capacity of the sector and constitutes a multiplier effect on the entire economy.

Venezuela requires investment, a challenge given the current conditions, political, social and economic crisis and high uncertainty-country risk, within a framework of international sanctions. A certainly complex scenario.

2. Current Situation of the Industry: Investment Challenges.

The challenges to investment in the Venezuelan oil sector, in addition to the management factors indicated above, have multiplied significantly as a direct consequence of international sanctions. Access to international financing has been severely limited, either by the freezing of accounts in international financial institutions, the impossibility of carrying out transactions denominated in US dollars or whose flow passes through financial institutions with any relation to the jurisdiction or to US interests.

This situation has had a direct impact on crucial projects for the sector, as demonstrated by the virtual paralysis of the Orinoco Belt expansion project, which required an estimated investment of $170 billion until 2021[5]. In addition, numerous heavy crude oil upgrading projects have been suspended, and major maintenance programs at key refineries have been cancelled or postponed indefinitely.

Technological restrictions represent another significant obstacle for the sector. The impossibility of acquiring specialized spare parts from manufacturers of origin or related to the United States of America or the possibility of using specialized programs under licenses (software) has generated an unprecedented operational crisis. A clear example of this situation is observed in the Amuay refinery, which has experienced multiple unscheduled shutdowns due to the lack of specialized maintenance. Mature fields have seen their production reduced due to the impossibility of accessing secondary recovery technology, while strategic offshore gas projects have been

5 This figure included the necessary infrastructure, specialized extraction technologies for extra-heavy crude oils, and the modernization of existing facilities. The amounts may currently vary due to factors such as changes in economic conditions, the state of infrastructure and deposits, international sanctions, and the political situation of the country. https://petroleumag.com/wp-content/uploads/2021/08/FPO-Recuento-Historico.pdf

postponed indefinitely due to lack of access to specialized technology and services

Economic and political uncertainty and management problems have amplified the impact of the sanctions. Despite efforts to control them, the pressure on the exchange rate has complicated the financial planning of operating companies, coupled with doubts and obstacles regarding the repatriation of capital, acting as a disincentive to new investments. As a consequence, joint ventures have drastically reduced their investment plans, and expansion projects in the Orinoco Oil Belt have been put on hold. Exploration programs for new areas have also been severely reduced, compromising the future development of the sector.

3. Legal pragmatism: "business models."

Given the multiple challenges facing the industry, legal "pragmatism" has been imposed to define and redefine contractual and business models. Without attempting to give an exhaustive exposition, we must recall the recent evolution of the different models and how they have been adapted to meet the needs and challenges of the industry.

During the 1990s, the Service Operating Agreements were models that served for the contracting of private companies by PDVSA subsidiaries, in order to carry out specific activities that are considered outside the spectrum of activities reserved for the State[6]. These were granted within the Marginal Fields Reactivation Program with the objective of using advanced technologies to reactivate mature fields that -under conventional technologies- would have little appeal. PDVSA signed 32 Operating Agreements[7] with 22 companies in a bidding process in three rounds: 1992, 1993 and 1997. Four Strategic Associations were also established to develop the Orinoco Oil Belt and two profit-sharing contracts.

Following these Operating Agreements and other private participation models already mentioned, the current Organic Law on Hydrocarbons

6 In the Operating Agreements, contractors had no right to the property, the economic benefits resulting from the sales of production, and received a percentage per barrel produced as compensation for their services. They could recover their CAPEX on a proportional reimbursement formula and pay ISLR tax at 34%.

7 Additionally, the three established with the Central University of Venezuela (UCV), Zulia University (LUZ) and the Andes University (ULA).

(LOH)[8] and its reforms were enacted, which led to the conversion of these agreements to Mixed Operating Companies (JOC) in 2005, in which the operating companies of these Agreements would migrate to the JOC model, with State participation of a minimum of 51%. Some companies migrated, while others did not and introduced legal proceedings against the Republic for various reasons, some of which still persist.

In 2018, a new contractual modality called Joint Service Agreements was introduced in Venezuela, strategically designed for three critical areas: "the recovery of oil production, the maintenance of the lake fleet, and the reconnection of previously inactive wells," based on operational control conditions, specific joint objectives with PDVSA, fees per well, and accredited crude oil[9]. These types of agreements included incentives via additional remuneration upon reaching certain predefined milestones in each project. Their legal basis was not the traditional regulatory framework for hydrocarbons (LOH, Terms and Conditions of Joint Ventures), but rather supported by Decree 3,368, which granted the Minister of Popular Power for Petroleum "special" powers to streamline the internal processes of the state oil company. Additionally, Comprehensive Service Alliances emerged, in which PDVSA awarded service contracts through bidding processes or direct contracting with defined objectives and scopes, based on regulations of the Public Procurement Law[10].

Today, with direct sanctions on the hydrocarbon sector since 2019, the 'pragmatism' of seeking legal solutions has continued to lead the State to create new models, particularly the so-called Productive Participation Contracts for Hydrocarbons (HPPC), based on the Constitutional Anti-Blockade Law for National Development and the Guarantee of Human Rights ("Anti-Blockade

8 The Organic Law of Hydrocarbons (LOH) was originally enacted on 2-11-2001 and has been subject to various modifications.

9 The structure of these contracts gave the contractor a significant degree of operational control over the stipulated activities, particularly in the origin and monitoring of the resources with which its services would be paid, compared to other traditional oil service models. The contract, in general terms, established that the contractor had to build a certain number of oil wells. For each well completed, the contractor received double compensation: a fixed fee billed to the contractor that ranged between USD $9 and USD $12 and a specific amount of crude oil credited.

10 These agreements, both the Comprehensive Service Contracts and the Alliances, received widespread criticism from some experts who argued that they were not in accordance with the processes and conditions of the hydrocarbon regulatory framework contained in the different constitutional and regulatory instruments that regulate the sector.

Law"). This law disapplies norms of the LOH and the LOHG[11] to 'counteract the effects of the sanctions imposed on Venezuela.' HPPCs are management and operation service contracts carried out by the private investor, allowing the participation of 100% private capital in an operational area delimited to the contractor for crude oil (and natural gas) exploration and production projects, in mature fields and in new developments, subject to a scheme for the distribution of shares[12].

In recent years, there has been an evolution in the contractual arrangements between PDVSA and its minority partners (B Partners) in various JOCs. These new agreements propose a restructuring of the management modality of the B Partner, covering aspects such as corporate governance, resource and cash flow management, and oil production management. They contemplate a greater intervention by the minority partner (B Partner) in key processes such as the lifting of barrels, marketing and acquisition of related goods and services. The underlying premise is that this approach could provide 'greater operational flexibility and efficiency' in the management of the JOCs

The evolution of the agreements represents a significant change in the structure and nature of the oil associations in Venezuela. It reflects a "pragmatic" adaptation to the specific needs of the industry, in the different contexts it has had to face. It would be important to generate a discussion about what is the efficient and competitive business model that is suitable for the full development of the hydrocarbon industry, and that could include some conditions contained in the aforementioned contracts, but applied to the special regulatory framework for hydrocarbons. In our opinion, different models could be implemented depending on the specific basin and the nature of the investments required. This is a pending task.

11 Organic Law on Gaseous Hydrocarbons (LOHG)

12 In the CPPH the private contractor is responsible for OPEX and CAPEX and receives a percentage share of the total value of production.

4. Difficulties and challenges that sanctions present for the entire private sector.

4.1. The oil sector, target of sanctions.

Certainly, the objective of the sanctions has been to exert maximum pressure on productive sectors and state entities. With a particular focus on the oil sector, this maximum pressure policy that was established in 2017, through the implementation of seven executive orders, statutes and general and specific licenses, isolated the hydrocarbon sector from access to financial markets and conventional commercial relations. This policy included the designation as sanctioned entities or SDN (Special Designated National), entities, officials or individuals considered to be part of the Venezuelan State or agents of the State, including PDVSA and its subsidiaries, as well as the use of state-owned facilities, as in the case of the oil industry infrastructure. Subsequent measures imposed from January 2019 directly affected international trade (crude oil and products) with the United States, and indirectly with the rest of the countries, causing an even deeper impact on the industry.

As a result of these measures, the hydrocarbon sector, in particular PDVSA and the joint ventures (JOCs), have been severely affected in their ability to operate, access financing, mobilize funds, make and receive payments, repatriate profits, obtain income in foreign currency, manage their cash flow, make investments or operating expenses, which accelerated the decline in production in recent years. We say 'accelerated' rather than 'caused,' because many experts consider that this decline in production had already been occurring due to multiple factors: disinvestment, regulatory changes, exchange control, political, social and economic instability, non-compliance with agreements, maintenance problems, natural decline of deposits, expropriations or reserves of activity and services to the State, among others. Others believe that it was the cause. However, there is a general consensus to point out that the consequences of the sanctions aggravated all these conditions and have also been transferred, to a greater or lesser extent, to the entire national economy, and consequently to the population in general.

If the 'effectiveness' of sanctions vis-à-vis their objectives is measured in production numbers, there is no doubt that they have had a significant impact.

Although deferred production has doubled since 2020, difficulties still persist: for the import of diluents and other inputs necessary to maintain crude oil production levels, to meet marketing commitments, to contract insurance, to contract specialized programs (software), to import or manufacture parts and equipment, and obviously to attract investment.

Recent changes in the sanctioning environment do not mean that sanctions have been eliminated; only particular and general licenses granted by OFAC to some private partners, including GL41, have been granted, and the licenses already requested remain, yet to be granted to other partners or private investors by OFAC. The rest of the sector is at the same point as in October 2023[13] a sanctioned sector with few exceptions and many difficulties. An important aspect to be considered is the effect of sanctions on small and medium-sized oil service companies, which do not have the resources to access specialized legal services to obtain the respective licenses or so-called comfort letters.

Additionally, it must be considered that sanctions affect the relations between Partner A (the Venezuelan State, through the Venezuelan Petroleum Corporation (VPC), with its Partner B, from the private sector, or the main buyer and ally in the natural gas sector, in the case of Gas Licenses. Certainly, business models have been forcibly adapted to ensure that -in this environment- these models work for the entire value chain, through the legal instruments described above, with different degrees of transparency and institutionality.

However, it is important to confirm that in addition to sanctions, we must continue to address issues that affect the competitiveness and efficiency of the sector: governance, the need for investment, bureaucracy in administrative processes, the need to address security issues (industrial and personal), high tax pressure, to name a few. To mention an example, it is necessary to review tax pressure so that we can be efficient and competitive in the industry and attract investment. Only in the “government take” rate, Venezuela leads the way with one of the highest in the region[14]- It is not about lowering taxes, but rather ensuring that they do not cause distortions in investment decisions. Another pending task.

13 With GL44 and GL44A there was a general, conditional relaxation period for 6 months, which ended with the expiration of the GL44 license. (Oct. 2023-April 2024).

14 Based on regional comparative studies using the same calculation methodology. EY 2019

Finally, we cannot forget that all these factors, including the difficulties deepened by sanctions, caused the closure and departure of important companies, B partners or gas licensees or long-standing service companies, recognized nationally and internationally, with the consequent loss of investment and the dismissal of qualified personnel, many of whom are now part of the statistics of talent migration.

Once a national company closes its doors, or international capital leaves, it is difficult for them to return, with the consequent loss of investment, of the operation, of qualified human talent and jobs, of benefits to communities and of social responsibility programs. Sanctions can force the departure of long-standing strategic partners to open spaces for other participants without the financial capacity or the know-how required.

In an environment of sanctions, OFAC licenses have brought multiple benefits to the private oil sector, including access to markets without sacrificing prices or paying huge freight premiums, access to international resources, transparency in procurement processes, facilitating the purchase of equipment, technology, or essential services for their operations. Furthermore, these licenses, even when very limited, offer legal security to international investors and partners and mitigate legal risks for those companies subject to the sanctioning regime, directly or indirectly. They also allow the maintenance and improvement of the infrastructure for the production and transportation of hydrocarbons, and very importantly, the generation of income that can be reinvested in the sector or used to stabilize the economy.

Eliminating, modifying, restricting licenses would severely limit the possibility of operating in the private sector, eliminating access (albeit restricted and controlled) to traditional markets, and returning to the period between 2017-2022 during which production was severely affected, and under the total control of operations in the entities of the Venezuelan State, which in turn are restricted. Likewise, we would probably return to the large discounts in the commercialization of products, very high freight costs, opacity, non-traditional markets, including past schemes of illegal transactions, with the social, political and economic consequences that all this generates.

4.2. Licenses: a relief for the private operator.

In a change of sanctioning policy by the United States, the return of some private licenses has procured the ability to "operate" to the private sector, be it Partner B, gas licensee, buyer, transporter or service company. This has allowed, under pre-established conditions and legal figures, highly evaluated and reported to the competent bodies, and with transparency, to recover part of the efficiency in operations, procurement, management, security, contracting of services, marketing, and very importantly, payments to suppliers and staff. Since the licenses granted to private parties began (2023-2024), production figures (secondary OPEC sources) reflect the increase in production of more than 120 thousand barrels, and part of Venezuela's traditional markets have been recovered, particularly those on the Gulf Coast in the United States.

In an environment of sanctions, OFAC licenses have brought multiple benefits to the private oil sector, including access to markets without sacrificing prices or paying huge freight premiums, access to international resources, transparency in procurement processes, facilitating the purchase of equipment, technology, or essential services for their operations. Furthermore, these licenses, even when very limited, offer legal security to international investors and partners and mitigate legal risks for those companies subject to the sanctioning regime, directly or indirectly. They also allow for the maintenance and improvement of the infrastructure for the production and transportation of hydrocarbons, and very importantly, the generation of income that can be reinvested in the sector or used to stabilize the economy.

Eliminating, modifying, restricting licenses would severely limit the private sector's ability to operate, eliminating access (albeit restricted and controlled) to traditional markets, and returning to the period between 2017-2022 during which production was severely affected, and under the total control of operations in Venezuelan state entities, which in turn are restricted. Likewise, we would probably return to large discounts in the marketing of products, very high freight costs, opacity, non-traditional markets, including past illegal transaction schemes, with the social, political and economic consequences that all this generates.

4.3. Additional costs: overcompliance

There are additional costs for sanctions, and one of them is the one generated by compliance, or compliance with these measures. In an environment of economic sanctions, both the sectors subject to sanctions and other sectors not subject to sanctions, private or public, must face enormous obstacles to carry out simple administrative or financial processes up to more complex procurement, contracting and operations. This includes overcompliance, by external actors such as contractors, the financial-legal sector, who extrapolate these measures to areas that should not correspond to them.

Compliance management generates a significant increase in the administrative costs of companies, as they are forced to comply with increasingly complex regulations to mitigate the risk of international penalties. In response, organizations have had to resort to strategies such as supplier diversification, exploring alternative markets, and seeking different or mixed means of payment. However, these solutions present additional challenges, such as higher costs and risks associated with adapting to new business environments. The alternative solution of granting particular licenses by OFAC may reduce the "cost" of overcompliance, but it does not eliminate it.

These additional operating costs include the need to resort to firms specialized in international sanctions to avoid fines or penalties, with high-cost legal services, and the frequency of the necessary analyses and specialized audit services. Additionally, some must invest in transaction monitoring and compliance software, customer verification, and sanctions monitoring. The costs of these systems are equally high, depending on the number of transactions and the detection functionalities required[15].

15 Source: Compliance cost estimates are based on reports and comparative studies of countries under sanctions. Some sources of these compliance costs in the private sector include:
- The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) reports cases of companies fined for non-compliance.
- Reports by the International Compliance Association (ICA) and the Association of Certified Financial Crime Specialists (ACFCS), which publish data on the cost and impact of sanctions compliance.
- Studies by consulting firms, i.e. Deloitte, PwC, and KPMG on the impact of sanctions and compliance regulations, with estimated figures on comparable cases from other countries such as Iran, Russia, and Syria.

Other costs arise from the need to train personnel in regulations and sanction processes, the costs of which vary from basic training programs to more extensive ones for compliance personnel or financial departments. Additionally, some companies need to modify their supply chains or rethink their business model, which implies restructuring costs. Finally, penalties and fines always exist.

In essence, for a private company in Venezuela, under this sanctions scheme, the annual cost of compliance can vary widely, and can amount to hundreds of thousands of dollars, depending on the level of exposure and international activity. For the size and survival of businesses in the current economy of the country, these costs can be difficult to sustain in the long term, impacting the ability to operate or grow, and be competitive. This, however, contributes to meeting additional standards of transparency and compliance, necessary in the context of sanctions.

As a whole, sanctions demand resilience and a high capacity for adaptation that must operate under a restrictive context that affects not only its profitability, but also its long-term viability and sustainability.

5. Social impact of sanctions: workers and surrounding communities.

One of the most obvious negative effects of sanctions is the exacerbation of the economic and social crisis. Although it is disputed whether these measures were or were not their cause or origin, we believe it is clear that they deepened the crisis of the national economy[16].

- Publications by the International Chamber of Commerce (ICC), which address how compliance costs affect companies in sanctions contexts.

These data reflect contexts similar to Venezuela.

16 By 2017, Venezuela was already experiencing an unprecedented economic crisis, with a drop in GDP caused by the collapse of oil production, hyperinflation, price controls, exchange controls, expropriations, and little national production that could not compete with imports of goods and inputs. This translated into an expansion in the presence and participation of the State in multiple sectors of the economy, with a limited capacity to serve it. Eventually, these factors translated into a deterioration of public services, shortages of food, medicines and other basic goods and services, loss of jobs, and a decrease in the purchasing power of citizens, increasing levels of poverty and inequality. Unfortunately, all these effects were deepened by the sanctions, leaving a State with little capacity to face these challenges, coupled with the impact of a global pandemic and without access to blocked external resources. The negative effects extend beyond the sectors targeted by the measures, affecting, for example, food and medicine imports. With a significant portion of capital goods and inputs for the productive sectors coming from imports,

In the case of the hydrocarbon industry, the sanctions and challenges faced by the industry have had a significant impact on both workers and local communities, affecting employment, living conditions and community development.

Indeed, workers in the oil sector have experienced increasing uncertainty and a precarious financial situation. First, working conditions, difficulties in maintaining production and exports due to disinvestment, the absence of preventive maintenance or major shutdowns, difficulties in production, safety in the work environment, are combined with complex factors related to the straitjacket that has been imposed on the review of labor remuneration. These include the conditions negotiated in the collective contracts of the sector, and the current labor legislation whose benefits regime restricts the possibility of increasing bonuses and social benefits without causing havoc in both the public and private sectors. As a result, workers have seen a deterioration in their working conditions. This situation has also increased the flight of talent, since many trained professionals have emigrated in search of better opportunities abroad, further weakening the industry. A concrete example of the deterioration in the quality of life of oil workers concerns insurance for certain diseases and highly specialized treatments that had to be carried out abroad. Oil workers and their immediate family members had international insurance contracted through CITGO (PDVSA's subsidiary abroad). With international sanctions, this option was eliminated.

Mechanisms have been sought to help workers through special bonuses in cash or in kind, food assistance programs, grocery stores, family and school aid, mechanisms that have brought some relief to working conditions. The licenses granted (general or private) to B partners or gas licenses and the efforts of the state company have helped to alleviate the impact; however, their scope is limited.

Additionally, the communities surrounding the oil zones have been hit hard by the crisis in the sector. The oil industry, which was once a source of employment and development for these areas, now faces limitations in offering job opportunities, affecting the local economy and reducing the income of

the contraction in public sector imports was significant. Although OFAC licenses were issued for the acquisition of goods from the health sector, for example, it has been difficult to take full advantage of them due to the restrictions that persist in the international financial system for any buyer, whether public or private.

many families. The lack of investment in infrastructure and community development projects has also had an impact on the quality of life of these populations.

The hydrocarbon industry has historically had important community aid programs for both surrounding areas and the most vulnerable population beyond the production centers. Many private sector companies continue to make significant contributions to social responsibility programs to help communities, repair or equip schools, donate laboratory equipment to university centers or health centers, and provide other public services in these communities.

Reducing the ability of the oil industry to help, whether by the public or private sector on its own initiative, can leave communities vulnerable and without adequate social support, which does not help alleviate poverty and hinders access to basic services. An example of this impact is the case of health and education programs sponsored by the industry, through free health days and infrastructure projects, such as the construction of community centers and improvements to local roads. In an environment of sanctions and restricted licenses, with a decrease in maneuverability and resources, such initiatives would have to be abandoned or drastically reduced, leaving communities without these essential resources. While some non-governmental organizations have attempted to fill this gap, without direct support from the industry, it is difficult for these initiatives to be sustained in the long term.

Taken together, the challenges facing the oil industry in Venezuela have generated a cycle of deterioration in which working and living conditions have been affected for workers and nearby communities. Financial constraints and difficulties limit the possibilities of improving this situation, creating a crisis that affects the social and economic development of the country as a whole.

6. Project to recover the industry, despite...

The recovery of the Venezuelan oil industry is presented as a complex challenge that requires a phased and well-defined strategy. This rehabilitation strategy is based on a current reality characterized by a production that has been increasing, despite the accumulated impact of international sanctions and the lack of sustained investment in the sector. The initial strategy focuses on fundamental projects for the recovery and maintenance of existing infrastructure, including the implementation of well recovery projects and the development of the concept of "smart barrels" to optimize production in this first phase. In this phase, not only the technological modernization of the sector is sought, but also the integration of practices aligned with the global energy transition, promoting investments in clean and sustainable technologies that complement hydrocarbon production.

In the medium term, contemplated between two and three years, the plan would be to establish a phased increase in production until reaching between 2,000 and 2,500 Kbd. This intermediate phase is based on building confidence through the development of value-added projects, the maintenance of export facilities and the implementation of gas projects for the domestic market. Investments in this stage are structured in two levels: projects between 50 and 200 million USD (US dollars) for basic recovery, and a second level of investments between 200 and 500 million USD aimed at the moderate expansion of productive capacities.

The long-term vision of the plan aims to reach and exceed 3,000 Kbd, through a profound transformation of the industry that requires the incorporation of large investors with the capacity to contribute between 500 MM USD and 1000 MM USD. This phase contemplates a comprehensive technological transformation of the sector and a significant boost to exports. There are plans in the industry that identify more than one hundred and fifty specific opportunities that require a total investment of 77,638 MM USD, strategically distributed in the upstream (exploration and production), intermediate and downstream (refining and marketing) sectors[17].

The success of these recovery plans depends on overcoming current barriers, including the relaxation of international sanctions, access to international financing and the recovery of relations with strategic partners. In parallel, significant capacity development is required, including technological updating, training of specialized personnel and the rehabilitation of critical infrastructure. This requires competitive conditions, an optimal legal and fiscal framework, legal certainty, trust, and ongoing dialogue to attract fresh capital for investment. The magnitude of the investment required and

17 The plan's financial strategy is structured into two main components: a committed cash flow, intended to maintain essential operations, basic infrastructure maintenance and compliance with existing commitments; and the generation of free cash flow, aimed at financing new projects, investment in modernization and development of new capacities. This dual structure seeks to guarantee both the current operation and future growth of the sector. Source: PDVSA, March 2024

the complexity of the projects identified underline the need for sustained commitment and meticulous execution of the plan.

The plan thus represents a comprehensive roadmap for the recovery and transformation of the oil and natural gas sector in Venezuela. Its effective implementation would not only allow the recovery of historical production levels, but would also lay the foundations for a sustainable modernization of the industry. Achieving these goals requires a coordinated effort between all the actors involved, from the State to national and international investors, as well as service companies and technological partners. Successful implementation of this plan could mark a turning point in the recent history of the Venezuelan oil industry, establishing the foundations for its sustainable development in the coming decades.

Conclusion

The recovery of the oil sector in Venezuela demands a comprehensive approach that combines significant investments, structural reforms and a strategic adaptation to the restrictions imposed by international sanctions. The effective implementation of these strategies could revitalize the industry, laying the foundations for its sustainability. However, various factors, such as sanctions, have compromised the operational efficiency of the sector.

This document has examined the current challenges of the industry, including disinvestment, management problems, political uncertainty and international sanctions, and has analyzed their effects and costs on the State and the private sector. It also addresses the human impact, starting with oil workers and their families, as well as the communities close to the production areas, and the effects on their work environment, talent drain and deterioration in living conditions. It has also indicated the projection of this impact to the entire Venezuelan society.

Despite the challenges, there are opportunities. Venezuela has substantial reserves, an enviable geographical location, low production costs, a historical legacy as an oil country, and an existing qualified human talent that can continue to be developed. However, the industry needs to attract significant investments to enable access to technology, increase production and modernize infrastructure. Developing local technical capabilities is essential to strengthen the national supply chain.

Viable short- and medium-term strategies include the elimination or relaxation of sanctions, access to international financing, and the evaluation of the business model and the regulatory framework (legal and fiscal) to generate confidence, competitiveness, and attract investment. The lack of relaxation of sanctions will also likely result in the search for new, non-traditional allies and the loss of spaces that are difficult to recover by those companies that are under the obligation to comply with international sanctions.

Finally, it is noted that the role of OFAC licenses has been key to maintaining critical operations and stabilizing production. However, their scope is limited, so it is necessary to expand these licenses to facilitate a more complete recovery of the sector and allow the efficiency required for its sustainable development. Licenses have facilitated critical operations such as management, payments, acquisition of inputs, technology, infrastructure improvement, and strengthening of production, under transparent schemes. Maintaining and expanding these licenses, at this time, while the sanctions are not eliminated altogether, is essential to mitigate the effects of the measures and promote the recovery of the hydrocarbon sector as a driving force of the Venezuelan economy and the positive impact this has on its population.

VENEZUELAN OIL SECTOR: LICENSES AT THE CENTER OF THE DISCUSSION

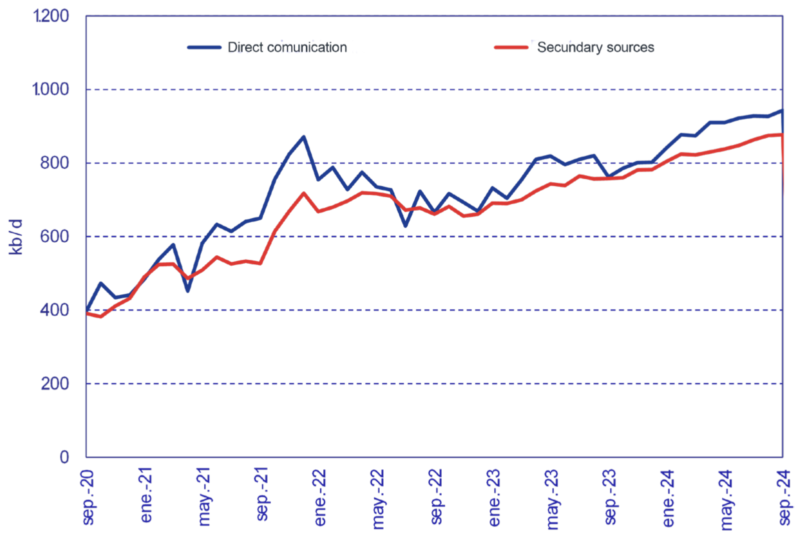
03

Asdrúbal Oliveros Porras and Jesús Palacios Chacín

During the third quarter of 2024, the oil production recovery trend observed since last year continued, with an average of 872 thousand barrels per day (kbd) generated between July and September, according to the October report of the Organization of Petroleum Exporting Countries (OPEC) based on what was reported by secondary sources, while in October it reached a maximum since January 2019 with 895 kbd.

These production levels translate into an increase of almost 40 kbd with respect to what was produced in the second quarter of the year and 120 kbd more than in the same period of 2023, just before General License No. 44 (GL44) was granted, which was in force until May of this year.

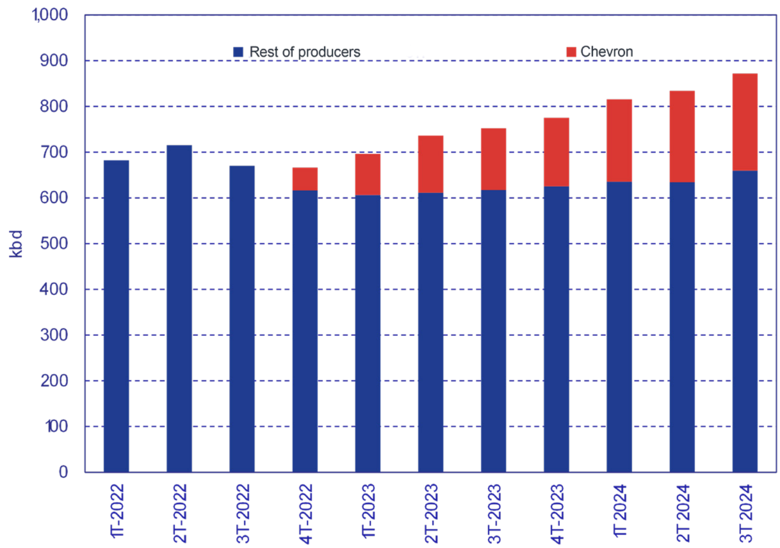
Chart 1. Monthly oil production



Sources: OPEC and Ecoanalítica.

Several months after the cessation of general license No. 44, it is more than evident that the recovery observed in oil production is linked to a greater extent to what is generated by petróleis de Venezuela, S.A. (PDVSA)'s partners in the joint ventures, with which individual licenses and agreements have been signed, mainly Chevron, which has been operating under a private license since November 2022, and more recently the Spanish Repsol and the French Maurel & Prom, which after starting with individual agreements, managed to secure private licenses in May 2024[1], although with a lesser impact since they represent 11.2% and 7.5% of what Chevron's operation represents in the country.

Chart 2. Differentiated oil production between Chevron and the rest of the companies (2022-2024)



Sources: IPD and Ecoanalítica.

Licences, the lucky charm

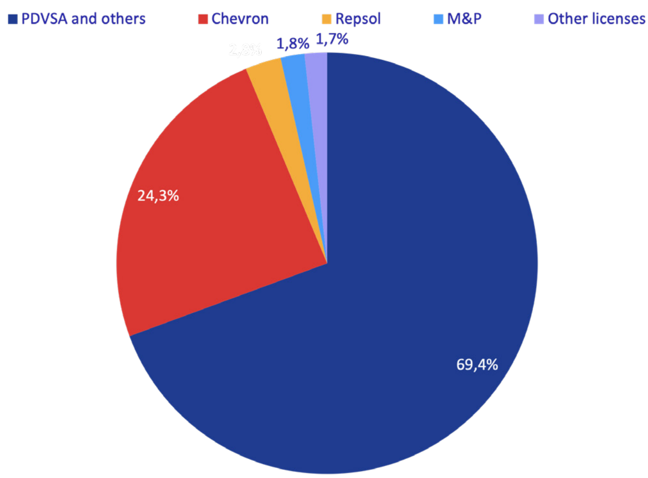
We have discussed Chevron's contribution to Venezuelan oil production before and it is increasingly noticeable both in terms of production and

1 On May 22, Repsol was granted a license to operate in Venezuela's oil sector following the expiration of LG44 on May 31. M&P obtained a specific license on May 3 in relation to its participation in the joint venture Petroregional del Lago, which operates the Urdaneta Oeste field on Lake Maracaibo in Venezuela. The current term of the specific license expires on May 31, 2026.

revenue[2], with its consequent effects on the economy in general. Currently, it is estimated that the US oil company - through the joint ventures in which it participates - produces about 212 kbd, four times what it produced two years ago, just before the specific license was granted by OFAC. This rebound has represented 80.2% of the recovery of the Venezuelan oil industry, which without Chevron's recovery would have barely grown 7.1% since then, equivalent to only 54 kbd.

If we add to Chevron's production what is being produced by the companies in which Repsol participates -24 kbd- and M&P -16 kbd-, we have that almost 30% of the current oil production in Venezuela is due to what is generated by these three companies, highlighting the importance of licenses for the recovery of the oil industry in our country.

Chart 3. Chevron, Repsol and M&P share in total production



Sources: OPEP and Ecoanalítica.

The above implies, in addition to a high dependence of PDVSA on its international partners, an even greater vulnerability of the Venezuelan oil sector in the face of the current political uncertainty, which could condition the continuity of these licenses, knowing that a cessation of them would cause

2 The contribution in terms of revenues and contributions to the foreign exchange market is detailed below in this section.

the gradual loss of about 250 kbd, returning to production levels close to those of 2022 - about 720 kbd.

It is also worth highlighting the consequences that this would have at the level of foreign exchange flow, especially considering that the oil sales made by these companies abroad are made at a much higher price than those sold directly by PDVSA in Southeast Asia - India, Malaysia and Singapore as a route to Chinese private refineries that represent 44.8% of the total weight -, with a discount of around 18%.

For their part, operations associated with the export of crude oil to that region are handled in a context of greater general opacity than exports made by Chevron, Repsol and Maurel to the US and Spain, and which represent 44.5% of total exports in 2024 and without significant price discounts. In fact, at Ecoanalítica we have estimated that the loss of licenses for these companies would imply a drop in estimated revenues for 2025 of more than USD 2.7 billion only due to the increase in discounts on the prices of our crude oil - that is, without yet considering the impact on production that we will address later - equivalent to more than five months of foreign exchange intervention taking the average for this year.

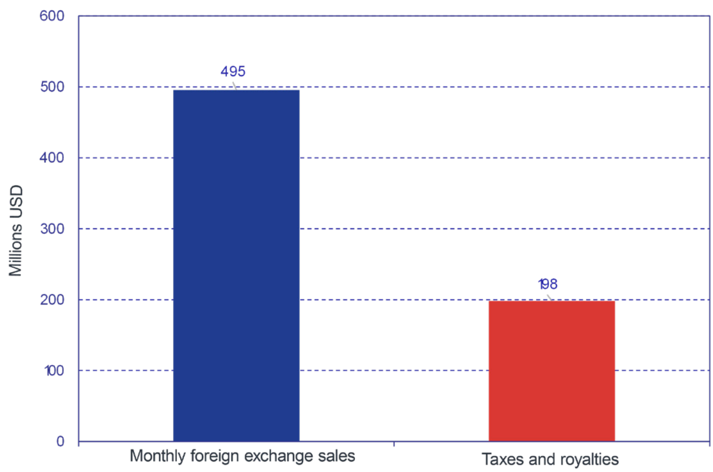
In this regard, it is also worth mentioning the license granted by OFAC at the end of July to Reliance Industries, India's main private refinery, which, although not linked to production, allows this company to resume the purchase of Venezuelan crude oil. This company had accounted for approximately 90% of Indian imports under GL44, with exports of about 676 kbd in the months of December 2023 to April 2024 - according to data from the consulting firm IPD.

However, since April these exports fell by an average of 66%, going from 135 kbd in each month to 45 kbd of oil from Venezuela with the elimination of GL44. Therefore, the granting of this license leaves another door open for Venezuela to market its oil at more attractive prices, at least as far as the Indian market is concerned, despite the fact that during the third quarter of the year there has not been a significant increase in the demand for Venezuelan crude oil by this country. It is also worth insisting that the impact of this company, which is only in marketing, is much lower than that of the Western production companies, Chevron, Repsol and Maurel, which maintain a significant weight in production - about 30% of the total in 2024.

An additional element to highlight is the weight that Chevron has in the settlements of foreign currency in the exchange tables of the banks, where according to our estimates, between the royalties obtained for its participation in the companies in which it operates with PDVSA and the taxes it declares, contributions of more than 190 million are generated per month, 40% of the total of the foreign currency offered in the exchange tables of the banking system, which must be exchanged -from USD to Bs- in the local market monthly. An exit of this flow of money in the market would probably lead to a greater exchange rate collapse with evident repercussions on the purchasing power and quality of life of those who live in the country, with potential incidence on the migratory flow from Venezuela.

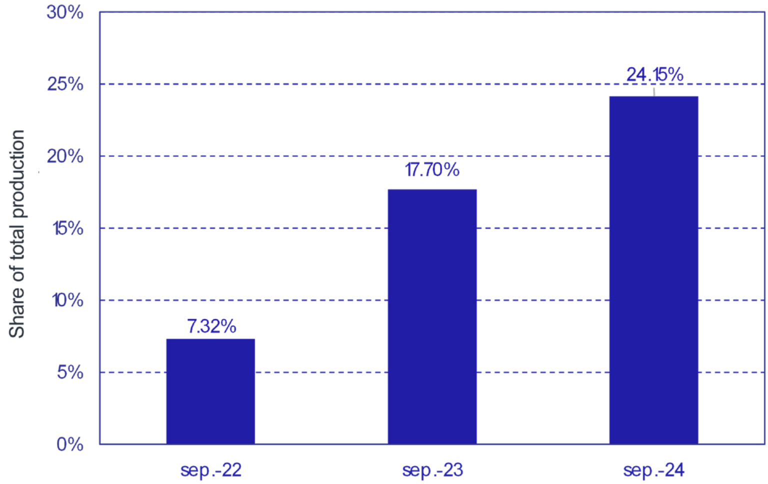
Likewise, the presence of international players such as Chevron, Repsol and Maurel in the oil sector has promoted transparency in the local and international contracting processes of suppliers of the four joint ventures in which it participates, complying with all regulatory standards and due diligence to international standards, and has fostered a close institutional relationship with the State, which has also implemented some institutional changes beneficial to the industry's operations.

Chart 4. Chevron's participation in foreign exchange market



Sources: Ecoanalítica.

Chart 5. Chevron's share of total production



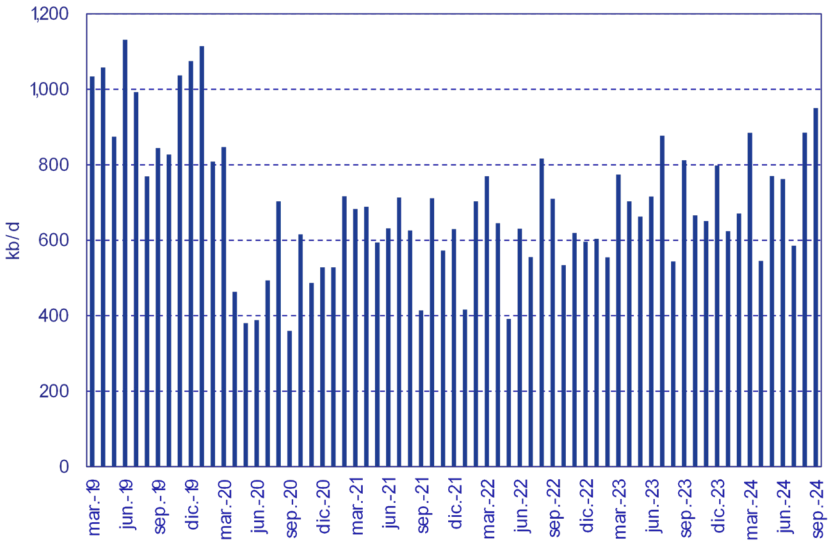
Sources: IPD and Ecoanalítica.

Exports: with a more volatile pace

However, in the sector, the electrical difficulties and the fragility of the gas and oil operating infrastructure - such as the recent event at the Muscar Gas Complex in Monagas - have effects on the refining and transportation processes; resulting in Venezuelan exports behaving in a much more volatile manner than production has done.

Thus, we see how during the third quarter of the year, the average oil exports were 771 kbd, almost 80 kbd more than what was exported during the second quarter of the year. However, it should not be forgotten that the second quarter was characterized by the end of GL 44, with which exports were particularly affected between April and June. In fact, if we compare the level of exports in the third quarter with that of the same period of the previous year, we have that the increase was much more modest, with an increase of only 27 kbd (an increase of just 3.6%) between one year and another.

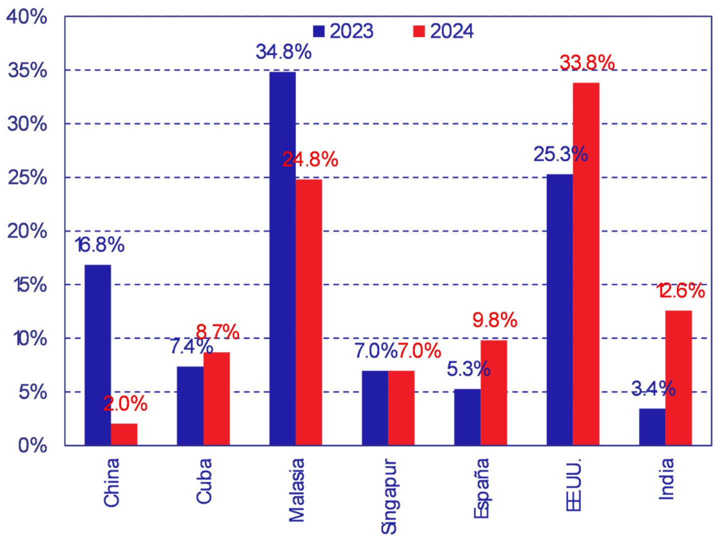
Chart 6. Monthly Oil Exports



Sources: Reuters and Ecoanalítica

Furthermore, if we review the behavior of exports month by month, we find evidence of volatility, with 586 kbd exported in July, a significant drop compared to the 762 kbd exported in June. Meanwhile, in October exports reached record levels of 950 kbd, the highest since January 2020. However, behind the declines in July and September were power outages, failures in crude oil upgraders and low inventories of fuel oil, diluents and extra-heavy crude oil, in addition to limitations at the level of ships to transport crude oil - some of these structural problems that the industry presents. Such inconveniences have been present intermittently since the beginning of the recovery of the sector and until they are resolved, they will continue to affect the growth of both production and exports.

Chart 7. Venezuelan oil exports: share of destinations

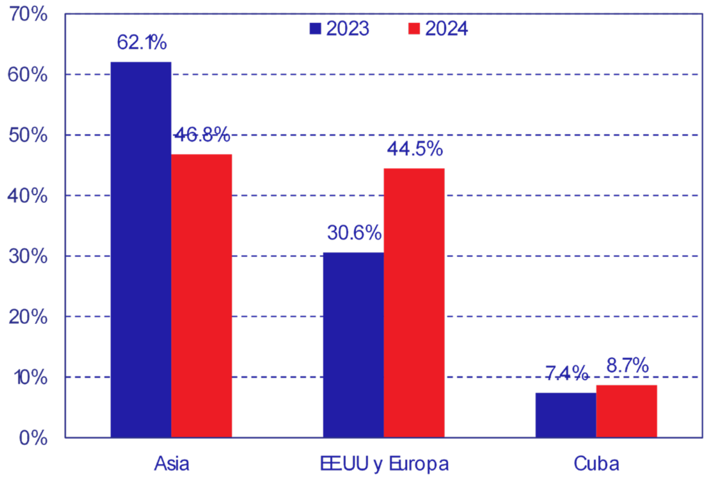


Sources: IPD and Ecoanalítica.

On the other hand, if we analyze the main destinations of Venezuelan crude oil exports, we find that there is still significant progress in terms of the presence of Venezuelan oil in the North American market - very beneficial in financial terms for PDVSA's coffers due to its payment conditions -, reaching in the third quarter of the year the highest level of exports to this country since January 2019 - and representing 40% of total exports in that period -, according to the most recent figures from the Energy Information Agency (EIA) of the United States, placing it as the fourth largest supplier of crude oil to this country. This is mainly thanks to Chevron and, more recently, to Repsol, which is currently also exporting Venezuelan crude oil to the United States, having been the fourth largest exporter of Venezuelan oil in that country in July.

As for the rest of the destinations, we see that Asia remains at the top of the list of importers of Venezuelan crude oil despite having fallen from 62.1% of total Venezuelan oil exports in 2023 to 46.8% of the total, while the US and Europe are gaining ground from 30.6% in 2023 to 44.5% in 2024, in which it is again worth highlighting the positive impact on cash flow that these exports have on the country's income.

Chart 8. Venezuelan oil exports: share of grouped destinations



Sources: IPD and Ecoanalitica

The dichotomy between politics and trade

Given the current political panorama, not only in Venezuela, but also after the elections in the United States with the return to power of the Donald Trump administration, the risk of cessation of licenses by the OFAC and even the intensification of sanctions remains latent.

However, it is worth paying attention to the signals that are being given at the commercial level, which seem to be distanced from the political discourse. On the one hand, despite the multiple criticisms made by different representatives of the United States government to the Venezuelan government - after the presidential elections of July 28 - OFAC decided to renew in October the license No. 41 under which Chevron is operating, allowing the North American company to continue its activities in the oil sector at least until April 2025. In parallel, the refining groups of the United States seem to continue showing interest in importing Venezuelan oil, given that many of its refineries, especially those located in the south of the country, are adapted to the type of Venezuelan crude oil, which contributes to the stability of the refining system in this area. Added to this is the license granted to Reliance just days after the elections in Venezuela that we have mentioned before in the report due to its importance in Venezuelan crude oil exports.

Furthermore, it should not be forgotten that Chevron's presence in Venezuela offers the United States the possibility of influencing both the economic sphere, as well as transparency and anti-corruption, and even indirectly at the political level. Therefore, everything seems to indicate that, at least in the short term, there will be no cessation of this license, but, if necessary, a possible modification.

On the other hand, we find the position of the Venezuelan government, which continues to show interest in the participation of the private sector, regardless of what may be its political discourse against several of the governments of origin of these companies, as demonstrated by the authorization issued by the Venezuelan National Assembly for the joint venture Petroindependencia - in which Chevron has a 34% stake - to operate until 2050, instead of until 2035, which was the period initially established for the operation of this company. Similarly, in parallel to the tense diplomatic exchanges between Spain and Venezuela, both President Nicolás Maduro and the Vice President and current Minister of Petroleum, Delcy Rodríguez, held meetings in September with Repsol executives with a view to signing new cooperation agreements in the hydrocarbons sector.

Thus, it seems that at this moment there is a dichotomy between the political and the economic, which leaves the direction that the next few months could take in suspense.

What are the prospects for the immediate future?

Considering the current pace of growth in Venezuelan oil production and exports, as well as the political and economic context, at Ecoanalítica we predict that, in the absence of external shocks, 2024 should close with production close to 910 kbd and an average production of 855 kbd, some 115 kbd more than the average production for 2023 (an increase of 15.5%), aspiring to surpass the long-awaited barrier of one million barrels per day in 2025.

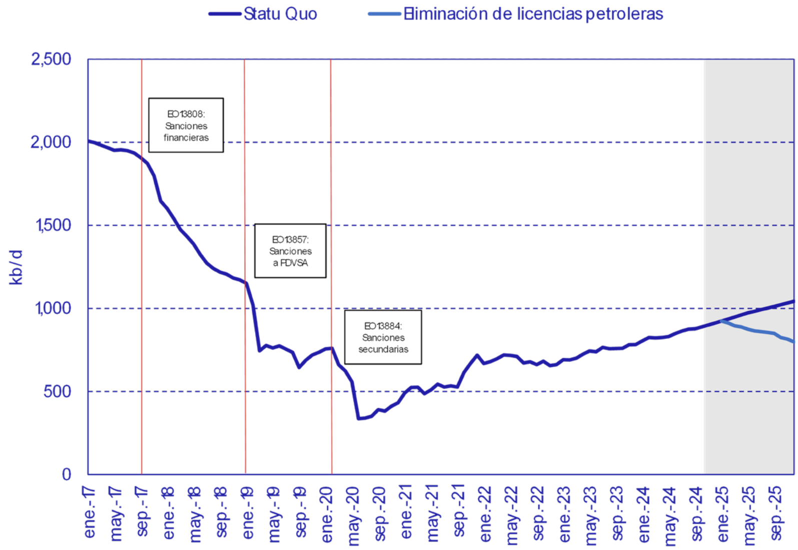
On the export side, we expect fluctuations to continue in the last quarter, placing them at just over 715 kbd by December 2024, with an annual average of 724 kbd, some 27 kbd more than exported in 2023.

Of course, as we have been saying, the evolution of these figures will depend largely on how the political events unfold in the coming months, and on the combination of political events in the US and Venezuela after the presidential elections in each case.

For this reason, at Ecoanalítica we project two scenarios for next year: the maintenance of oil licenses, which would lead to a 15% annual increase in production, closing at around 1,050 kbd, or the elimination of oil licenses, which would hit production by 20-25% to 780 kbd by the end of the year.

It is clear that for the levels of growth in oil production and exports that we are currently seeing to be sustainable and more significant over time, it is necessary, beyond specific licenses, to make investments in the order of USD 7 billion to counteract the deteriorated state of the Venezuelan oil industry throughout its entire production chain, a circumstance that, despite the licenses, seems complicated under current conditions as long as there is no certainty about the regulatory framework to which the companies operating in the country will be subject, due to the framework of sanctions and the changes of command in the oil administration in Venezuela.

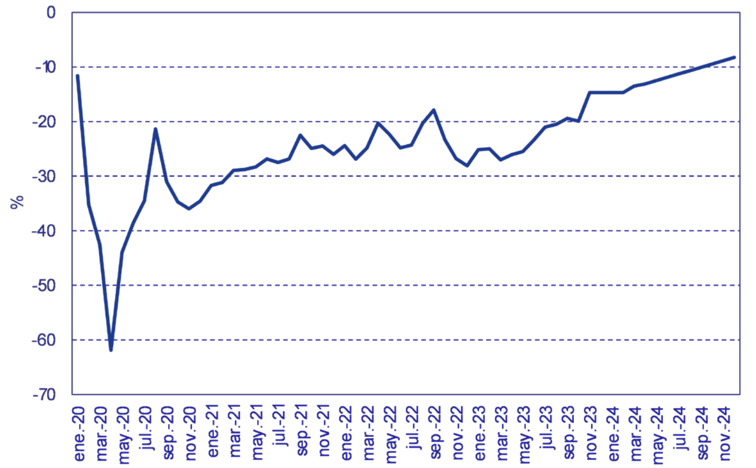
Chart 9. Oil production scenarios



Sources: OPEC and Ecoanalítica.

Additionally, given that the recovery of more traditional destinations has also led to a reduction in the weighted discounts of Venezuelan oil compared to Brent, our crude oil has reduced the discount from almost 30% in 2023 to 15% now, and together with a reduction in the weight towards these destinations - going from 93% in 2022 to 46.8% now - due to the increase in exports to the Western market - the US and Spain - together they represent 44.5% -, the weighted impact of the discount was reduced more significantly: according to our estimates it would be at 9% by the end of the third quarter of the year. This shows another of the benefits of accessing Western markets: the absence of discounts for marketing our crude oil in markets where it does not compete with sanctioned barrels from Russia and Iran.

Chart 10. Discount (%) of Venezuelan crude oil compared to Merey



Sources: OPEC, Ecoanalítica and IPD
Note: For Venezuelan crude oil we consider the price of the Merey barrel, a reference for Venezuelan prices.

An increasing flow as opacity decreases

As we have said before, despite an increase in oil exports, the exclusion of Western companies between 2019 and 2022 resulted in few benefits for the country and a scandalous case of corruption for the Republic that led to almost two-thirds of these resources remaining in the hands of intermediaries and not entering the country's public finances[3], encouraging illicit markets and the penetration of more opaque actors in the country and the region.

Looking ahead, there are significant changes in the scenarios in terms of oil revenues closely tied to the political landscape: in the case of the maintenance of the main oil licenses - especially Chevron and Reliance - we see an increase in oil exports to about USD 18.5 billion, an increase of almost 10% in terms of exports, under the premise that discounted prices would be below 10% as they are at the moment. In this case, the production of the joint

3 Venezuela's autocrat launches a massive corruption probe https://www.economist.com/the-americas/2023/03/30/venezuelas-autocrat-launches-a-massive-corruption-probe

ventures operated by Chevron, Repsol and Maurel would exceed 35% of the total.

However, if the licenses were eliminated, the discounts on our oil prices would increase again by at least 15%, and production would be affected by about 25%, resulting in a reduction in the flow of almost USD 6 billion, a fall of more than 30% in the estimated foreign exchange flows for next year; and 24% if compared with the estimated income for the current year.

In this sense, it is clear that Venezuela has few alternatives to sustain its fragile economic situation without maintaining oil licenses for companies with a recognized reputation and track record, which would have short-term impacts on the exchange market and therefore on the performance of inflation, one of the key elements that have generated the massive exodus of Venezuelans.

That is why, although the establishment of licenses for Western partners in the industry is a decision with political costs in the US and Venezuela, it has become the only way to limit the opacity of the disinformation schemes regarding the destination of shipments, the reference prices of our barrel and the actors involved in financial triangulations to evade sanctions. A whole system that strengthens irregular and illicit schemes, increases the incidence of China and Russia in the region and does not contribute to the decrease in global oil prices.

Otherwise, we could foresee a worsening of the country's conditions and a complex humanitarian emergency, which includes some 7 million Venezuelans, the United Nations Humanitarian Affairs Organization and new migratory surges that could lead to nearly 10% of the population migrating - some 2.7 million people - with the obvious regional impacts that this generates.

In addition, the maintenance of a climate of international hostility will make it even more difficult to resolve another of the most important structural problems facing Venezuela, and which no increase in oil revenues in the short term will be able to solve on its own: the nearly USD 160 billion that the country owes its creditors, after seven years in default, and for which it will necessarily have to move towards a restructuring, a key element for the country to be able to access the financial markets again and begin a path of broader and more sustained growth.

Although sanctions relief measures involve political friction in both Venezuela and the US, it is worth evaluating a policy of progressive review and the impact of these measures to facilitate agreements in favor of democratic re-institutionalization, attention to the complex humanitarian emergency, and debt restructuring.

In this way, Venezuela would be able to reintegrate into the markets and contribute to stabilizing the global oil supply. The alignment of these incentives is key to achieving effective agreements.

Table 1. Scenarios for oil export revenues

Variable	2021	2022	2023	2024	2025 Status Quo	2025 Licence Elimination
Average Export (kb/d)	579	717	674	739	808	663
Average Price (barrel/USD)	30.7	75.0	62.0	71.0	70.3	59.8
Gross oil revenue (mUSD)	6,479,700	12,395,088	12,207,914	17,233,734	18,648,042	13,014,370
Inter annual variation		91%	3%	39%	8%	-24%

* Average price per barrel is calculated without the average discounts that Venezuelan crude has received in the current sanctions scheme, due to an improvement in marketing conditions according to sources consulted by the firm.

** Estimated prices in cases of moderate and optimistic scenarios are based on projections of the value of the Merey barrel of oil and the Venezuelan basket, in a scenario of lifting sanctions.

Sources: Ecoanalítica

04

SANCTIONS: INSTRUMENT FOR POLITICAL CHANGE OR CATALYST FOR ECONOMIC CRISES?

Luis Oliveros

Introduction

Sanctions are coercive measures carried out by one or more countries or groups of countries on others, with the aim of pressuring certain governments to adopt or modify certain policies. They have become a tool of diplomatic and economic pressure that has been widely used by the European Union, but especially by the United States, as a form of response to actions of certain governments that may be considered unacceptable or contrary to their interests. However, important questions arise as to their effectiveness, particularly when reviewing whether they have achieved their main objective: to bring about political change within the sanctioned country. The experiences of sanctions in countries such as Cuba, Iran, Russia and Syria, for example, show a common pattern: while they have an important impact in producing economic problems, they rarely achieve significant political changes. Moreover, there are ethical concerns behind the implementation of these measures.

The Venezuelan case

Although international sanctions (coming from the United States), arrived with the government of Barack Obama, those established in January 2019 by the Trump administration, when it issued an executive order sanctioning PDVSA directly, prohibiting U.S. companies from buying Venezuelan crude oil and restricting exports of oil products to Venezuela, are the ones that have generated the greatest damage to the economy and, therefore, to the population.

At that time, it was argued that the sanctions sought to pressure the government through severe economic restrictions, particularly in a vital activity for the Venezuelan economy, such as the production and export of oil. However, the collateral effects of these measures have had a significant impact on the country's private sector and on the population, intensifying inflation (due to the fall in foreign currency income, which increases the deficit and leads to monetary financing), generating volatility in the exchange rate (lower supply of foreign currency and higher demand pushes up the price), reducing the capacity to generate economic growth (fall in investment and prospects, in addition to the effect of the decrease in tax revenues), limiting access to foreign financing (closure of international markets), negatively impacting the provision of public services by the State (greater budgetary problems) and the national financial sector (isolated from the global market). This economic deterioration, which has a direct impact on the welfare of the citizenry, instead of producing a political change, has led the government to consolidate narratives around national defense and resistance to external interference.

What does the literature say regarding sanctions and their effect on generating change?

Let us review some articles:

- In "Do Sanctions Cause Economic Growth Collapses," Splinter and Klomp (2021) recall that the main objective of economic sanctions is to bring about political or behavioral change by imposing serious restrictions on important economic activities undertaken by the target country. Specifically, the basic idea is that sanctions provoke a large and sudden adverse shock to the economy of the target country. It is assumed that when this shock is severe enough, the target country is more willing to cooperate. The results presented in this research clearly demonstrate that economic sanctions have a significant positive effect on the probability of a growth slowdown in the first three years after the first signs of threat or actual imposition. In particular, trade sanctions, multilateral sanctions and sanctions targeting the business sector are the most damaging to the economy of the target country.
- In "An Institutional Theory of Sanctions Onset and Success", Lektzian, and Souva (2007) conclude that sanctions that punish economically are less likely to succeed against a non-democratic target than against a democratic target. Sanctions increase rents. This benefits non-democratic leaders more than democratic ones. In addition, nondemocratic leaders have smaller winning

coalitions, so their core constituencies suffer less from sanctions than democratic leaders.

There is also literature regarding the effect of sanctions on future generations in the country on which they are imposed:

- In "The Intergenerational Effects of Economic Sanctions," Moeeni (2022) not only asserts that economic sanctions harm the civilian population, but concludes that these negative effects could be even more damaging and long-lasting for future generations. This study calculates their effects on children's education following the sanctions imposed by the United Nations on Iran in 2006. Using variation in the intensity of sanctions across sectors and difference-in-differences analysis with synthetic controls, this study finds that sanctions reduced children's total years of schooling and the likelihood of attending college. In addition, households reduced spending on education by 58%, especially on school fees. These effects are larger for children who were exposed to sanctions for longer. Therefore, ignoring the effects of sanctions on future generations significantly underestimates their total economic costs.

There is evidence that sanctions do not produce improvements in the protection of human rights in the sanctioned country:

- In "Better or Worse? The Effect of Economic Sanctions on Human Rights," Peksen (2009) provides an empirical examination of the effect of sanctions on the physical integrity rights of citizens in targeted countries. Using cross-national time series data for the period 1981-2000, the results suggest that economic sanctions worsen government respect for physical integrity rights, including freedom from disappearances, extrajudicial killings, torture, and political imprisonment.
- In "Do Sanctions Lead to a Decline in Civil Liberties," Adam and Tsarsitalidou (2019) examined the effect of U.S.-imposed sanctions on civil liberties in targeted countries over the period 1972-2014, finding that sanctions lead to a decline in civil liberties, as measured by the Freedom House civil liberties index or the Cingranelli and Richards rights index. The results are robust in several specifications.

- In “Economic Sanctions and Human Rights: Quantifying the Legal Proportionality Principle,” Steinbach, Gutmann, Neuenkirch, and Neumeier (2023) explored the proportionality of sanctions imposed by the United States between 1976 and 2012. Their results cast doubt on the effectiveness of sanctions aimed at improving human rights. Moreover, the results sharpen the judgment on the inability of sanctions to distinguish the impact on specific types of rights; providing insights into the debate on the effects of unilateral versus multilateral sanctions, as well as targeted sanctions.

There are also studies on the ethical component of sanctions:

- In “Political Effectiveness, Negative Externalities, and the Ethics of Economic Sanctions,” Perkens (2019) asks whether economic sanctions are morally acceptable political instruments. He points out that both conventional and targeted sanctions not only often fail to achieve their stated objectives, but also cause significant negative externalities in the targeted countries. The economic dislocation and increased political instability caused by sanctions disproportionately affect the welfare of the population, especially marginalized segments of society, while the targeted elites and their support base remain insulated from the expected costs of foreign pressure. Sanctions could also incentivize targeted governments to use repressive means to consolidate their rule and weaken the opposition. Given these serious shortcomings, they conclude that sanctions are ethically problematic tools of foreign policy. Their work suggests that policymakers should be more cautious when considering the use of sanctions, given their low likelihood of success, and should be more concerned about the delicate balance between political gain and civilian pain before imposing sanctions, whether general or targeted.

And, to top it off, there is literature claiming that sanctions aggravate migration processes.

- In “International sanctions and emigration”, Gutman, Langer and Neuenkirch (January 2024 suggest that multilateral sanctions by the UN and some Western countries have a significant positive effect on emigration. Emigration flows increase, on average, by 17% to 18% under UN sanctions and by 22% to 24% under Western multilateral sanctions. The results of the study imply a gradual increase in emigration over the course of a sanctions episode, with a maximum effect of 80%-86% for long-term sanctions (relative to the last year before the imposition of sanctions). The impact of UN sanctions on international migration is smaller and less persistent, with a maximum effect of 30%-31%. The study covers 79,791 dyadic-year observations, reflecting migration flows from 157 countries of origin to 32 industrialized countries of destination between 1961 and 2018.

- In "Migration and Economic Coercion," Connell, Moya, and Shin (2019) argue that the link between economic sanctions and migration should be an important consideration for potential sanctioners. Their studies conclude that economic sanctions often increase the economic hardship of the sanctioned country, which in turn causes more people to migrate to other countries. They add that countries that host large numbers of nationals of the sanctioned country face disproportionately high migration pressure when sanctions are increased.

Now, let us review cases of sanctions against specific countries:

- "Sanctions against North Korea: A Descriptive Analysis of their Economic Impact (2000-2020)," Zani (2022) examines the economic impact of sanctions imposed on North Korea between 2000 and 2020. More specifically, he analyzes the evolution of key economic indicators using statistical data from trading partners and international organizations in an effort to assess the overall effectiveness of this policy tool. After providing a brief overview of the evolution of the North Korean nuclear program, the first section frames the different types of sanctions imposed on the DPRK by major shippers over the years. The second part focuses entirely on the analysis of the economic impact of these measures. The descriptive evidence suggests that the sanctions significantly affected the North Korean economy and trade. However, North

Korea's ability to establish an effective sanctions neutralization mechanism, supported especially by China and Russia, has undermined the effectiveness of the sanctions.

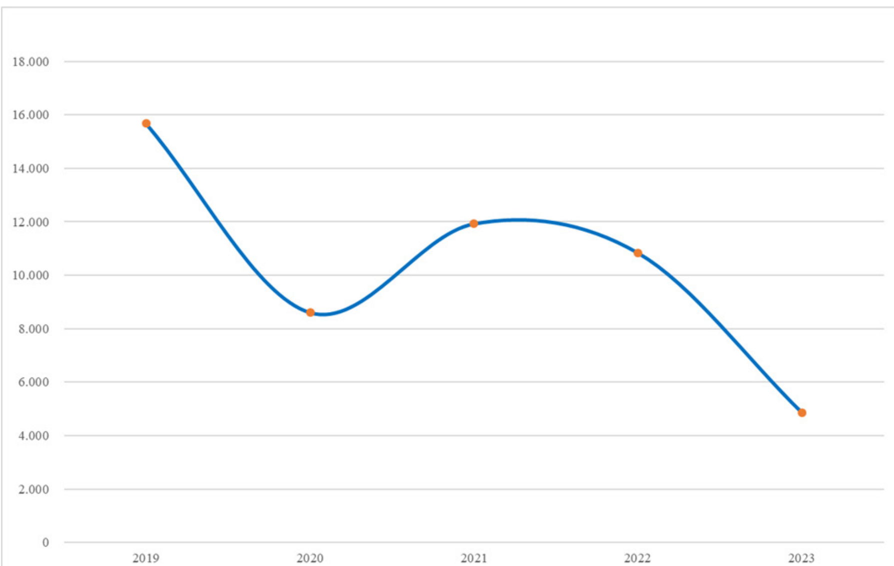
- On the other hand, in "Evidence and Policy Implications of Sanctions in the Long Run: The Case of Iran" Laudati (2023) begins by explaining that sanctions are an increasingly frequent tool in international policy making. The case of sanctions against Iran is particularly interesting for understanding the effects and spread of economic sanctions. First, Iran has been sanctioned for more than forty years, which allows for a long-term analysis of the phenomenon. Moreover, given its relevance in the Middle East, it allows for an assessment of the impact of sanctions on an open, small but economically relevant economy, supported by high-quality historical data. When considering the imposition of sanctions, there is no doubt that economic sanctions have hurt the Iranian economy. When considering similar emerging economies, and taking into account economic potential, it seems plausible that Iran could have grown at rates of 4-5% per year instead of the 3% annual rate experienced on average over the last thirty years. In this regard, it is notable that, although sanctions were effective in isolating Iran from the world economy, the country was able to continue to grow in a "semi-autarkic" manner and produce domestically generated innovations and substitutes for high-tech products. In addition, sanctions have often been used as a rhetorical device by the elite to foster a sense of danger from the outside and to reinforce the theocracy by resorting to "resistance economics." They conclude by warning that sanctions have generated diplomatic tensions that have fostered mistrust abroad.
- With respect to the case of Afghanistan, Rodriguez (2023) comments that non-governmental organizations and UN agencies were very critical of the effect of the sanctions. A 2000 study commissioned by the Office of the UN Coordinator for Afghanistan concluded that the UN sanctions had a tangible direct effect on the Afghan economy, as well as a substantial indirect impact on the humanitarian situation. On the eve of the adoption of new sanctions by the UN Security Council in December 2020, Doctors

Without Borders warned that sanctions would be devastating for a country without a functional health care system.

And the effects they have had on Venezuela?

In Oliveros (2020 and 2024) we have presented detailed calculations on the foreign currency income that Venezuela has lost as a direct result of the economic sanctions, focusing on oil exports. Our analyses point to the fact that between 2019 to 2023 (both years included), the Venezuelan economy lost about $52 billion in revenues, an average of $10.4 billion annually (slightly less than the $11 billion that then U.S. National Security Advisor John Bolton estimated when oil sanctions were imposed on Venezuela). These figures reflect the profound impact of the sanctions on the country's main source of foreign exchange earnings, as well as on its ability to finance development projects, public services and other dependent economic sectors.

Graph 1. Venezuela lost revenue due to oil sanctions
(millions of US$)



Source: Oliveros (2024)

Beyond the obvious impact on oil production and exports, these sanctions have contributed to the closure of international financial markets for the Venezuelan State, severely limiting its ability to access credit and foreign currency financing. This financial isolation has hindered the financing of infrastructure projects and the payment of suppliers, affecting both the public and private sectors. However, one of the broader and less visible effects of the sanctions is the phenomenon of over-compliance, or excessive compliance, surrounding any activity or transaction related to Venezuela. This phenomenon translates into a generalized fear of international companies and banks to engage in operations that could be interpreted as a violation of the sanctions, even when there are no explicit prohibitions.

Over-compliance implies that private and banking entities around the world adopt exaggerated precautions when dealing with Venezuelan companies or citizens. This generates a series of difficulties and additional costs for Venezuelan businessmen and the private sector. For example, banks abroad often refuse to open or maintain accounts for Venezuelan companies and individuals, even if their activities are completely unrelated to the government. This limitation on banking access severely restricts international business operations and hinders the flow of foreign currency that many companies require to remain operational. In addition, access to financing and credit days from international suppliers is increasingly restricted, adding additional costs and limiting growth and expansion opportunities for the Venezuelan private sector.

This context of overcompliance also affects the ability of Venezuelan companies to access international markets, placing additional barriers to the placement of goods and services abroad. These obstacles not only hinder the generation of foreign currency income for the Venezuelan private sector, but also affect the availability of imported products and services within the country. Thus, the impact of sanctions, coupled with over-compliance, not only aggravates the Venezuelan economic crisis, but also creates an environment of uncertainty and limits development opportunities in multiple sectors of the economy, disproportionately affecting the population as a whole.

Final thoughts

Economic and financial sanctions have proven to be a mediocre mechanism for generating political change. The precedents in this regard and the literature that has analyzed them demonstrate this. Additionally, they are ethically questionable instruments that rarely affect the rulers, but always hit ordinary citizens.

Since they were implemented in the Venezuelan case, the economic situation, which was already complicated, worsened without making any political difference. The mere fact that there are possibilities that the United States is thinking of returning to a "maximum pressure" strategy against Venezuela is worrisome, especially if one of the main challenges facing the U.S. administration is migration to its territory. The application of new sanctions, or the tightening of existing ones, would increase economic hardship in Venezuela and would likely increase migration to other countries in the region and to the United States. Such a policy would not only contradict the new administration's objectives regarding migration, but also represents a strategically meaningless approach, as it contributes to the aggravation of the conditions that drive migration, rather than mitigating them.

It is therefore imperative to reflect on the effectiveness and consequences of these policies. Sanctions, far from promoting political change, deepen inequalities, strengthen those who control resources and leave the population even more unprotected in the face of the crisis.

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05

BACK TO SANCTIONS? THE SOCIAL IMPACT

Luis Pedro España N.

Introduction

This essay intends to develop what could be the impact for Venezuela, from the point of view of the living conditions of the population, of the possible suspension of the oil production licenses that have been approved to date by the United States government.

In order to carry out this exercise, the importance of oil for the country's economy is explained, based on the country's historical dependence on oil revenues. This dependency relationship, measured for example by the percentage that oil exports have represented of the total, is what reveals the immense volatility of our economy and the favorable or unfavorable impact that external income shocks have according to their sign.

We try to compare a suspension of oil licenses to the consequences and social impact of past negative shocks caused by international energy market forces, in order to illustrate the magnitude of such impact. We take as a reference what happened with the economic adjustments of 1989, 1996 and those derived from the fall in prices (2008 and 2014) and subsequent economic recession, until the collapse of oil production after the sanctions on PDVSA in 2017.

Without losing sight of the context in which each of these external shocks took place, we will focus on the role of the State as a compensator or amplifier of the external income crisis. This in order to approach the current reality of the Venezuelan State, which undoubtedly amplifies the negative effects on the living conditions of the population.

Finally, we try to make a balance, in terms of hopelessness or resilience, for the generation that has had to face the most difficult years of the crisis of recent years, trying to differentiate scenarios between a situation in which the opportunities for hope are in Venezuela or, on the contrary, may only be visualized in migration. The continuity or not of the oil licenses may be one of the decisive factors for the choice of one of the two scenarios.

Dependence on petroleum

The best way to understand the impact that a new and drastic reduction in oil production would have on Venezuela, resulting, among other things, from the non-renewal of oil licenses to foreign companies currently operating in the country, is to take a look at the history of the country's economic dependence on oil.

Since oil exports became the main and exclusive source of foreign income, Venezuela has never been able to free itself from its dependence on oil income to finance imports of inputs, machinery, equipment and final goods that are necessary to grow economically and provide a certain level of consumption to its population.

Economic diversification, as a strategic goal of the country, seems to be a priority only when oil prices fall, when production and exports are reduced or, as has been the case in recent years, when both phenomena occur at the same time. On the contrary, when prices rise and the country enters an income boom (1974-1981 or 2004 - 2012), incentives are activated (currency overvaluation and over-remuneration of productive factors) to deepen our dependence on oil.

This particularity makes the country's economy highly volatile, since it is very exposed to external shocks of both signs, being the negative ones the ones that logically affect significantly the quality of life of the population.

In percentage terms, oil exports have historically represented 90% of the total. When non-oil exports increase their share, it is mainly due to the fall in oil revenues. Paradoxically, the higher the share of non-oil exports is, it is not because we are getting closer to the country's strategic objective, but because the size of the crisis we are going through is enormous.

Thus, for example, an indicator that evidences the recessions of the last thirty years is represented by the fall of the oil income share below 80% in the nineties and, more recently, in the critical years of 2017 -2020 only a little above 60%. In other words, when our dependence on oil is reduced, it is because we become poorer.

Between 2004 and 2012 Venezuela became extremely dependent on oil income. Several authors have explained this relationship between oil and the "socialism of the 21st century" project of those years from different points of view. XXI" project of those years from different points of view, but perhaps the predominant perspective, perhaps clouded by the spectacular increase in oil income, was the one that came from concluding that the non-oil economy generated very little added value, it simply functioned as a transmission belt for the (unequal) distribution of oil income and, therefore, the planned administration of that resource would end up being more efficient, equitable (and fair) than the one that took place through market mechanisms[1] (1)

This argument served to justify the nationalizations and the systematic increase of State control over the country's economy, which ended up generating a reduction in its size by 70% between 2013 and 2019, when oil income could no longer finance the starting premise. Apparently, the non-oil economy was neither a simple transmission belt, nor did it generate little value; on the contrary, it was a necessary piece to face the volatility to which the country's economy was exposed due to its dependence on a single export activity.

Thus, the recent crisis at the end of the last decade is not only explained by the oil recession (in prices and volumes), but also because the country was left without economic alternatives for compensation. Along with the fall in oil income, the direct dismantling (nationalizations) or indirect dismantling (harassment and persecution of the private sector) prevented, even with its limitations, the non-oil economy from demanding work from the population, allowing foreign currency savings thanks to the reduction of the import of final goods and even increasing non-traditional external income, factors that were present to reduce the recessionary impact of the economic crises of external origin in the 80s and 90s of the last century, but not those from 2017 to 2020. Oil and poverty

The economy's dependence on oil revenues is closely correlated with poverty and vulnerability levels. The years in which income poverty has grown suddenly correspond to a significant reduction in income from oil exports.

Between 1981 (the last year of the oil price boom of the 1970s) and the coming to power of President Hugo Chávez (1998), at least three falls

1 For a description and analysis of the oil socialism in force in those years, see: Pérez Sánchez, Juan. El papel del petróleo en la conformación del socialismo del siglo XXI. "Temas de Coyuntura No.66", IIES-UCAB. December 2012. López Maya y Lander, El socialismo rentista de Venezuela ante la caída de los precios petroleros internacionales. Cuadernos del Cendes No. 77. UCV. 2009. España, LP. El socialismo petrolero. Situación y políticas sociales bajo un fallido modelo de desarrollo. ILDIS. Caracas. 2013.

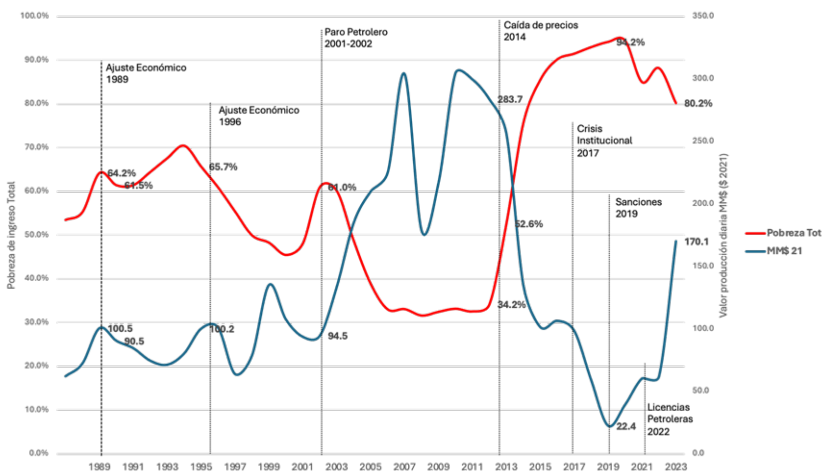
in oil revenues occurred, which were correlated with accelerated increases in income poverty.

The first of these (1983), known in Venezuela as “Black Friday”, changed the profile of income poverty from 33% (the lower limit of the 1970s) to around 50%. Although it is true that this first crisis was not directly related to a fall in prices, but rather to the impossibility of continuing to service the external debt, it did not cease to have an external origin, given that the rate of growth in oil prices did not remain at the levels required to service the country’s debt.

The second crisis, which precipitated a change in economic policy known as the “Great Turnaround”, was also the result of a reduction in prices (1986) that was not addressed until the start of a new government in 1989. In that year, for the first time, inflation in Venezuela reached a three-digit figure and income poverty increased to over 60% of the population.

The third crisis, already in the 1990s, was also the result of a weakening of income, the accumulation of economic imbalances and finally the adoption of a new economic adjustment program, known as the Venezuela Agenda (1996), which again pushed poverty levels close to 70%.

Graphic 1. Average annual value of daily oil production and percentage of population living in income poverty (1988-2023)



Source: CBV (1988 – 2018) OPEC (2019 – 2023) NIS 1980 – 2014) and ENCOVI (2014 – 2023)

The fourth and last crisis (for now) linked to oil (2017-2020) no longer has so much to do with the fall in prices in 2008 and later in 2014, but rather with the collapse of oil production volumes, which meant a reduction of more than 1.5 MMBd, going from 2 MMBd to less than 0.6 MMBd.

The attached graph shows the history of this relationship between oil and poverty in Venezuela. According to the data presented, the simple correlation of both variables places the value of the index at -0.7103 (reaching -0.7128, if the specific fall in prices in 2008 is not considered). This strong correlation indicates that the fall in oil income increases the percentage of the population in income poverty and its reduction when this increases; however, the elasticities are different. Poverty is very sensitive to increases in the context of a recession and more inelastic to decreases when the economy grows[2] (2). In the case of Venezuela, before the institutional crisis of recent years, social recovery after a negative income shock in one year takes at least 3 years of economic growth to return to pre-shock levels.

In this way, and in the case at hand, a new drop in oil production, due to the non-renewal of production licenses, would have a social effect (in terms of increased poverty) like those we have known in past decades, but with the aggravating factors in the form of institutional deterioration and dismantling of the country's productive capacity in recent years.

The increases in poverty due to the productive contraction of oil activity first and the sanctions on PDVSA later, implied going from a level of income poverty of 53% in 2014, to 85% in 2016, reaching 94% in 2020. In terms of households, it is estimated that about 2.5 million households fell into poverty in just five years.

Four years later (2020-2024), less than half of them have managed to escape poverty (households that should never have been poor due to the productive attributes of their members), that is, as a result of the recovery of production and oil revenues, among others, they have only been reduced by 14 percentage points of the 30 that increased in a similar period of time.

The sensitivity to the rise in poverty and its greater resistance to decline is explained by the institutional deterioration of the State and its inability to

2 See Martin Ravallion's work on the relationship between growth and poverty: among others: Why Has Economic Growth Been More Pro-Poor in Some States of India than Others? (2002).

reduce the risk of the population and households that are most vulnerable to the economic recession.

A resumption of sanctions on oil activity in the country, causing a new external negative shock, would have consequences at least similar to those in the period 2017-2020.

Amplifiers of vulnerability

Until now we have considered social deterioration as a consequence of variations in oil income. We have seen how the income recessions prior to the first decade of the 2000s not only raised the percentage of poverty to a lesser extent, but also the recovery was faster. This was because the country had a non-oil economy which, although it was affected like the rest of the population, offered opportunities for recovery.

Additionally, and at least as important as the above, in the crises of the 80s or 90s there was a state apparatus that, despite its deficiencies, was able to cope with the recession and its social impact. After each economic adjustment, derived from external income crises, social protection programs were implemented that had the technical and credit assistance of multilateral banks, to deal with the effects and undesirable behavior of households in recession situations[3] .

Direct transfer programs were implemented to compensate for the drop in income in the most vulnerable households (Food Bonus in 1989 and Family Subsidy in 1996); maternal-child programs for the health care of the biologically vulnerable population (health child monitoring with nutritional supplements (PAMI, 1989) and child care centers (HCD, 1989 and 1996-); subsidies for medicines (SUMED, 1996); youth training and capacity building programs; distribution and marketing centers for rural areas and those with greater supply difficulties (PROAL, 1996); school feeding programs to reduce school absenteeism and improve school nutrition (PAE, 1996); among others.

In addition to these protection programs, which at the time were called "social compensation," the traditional social network of schools and teaching centers, health centers and other establishments providing social services, not

3 A summary of the economic and social policy of the State during the external crises of the 80s and 90s can be found in: Ortiz, E. "El Gran Viraje y la Agenda Venezuela". Maestría en Economía Internacional. UCV. 2017.

only remained active, but were also strengthened with programs to improve schools, provide medical supplies and material, in addition to diversifying social care programs through organizations of the civil society civil[4]. This series of actions by the Venezuelan State partially mitigated the negative effect of external shocks. Although in some cases they more than compensated for the loss of income and in others they made a very insufficient contribution, the implementation of these programs contributed to the relative social recovery after the income crisis[5] .

Without the possibility of social compensation

The institutionality of compensation and social protection of the past was progressively lost during the governments of 1999 to the present.

Firstly, due to a Manichean conception of social policy that established a false dilemma between targeting (the perspective of social protection) and the universalism of social rights, which is in no way at odds with the social development policy of those years.

Secondly, due to a search for differentiation and originality of an "autochthonous" social policy that led to what was called "Social Missions" that, finally, was reduced to a policy of insufficient semi-universal transfers through vouchers (between 3 and 5 dollars a month) to members of households belonging to the Patria System[6].

The country was not only left without social institutions to face any income shock of the past or the future; also, as a result of the dismantling of the domestic economy, it was left without an internal tax base to maintain the State. Now the State is not only unable to compensate families, but its very dismantling is a cause of the deterioration of the quality of life of the entire country.

4 On the characteristics of social policy in contexts of recession due to the external shocks of 1989 and 1996, see: Vivancos and España, *El Ajuste estructural y la política social*. IIES-UCAB. 1991 and España, L. y González, *La política de inclusión social*. Caracas. 2008.

5 Freitez and España, "La capacidad compensatoria de los programas sociales", *Temas de coyuntura*, IIES-UCAB. No. 28. 1991.

6 For a review of the evolution of social policy from Chávez to Maduro, see España, L. "De las Misiones sociales al Carnet de la Patria", en: *Venezuela en la Encrucijada. Radiografía de un colapso.* Coordinators: Susanne Gratius, José Manuel Puente, 2020

Reduction and crisis of the Social State

The Venezuelan State is in a clear process of decline. The first to adjust to the fall in oil revenue has been the State itself. Public employment has been reduced by half. There has been a stampede of State workers as a result of the drastic reduction in wages in the public sector. The average income of public workers, according to the National Survey of Life Conditions (ENCOVI) of 2021, was 17 dollars per month, that includes teachers and health personnel.

Because it is an unplanned measure, the best ones that the State has not been able to retain have left. Therefore, health centers, schools and higher education centers may not only have already lost their best human resources, but they also do not have enough staff to even operate full time. Without statistics to estimate how many social establishments closed between the income crisis, the pandemic and the fuel supply crisis, disastrous practices such as the “mosaic schedule” in schools have already become normalized, or, in other words, a school system where teachers and students only attend classes two days a week and the rest of the day is spent doing activities at home, as if we were in a pandemic.

For their part, health centers require from patients the supplies and materials for their care and most (if not all) of the tests and other health services for the diagnosis, treatment and recovery of illnesses.

The general context of many of the country’s populations that do not belong to the metropolitan area of the capital or any of the main cities, are mostly people who are at home doing nothing. Nearly two thirds of the working population is in a non-working condition, either because there are no opportunities, or because they cannot do so due to the care needs of people within the home who require it, or because it is simply not worth going to work for the remuneration they can obtain.

Those who are inserted in the labor market only work 6 hours a day, even though the majority of people in a position to work say they are willing to do so if there were opportunities.

Most young people in Venezuela drop out of school before the age of 17 (only 25% of those between 18 and 25 are studying) and their insertion in the labour market is not only precarious (due to the lack of opportunities and little preparation and instruction) but unemployment among them is three times the national average.

Teenage pregnancy continues to affect 1 in 4 women under 19 years of age. Violence and insecurity, although they have been reduced for various reasons (one of them is associated with "social cleansing" policies by the State security forces), once a certain economic activity has recovered, they progressively return to the streets of the main cities of the country.

Regarding the provision of public services, the panorama is no less precarious. The problems of supply and provision of drinking water do not allow for regularity in the service. In many places, the potability of the water is questionable; and when there is a regularity of service once or twice a week, households can feel lucky.

Garbage collection services are also very precarious, among other things due to problems with equipment and fuel for collection. In a city like Maracaibo, 40% of households say they dispose of solid waste by leaving it in vacant lots or improvised garbage dumps.

But perhaps the electricity supply is what most affects the quality of life of households. According to ENCOVI, one third of the country's households say they have frequent or very frequent power outages and less than 10% of households say they do not have power interruptions.

These deficits have their origin in the lack of resources on the part of the State to maintain the infrastructure that was installed in past decades, in addition to not having financing to undertake the investment required to improve services.

Social and territorial inequality foreshadow a country that is fragmenting. The reduction of the State not only affects its capacity to provide social services, but also to maintain national unity and order.

National integrity is progressively falling apart and with it, the normative order established by the institutions that belong to the same State of Law, that is, governed by a constitution, laws and regulations. In fragmented Venezuela, not only is the normative order supplanted by factual ways of doing things, but these factual ways are also controlled by social actors who construct them from their own attributes of power. In this way, economic mafias, military clans, territorial leaders and social ghettos supplant the order of a State in retreat.

The latest episode of this territorial disintegration is likely to occur with the areas of influence of States of neighboring countries. The country's border states will probably end up more integrated with the States of the bordering territories than with their own State.

Such national and territorial disintegration may return us to the Venezuelan caudillismo of the 19th century, where Maracaibo had more relation with the Antilles than with Caracas, not to mention the Venezuelan Andes, the south or the east of the country, where Colombia, Brazil or Trinidad could be its most important references, as it once was in the past.

This panorama of precariousness and dissolution of the State will only tend to become the new social order if the country continues without recomposing its productive capacity, its insertion in the world market through what continues to be its main advantage (oil), if it does not reinvent a new institutionality and if it does not recover a minimum of legality and rule of law that gives a certain calculability to the action of the State; All of which, as will be understood, will be almost impossible to achieve if the country is once again subject to oil sanctions that lead to a new negative external shock.

The privatization of social assets

The above is the result of a State that is abandoning the spaces it occupied or monopolized under the imprint of an oil project that placed it as the protagonist, and which in turn was fueled to the extreme by the statist desire of the last boom in oil revenues (2004-2012). The State took over so many spaces that the abandonment or withdrawal of the public sector is leaving empty spaces, immense unattended areas, which society finds very difficult to occupy, both due to a lack of expertise and resources.

Without any planning or agreement, there is a "de facto" privatization of essential social assets such as education and health. Services that are not only necessary to face the development of the country, but also and in the short term to improve the well-being of the population.

This privatization of social assets deepens social inequality, which in the end will mean greater obstacles to converting possible economic growth into social development.

Thus, only if families enroll their children in private or subsidized schools do they receive or can receive regular, in-person schooling. On the other hand, only those who can afford the costs of treatments, exams, consultations and medicines can access quality health services.

The private procurement of public services is very expensive: up to 5% of the population (ENCOVI 2023) says they have alternative systems for electricity consumption and nearly 30% of households can afford the costs of tanker trucks to supply themselves with water when the service from the aqueducts is insufficient.

The privatization of social services is not only inefficient but also very inequitable. But even so, the little space that society is managing to cover with its out-of-pocket expenses will be further reduced if the country goes through a new episode of reduced income due to the decrease in oil production and exports because of possible new sanctions.

The generation under threat (2017-2021)

A few days ago, the renowned Cuban writer Leonardo Padura declared to El País of Spain that Cubans lacked everything, including hope. What he meant by that is that hopelessness is the worst thing that can happen to a people. Losing hope is worse than poverty or any other material lack. Hopelessness is the final trap from which it is difficult to escape.

Social psychology (Seligman and Maier, 1960) has long developed the concept of learned helplessness, which consists of the experience of resignation or fatality that underlies individuals or entire communities that, faced with the impossibility of changing their unfortunate situation, end up resigning themselves and accepting their situation, developing a passive attitude that inhibits them from trying to transform it, even when the context (of fatality) has changed.

This concept of hopelessness is preceded by that of resilience (Emmy Werner, 1982)[7], which, on the contrary, consists of individuals or communities adopting a behavior of facing, adapting to, and recovering from adverse, stressful, or traumatic situations, emerging stronger from these experiences.

The transition from hopelessness to resilience requires positive experiences that can be understood as the result of one's own actions. It

7 The seminal work of the so-called "mother of resilience" is: Vulnerable but Invincible: A Longitudinal Study of Resilient Children and Youth. New York: McGraw-Hill. 1982

involves a kind of unlearning of hopelessness, for which positive stimuli are an indispensable, but not sufficient, condition.

In Venezuela, there are no studies that attempt to measure to what degree the country is becoming a hopeless country or, on the contrary, a resilient country. In this regard, the first thing that should be said, and as a hypothesis, is that at least for now both concepts or subjective states of mind are not generalized and therefore must be segmented by traditional variables such as age, sex, socioeconomic status and place of residence.

It would be logical to think that the youngest people from not very low strata and from places where the level of opportunities is above the country's average, have at least the material conditions to be more resilient in the face of the adversity they have had to live through. However, and that is the essence of the concept, there are particular attributes (to be investigated for our specific case), where middle-aged or older people, with limited resources and in places with fewer opportunities, develop active behaviors and confrontation in the face of adversity.

Regardless of the factors that are explaining whether Venezuela is heading in the direction of becoming a society where we lack everything, even hope, or whether on the contrary, what predominates is an active attitude to face and try to change adversity, what is certain is that new episodes of economic and income crises (such as a new reduction in oil income as a result of the non-renewal of oil production licenses) will in no way lead us to a resilient attitude, but quite the opposite.

So far, what we could call the generation of 2017 is the one that has most actively sought a way to escape or change the adversity that it has had to live through, migrating to other societies that offer them the opportunities that they cannot find in the country. It is true that the Venezuelan migration phenomenon of the years between 2017 and 2021 was massive and, therefore, it crossed all sectors of Venezuelan society transversally, but at present not only has the volume of migrants been reduced, but possibly its configuration has also changed.

According to ENCOVI data, based on the information obtained from households that report members living abroad (which implies an underestimation of the number of migrants and may even be biased, since by this means there is no information on households where all their members have ended up living abroad) in the years of greatest exodus, around 800 thousand to one million people left each year. This was an unprecedented event in the continent's migration history. Currently (ENCOVI 2023), the number of households that said they had "concrete plans" to migrate was 7.5%, meaning that some 600,000 people may be thinking of leaving the country as a result of economic and institutional adversity. This figure is relatively stable and some telephone measurements (More Consulting, 2024) seem to indicate that it would be very difficult to witness a migration volume similar to that recorded between 2017-2020. However, this phenomenon may vary in the event that the country is faced with a new negative shock scenario.

The Venezuelan migration phenomenon is relatively recent. The migration that occurred in Venezuela between 2017 and 2020 was the response to an economic crisis that was totally different from those of the past. In this crisis, the continued shortages and hyperinflation, of which we had no record, was what ended up sending huge contingents of Venezuelans to the border. Is it possible that this phenomenon will repeat itself?

There are factors that explain and act as disincentives to the movement of people abroad, such as the saturation of destinations, the lifting of immigration barriers for Venezuelans, xenophobic stories of those who are abroad, as well as the economic difficulties found mainly, although not exclusively, in Latin American destinations.

Similarly, there are other factors that act as incentives to migration, including family reunification processes, dual nationality and language proficiency. In other words, and making a segmented assessment, it seems that the greatest concentration of migration incentives is once again on the side of the youngest and those with the highest incomes.

Of course, none of the above is conclusive. Although recent history shows that when opportunities close in Venezuela, the option to migrate seems to always be open to those who do not resign themselves to the misfortune of what they have to live through, the current barriers could be much more of a deterrent than in the past[8].

8 Freitez and Marotta,"Migración forzada, crisis económica y desequilibrios en el mercado laboral en Venezuela",en: Inserción laboral de la inmigración venezolana en Latinoamérica, Coordinators: José Koechlin, Joaquín Eguren Rodríguez, Guerda Cecilia Estrada Villaseñor, 2021.

That said, and returning to our concepts of hopelessness or resilience, this generation of 2017, which ultimately constitutes part of the country's future, will only find reasons to be active and change their personal situation, that of their community and that of the country, if they are presented with or if they see rewards for their efforts within Venezuela; otherwise, if a hostile environment continues, such as the one that could occur in the coming months if sanctions are deepened or production licenses are not renewed, the option may be hopelessness within the country or resilience outside of Venezuela. In any case, it is easy to understand that the opportunity for this generation, and for an entire country, to take another step towards despair or, on the contrary, towards resilience, will have to do with the possibility that a new negative shock to income does not occur.

A scenario of new sanctions that reduce, even temporarily, the levels of oil production and external income, together with the fact that many Venezuelans (which we have not mentioned so far) consider democracy lost or at least suspended, would lead all factors to increase their despair and, for those who do not, to try to find spaces of resilience... but outside of Venezuela.

06

SANCTIONS, HUMAN RIGHTS, AND HUMANITARIAN RESPONSE

Feliciano Reyna

The effects of these measures would be devastating for the Venezuelan economy and would go far beyond their stated goal of punishing the Maduro government. The measures would make it impossible to continue with the already greatly diminished imports of food and medicine and would seriously jeopardize the government's ability to pay the debt, which, as we have seen, has become its main macroeconomic objective. The country would lose—perhaps forever—its best buyers and would be forced to sell its only export product in markets with lower returns for longer than the duration of the sanctions.

In short: yes, it would be a hard blow to the economic stability of this government, although, as Moisés Naim argues, perhaps not to its political stability. Venezuelans would see their lives worsen even more and the future of the country would be even more uncertain.

A high price that we will pay long after Chavismo disappears

Carlos Sucre and Ramón Espinasa[1]

Introduction

The economic deterioration of Venezuela has been widely documented and analyzed since at least four years before the general and sectoral sanctions were imposed by the United States starting in 2017, and the impact that these have had on the behavior of the economy since then. Less well known, and yet also with extensive documentation, was the situation of violation of the guarantee and enjoyment of social and economic rights in those years, which was added to their violation in other areas of human rights. Years of "erosion of the rule of law[2], a "serious human rights crisis"[3], abuses of power and "grand corruption"[4],

1 "PDVSA Sanctions: How Bad Are They? With sanctions on Venezuela's oil industry a distinct possibility, here are the ugly and uglier aspects of an unprecedented blow to our economy," Caracas Chronicles, July 28, 2017: https://www.caracaschronicles.com/2017/07/28/pdvsa-sanctions-how-bad-is-it/?fbclid=IwAR12Yfu1mNdeUNpUo2ENQt-47wP2_Gbs1u_g6He7vC01msucoWwI_Sl4haM

2 Zeid Al-Hussein, UN High Commissioner for Human Rights, Report "Human rights violations in the Bolivarian Republic of Venezuela: a downward spiral that seems to have no end", June 2018, page 4: "https://www.ohchr.org/en/documents/country-reports/human-rights-violations-bolivarian-republic-venezuela-downward-spiral-no

3 Amnesty International, Report "Human rights crisis in Venezuela", February 2019: https://www.es.amnesty.org/en-que-estamos/blog/historia/articulo/crisis-de-derechos-humanos-en-venezuela/

4 Transparency International, "Grand corruption in Venezuela and its impact on the Latin American Region", José C. Ugaz, Corruption Report 2018, pages 270 and 271: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://

generated what would later be identified, according to the definition of the United Nations, as a "complex humanitarian emergency"[5]. Although various reports, including the most recent ones from the Office of the United Nations High Commissioner for Human Rights, indicate that general and sectoral sanctions have "exacerbated"[6] the precariousness of the lives of the most vulnerable people and it is not easy to demonstrate a direct link with them, the facts show that, years after they were imposed, a majority of the Venezuelan population continues to live in extreme situations with respect to their social and economic rights. In addition, more than 7 million people have been forced to migrate, most of them running severe risks on their journeys to other countries[7].

For many actors, sanctions have played a decisive role in the negotiation processes that have taken place over the years. They are not a single "package"; there are different forms, although in general they are designated as "the sanctions." Treating them in a simplistic way, as a package, has facilitated their instrumentalization by various actors: for the Venezuelan government, "the sanctions" have prevented a solution to the serious social problems of the country; for various actors of the partisan opposition, as well as for spokespeople from other sectors, including some from civil society, without "the sanctions" there is no possibility of forcing a change of government. For those who have imposed general or sectoral sanctions, such as the United States, they cannot be relaxed or lifted because the "regime" would be strengthened in power, and for this reason they even propose turning them into law, which would make it even more difficult to do so. However, since the imposition of general and sectoral sanctions, we have seen with concern how they began to affect very diverse aspects of people's lives, as well as the work of human rights organizations and the incipient humanitarian action that began to be deployed since the end of 2017 and, with international

transparenciave.org/wp-content/uploads/2019/11/La-gran-corrupci%C3%B3n-en-venezuela-y-su-impacto-en-la-regi%C3%B3n-latinoamericana.pdf

5 University of the Basque Country and Hegoa, "Complex emergency", Dictionary of Humanitarian Action and Development Cooperation, Karlos Pérez de Armiño and Marta Areizaga, 2000: https://www.dicc.hegoa.ehu.eus/listar/mostrar/85.html

6 Michelle Bachelet, UN High Commissioner for Human Rights, "Statement on the recent sanctions imposed on Venezuela", August 8, 2019: https://www.ohchr.org/es/statements/2019/08/statement-michelle-bachelet-recent-sanctions-imposed-venezuela

7 R4V, Interagency Coordination Platform for Refugees and Migrants from Venezuela, "Latin America and the Caribbean, Venezuelan refugees and migrants in the region", May 2024: https://www.r4v.info/es/node/91585

support, from 2018. In other words, the broader imposition of general and sectoral sanctions coincided with a humanitarian response that required openness and guarantees, not more restrictions added to those imposed for several years by the authoritarian action of the Venezuelan government itself. A kind of "sanctions mode" was established in which exceptions and licenses for humanitarian reasons have been very limited in scope and interpretation to have a real and timely impact. Furthermore, this climate has made it difficult for the global trend towards "localization"[8] to become a reality, that is, the transfer of resources to local, small and medium-sized organizations, given the requirements of compliance with the sanctions framework, and is likely to be partly responsible for the very limited, conservative investment by international cooperation actors in the United Nations humanitarian response plans for Venezuela.

Responses to the needs of the population, as well as the re-institutionalization necessary for them to be sustainable, continue to be conditioned by the eventual resolution of the Venezuelan political conflict[9], which will be a long-term process. Trying to separate them, in order to address these needs with the urgency required, implies a multi-track approach, which does not cancel out or exclude each other; on the contrary, they can allow significant progress for people's lives, while pursuing long-term goals. That is, understanding that the political factors of the conflict cannot be ignored and that, rather, they have been accentuated since July 28, it is necessary to design responses to address the population that can advance along their own paths and at the speed that the situation of violated social and economic rights requires. In this sense, for example, the participation of the so-called "international community" must be multilateral, to prevent the internal politics of other countries, whether democratic or authoritarian in nature, from ultimately driving the process, without considering the damage that decisions taken with respect to Venezuela may cause to the Venezuelan population.

The relaxation or, better yet, the lifting of general and sectoral sanctions would be one of those multiple channels that we will describe later and include robust scrutiny of human rights, the strengthening of the

8 OCHA, UN Office for the Coordination of Humanitarian Affairs, "A review of localization", 31 October 2019: https://reliefweb.int/report/world/a-review-of-localization

9 Dictionary of the Royal Spanish Academy, "Conflict": 1. m. Combat, fight, struggle. Also used in a figurative sense; 3. m. Distress, unfortunate situation with a difficult way out.

humanitarian response and the return to formal financial markets with their respective mechanisms of transparency and accountability.

Situation of human rights in Venezuela, 2012-2016.

The reports by civil society organizations to mechanisms of the universal human rights system, the Universal Periodic Review (UPR) and the reviews of the Venezuelan state before the Committee on Economic, Social and Cultural Rights, and the Committee on Civil and Political Rights, which took place between 2015 and 2016, as well as before the Inter-American Commission on Human Rights, warned early on of Venezuela's entry into a context of need for humanitarian assistance for large sectors of the population. We will quote some texts from these reports that, put together in accordance with the designed methodology, gave an account of a structural situation that required attention[10].

Right to food.

In Venezuela, the speed of nutritional deterioration indicates the existence of a severe food insecurity crisis already on the way to an emergency in geographic areas of the country and in groups at greatest risk. The population's diet is increasingly insufficient and of low quality. The National Food Consumption Survey of the INE revealed a decrease in consumption in 2013, with adolescents and older people being the worst fed.

Nowadays, not only are the quantities consumed less, but carbohydrate consumption reaches 75% of the daily diet, almost completely eliminating proteins, which warns of a serious nutritional situation and health risks, such as growth retardation in children, anemia and diabetes, which went from fifth to third place in the main causes of death according to the latest health statistics published in 2013.

10 Reports from other stakeholders for the Universal Periodic Review of Venezuela, second cycle: https://www.ohchr.org/en/hr-bodies/upr/uprve-stakeholders-info-s26

Right to health.

In 2015, 70% of public hospitals had 30% of inoperative beds, 70% of supplies and 80% of medicines were in short supply, more than 50% of medical personnel were out of work, 60% of equipment was out of service, and there were power and water shortages. According to the 3rd National Hospital Survey by the Red de Médicos x la Salud (Doctors for Health) and the Venezuelan Health Observatory (OVS), to which nearly 100 hospitals out of a total of 240 reported, in 23 of the 24 states of the country, between 2014 and 2015, severe deficiencies in the services of these centers increased: from 55% to 76% of medication shortages; from 57% to 81% of medical-surgical supplies shortages; from 55% to 87% of catheters and probes shortages; From 28% to 69% there were shortages of water; and from 38% to 41% there were inoperative operating rooms.

Also, 89% of emergencies, 77% of operating rooms and 95% of laboratories had high shortages (…). In these circumstances, the waiting lists for surgery increased to some 400 thousand people in 2015, and the risk of death increased for pregnant women and people who require immediate interventions, due to a lack of specialists, beds and medical-surgical material, oxygen, blood banks, equipment and ambulances.

Right to education.

The deterioration of the physical infrastructure of public schools is widespread and the shortage of educational facilities is greater. This deficit affects rural and indigenous areas more, where there are cases of overcrowding in schools. Although the legal framework establishes that basic education is free, part of the costs of school maintenance and transportation specifically related to the School Feeding Program (PAE) are transferred to the communities of the schools, so their members must work days to carry out maintenance work and collect funds to pay for the transportation that takes the PAE supplies to the schools.

The coverage of basic education in public schools shows a sustained decline and absenteeism has increased and, consequently, school exclusion. A

2016 study of public schools in the state of Miranda found that 48.1% were absent due to food-related issues (they had not eaten, were weak, saved up to buy food, went to queues to buy food). Teachers' salary levels have been drastically reduced and they are prevented from demanding compensation.

Gender equality and women's rights.

The rate of teenage pregnancy is the highest in the region: 101 per thousand live births in 2014. That year, unplanned pregnancies in teenagers represented 55.3%, according to a study by the National Council Institute for the Rights of Children and Adolescents (IDENNA), 11.4% ended in abortion and 79.8% of couples did not use contraception with their first child. In 2010, the Official Standard for Comprehensive Care in Sexual and Reproductive Health placed abortion as the third cause of maternal death. There are no campaigns on responsible exercise of sexuality and parenthood. The shortage of contraceptives exceeded 85% in 2015, which constitutes a regression in the right to reproductive autonomy of women. The shortage of condoms increases the risk of women to sexually transmitted infections, including HIV/AIDS.

Maternal mortality is one of the highest in the region. The death rate has not changed in more than a decade, with an average ratio of 61.49 deaths per 100,000 live births, according to official figures. Between 2009 and 2013, the rate rose to 70.83 deaths, and between 2014 and 2016, it rose from 68 to 130.7; the majority of these deaths were due to caesarean sections (36.4%), births (20.6%) and unfinished pregnancies (4.2%). The severe interruption of medicines and health services significantly affects girls and adolescents, pregnant women, prisoners, elderly women and women with chronic conditions (breast cancer being the main cause of death among women), without protection against the increase in tuberculosis and malaria and dengue epidemics.

Rights of indigenous peoples.

The shortage of food, health supplies and medicines that affects the entire country is more severe in indigenous territories. Although the Executive has implemented food distribution programs at regulated prices, there is no precise data on their scope. Wayuu indigenous people in their binational condition travel to various cities to obtain and transport food, a practice that has intensified in the current crisis, being victims of stigmatization and discrimination with the label of "bachaqueros" or "smugglers." Warao indigenous populations in the state of Delta Amacuro suffer a process of displacement to illegal mining areas and urban centers. This has influenced an alarming increase in cases of indigenous people with HIV without care or treatment for prevention and control of the virus.

Humanitarian response.

Although Venezuelan organizations had warned in their 2015 and 2016 reports about the deterioration of guarantees and enjoyment of social and economic rights, further aggravated by the erosion of the rule of law, institutional weakening, repression and corruption, the recognition of the need for assistance from a humanitarian perspective of the population and the installation of mechanisms to provide it would take place in mid-2019.

On July 21, 2016, more than 80 organizations sent a communication to the then UN Secretary General, Ban Ki-moon, demanding that he recognize the crisis and correct the serious deficiencies of the United Nations agencies in Venezuela, "…in a context of accelerated increase in poverty, economic and social fragility, political and institutional instability, as well as facing a massive and severe shortage of food, medicines and medical supplies throughout the national territory and the absence of internal capacities to solve this situation in the medium term." In August 2016, in an interview with the newspaper La Nación in Argentina, he responded to the allegations by declaring: "I am very concerned about the current situation, in which basic needs cannot be met, such as food, water, healthcare, clothing, they are not available. This creates a humanitarian crisis in Venezuela. This whole situation is created by political instability. And before anything else, there has to be political stability. The UN is ready to help, but the powers and regional organizations are already committed."[11] In 2017, the accelerated increase in migration began, one of the key factors determining the existence of a serious human rights crisis and the precariousness of life. Changes in the management of some agencies and conversations with the Venezuelan government finally opened the space for

11 Ban Ki-moon, "There is a humanitarian crisis in Venezuela," Diario la Nación, Argentina, August 10, 2016: https://www.lanacion.com.ar/el-mundo/ban-ki-moon-en-venezuela-hay-una-crisis-humanitaria-nid1926563/

the installation in Venezuela, in June 2019, of the so-called "humanitarian architecture", under the direction of the Resident and Humanitarian Coordinator and the Office for the Coordination of Humanitarian Affairs of the United Nations, OCHA

This moment coincides with the deepening of the political conflict in the country, the creation of the "interim government," and the failed and misnamed "humanitarian aid operation" of February 2019. The audit carried out by the Inspector General of the United States Agency for International Development (USAID) noted in its 2021 report that "the Office of the Administrator's directive to place humanitarian aid (on the Colombian side of the border) was not guided by technical knowledge or fully aligned with the humanitarian principles of neutrality and independence of the Office of the Inspector General, nor based on a needs analysis."[12]

In addition to the mistrust that the February 2019 event provoked in the humanitarian response that was just beginning to take hold in Venezuela among national and international actors, coordinated by OCHA, executive orders 13857[13] dated January 25, 2019, and 13884[14], dated August 5, 2019, signed by the then President of the United States, Donald Trump, expanded the definition of "Government of Venezuela," which in previous orders only included limitations on management with government entities or officials, to include the Venezuelan "State." This has led to greater caution on the part of the legal and compliance departments of international institutions, multilateral institutions, and companies, and has forced even small and medium-sized civil society organizations to be affected by obstacles resulting from so-called "overcompliance" and to be required to implement exhaustive due diligence mechanisms, making their work difficult or making them ineligible for some cooperation agreements.

Despite the publication of general licenses, which contain exceptions to authorize the provision of goods and services related to humanitarian

12 USAID Office of the Inspector General, "Enhanced Processes and Implementer Requirements Are Needed to Address Challenges and Fraud Risks in USAID's Venezuela Response," Audit Report 9-000-21-005-P, April 16, 2021: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://oig.usaid.gov/sites/default/files/2021-04/9-000-21-005-P_0.pdf

13 Executive Order 13857, "Taking Additional Steps to Respond to the National Emergency Regarding Venezuela," January 25, 2019, page 1: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://ofac.treasury.gov/media/5491/download?inline

14 Executive Order 13883, "Blocking Venezuelan Government Property," August 5, 2019, page 2: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://ofac.treasury.gov/media/26786/download?inline

response, overcompliance remains the general rule. This text, from the Guidance published on August 6, 2019, just one day after Executive Order 13884 was enacted, indicates the Office of Foreign Assets Control's (OFAC) awareness that these orders can have a significant impact on the provision of goods and services: "Statement of Licensing Policy for Transactions Not Otherwise Authorized by OFAC's General Licenses: OFAC maintains a long-standing and favorable specific licensing policy supporting the provision of humanitarian assistance through which U.S. persons may request OFAC approval for such transactions. OFAC considers specific licenses on a case-by-case basis and prioritizes license requests, compliance questions, and other requests related to humanitarian support to the Venezuelan people."[15]

Despite the general licenses and their support for the provision of humanitarian assistance, over-compliance is inevitable and delays and bureaucratic obstacles can even cost lives, for example, if there are delays in the management of the purchase of essential equipment for public hospitals. There are still problems in opening and maintaining accounts abroad, not only in the United States of America, for Venezuelans who do not have another nationality or, even if they do, have a correspondence address in Venezuela. This makes it difficult, or prevents the receipt of resources from quite a few actors in international cooperation, who request that organizations or their members have accounts abroad, preferably in the United States or in some European country. The inclusion of the "State" in the definition of "Government of Venezuela" in the executive orders even prevents the use of the Conviasa airline, the only one that reaches some cities where the humanitarian response is being implemented, for humanitarian activities carried out with the support of international cooperation linked to the United States. In times of flight shortages, this is a major impediment to national mobilization, particularly for humanitarian action.

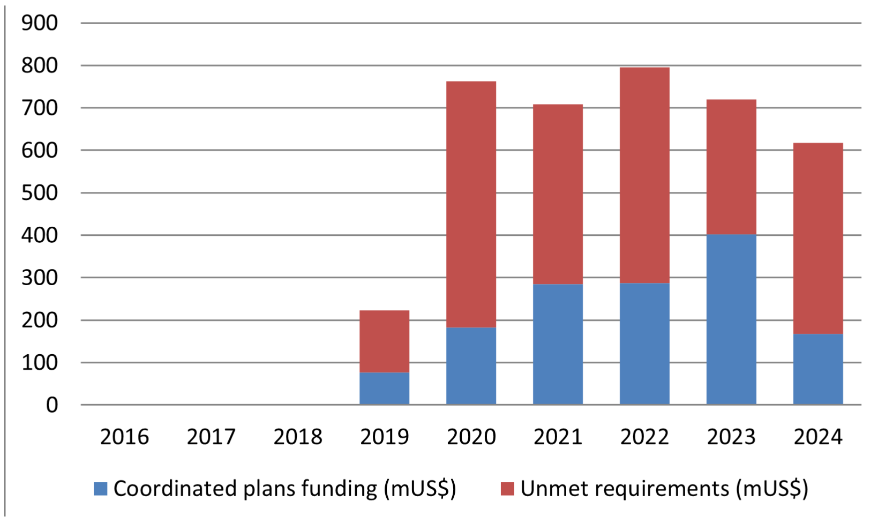
"Sanctions mode"

The following graphs show the amount of resources requested for the financing of Venezuela's Humanitarian Response Plan (PRH) since it began

15 U.S. Department of the Treasury, "Guidance Related to the Provision of Humanitarian Assistance and Support to the Venezuelan People," August 6, 2019 2019: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://ofac.treasury.gov/media/26781/download?inline Venezuela Humanitarian Response Plan, 2019-2024: https://fts.unocha.org/plans/1135/summary

to be developed in 2019. Despite being one of those that requests the least resources, the receipt of funds has always been very deficient. In 2024, until the end of October, only 18% had been received[16].

Graph 1. Humanitarian response plan: Venezuela 2023. (millions US$)



Sources: Financial Tracking Service

When analyzing the PRH of countries in need of assistance, Venezuela appears in 17th place, with a request for $617 million, while similar critical situations, measured by factors such as lack of access to food and nutritional deficits, health and education, as well as data on people who have migrated because they cannot cope with the situation of need in their country, all exceed $1 billion[17].

16 Venezuela Humanitarian Response Plan, 2019-2024: https://fts.unocha.org/plans/1135/summary
17 Global Humanitarian Response Plans, 2024: https://fts.unocha.org/plans/overview/2024

Table 1.

	Humanitarian Response Plans	Required(US$)	Received (US$)	Coverage (%)
1	Siria	$4,074,158,710	$1,199,593,855	29.40%
2	Etiopía	$3,235,782,784	$743,393,884	23.00%
3	Ucrania	$3,107,702,931	$1,864,908,235	60.00%
4	Afganistán	$3,059,587,797	$1,249,964,560	40.90%
5	Yemen	$2,705,762,394	$1,299,844,467	48.00%
6	Sudán	$2,695,680,744	$1,591,043,630	59.00%
7	Congo, Democratic Republic	$2,580,627,746	$1,260,266,588	48.80%
8	South Sudan	$1,788,817,122	$1,110,250,325	62.10%
9	Somalia	$1,585,259,297	$659,436,975	41.60%
10	Chad	$1,124,572,823	$602,991,043	53.60%
11	Myanmar	$993,548,103	$327,770,091	33.00%
12	Burkina Faso	$934,604,385	$390,007,922	41.70%
13	Nigeria	$926,542,686	$519,594,983	56.10%
14	Mali	$701,569,941	$246,310,799	35.10%
15	Haití	$673,767,352	$286,265,103	42.50%
16	Nigeria	$662,192,757	$305,427,202	46.10%
17	Venezuela	$617,034,811	$113,392,465	18.40%
18	Mozambique	$413,420,177	$172,714,317	41.80%
19	Cameroon	$371,369,724	$146,740,903	39.50%
20	República Centroafricana	$367,670,976	$208,081,586	56.60%
21	Colombia	$331,990,687	$185,691,198	55.90%
22	Honduras	$203,159,869	$60,620,704	29.80%
23	Guatemala	$125,401,425	$64,233,222	51.20%
24	El Salvador	$86,585,525	$23,516,010	27.20%

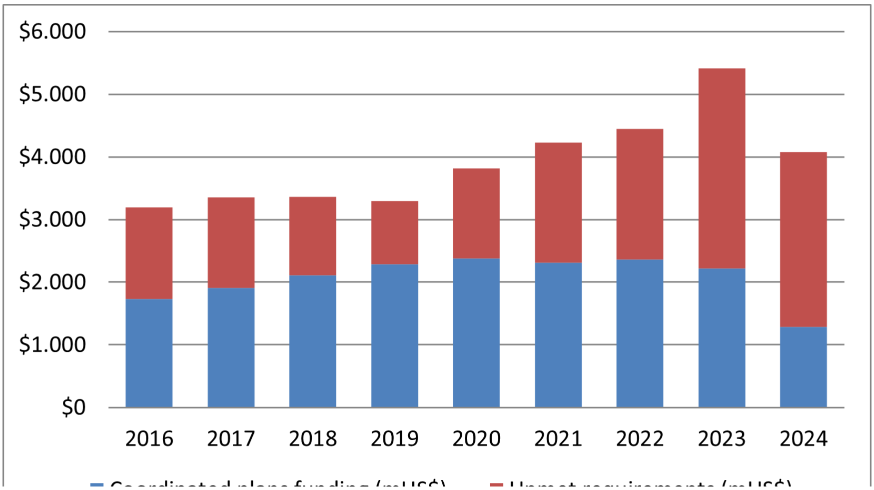
Sources: Financial Tracking Service

The same graph shows that, as of the end of October, Venezuela is in last place among the 24 humanitarian response plans in the world in the percentage of receipt of resources for humanitarian response.

This funding deficit affects the scope of the response coordinated by the United Nations system and is, at the same time, a reflection of the reduction of resources for the implementation of assistance programs not framed in the Humanitarian Response Plan. This is a context in which some independent cooperation agencies have decided not to continue providing resources to Venezuelan organizations, due to an environment that they consider restrictive, unsafe and "complicated" to work in.

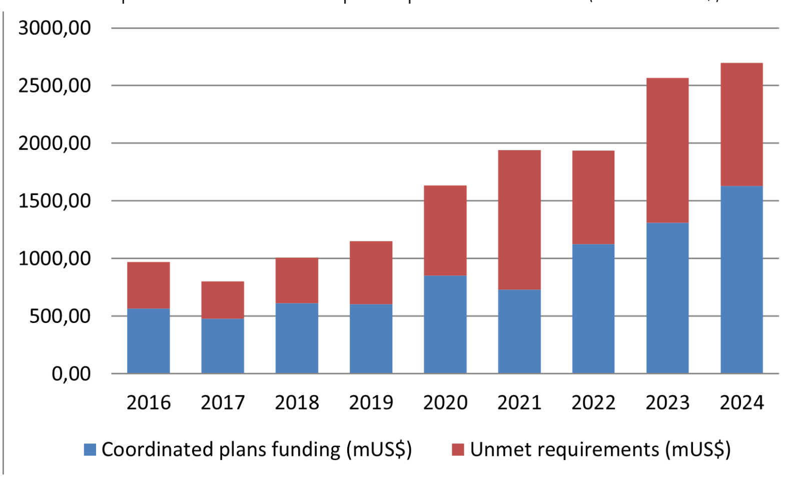
Let us consider the financing of responses in two environments that are also complex, politically and socially, such as Syria and Sudan:

Graph 2. Humanitarian response plan: Syria 2024. (millions US$)



Sources: Financial Tracking Service

Graph 3. Humanitarian response plan: Sudan 2024. (millions US$)



Sources: Financial Tracking Service

What makes us so different? Why such a large gap between what was requested for Venezuela's PRH and what was received, if in addition what was requested for Venezuela was 15% of Syria's PRH and 22% of Sudan's? The donors are similar, always with the US Agency for International Development as the main one in the three cases, the European Commission as the next, and then different countries and funds that vary somewhat, but in the three cases they include the United Kingdom, France, Canada, Sweden, Switzerland, the Netherlands and Norway. In the cases of Syria and Sudan, there is a very long list of other donors. Once again, what makes us so different in the view of international cooperation? Is it possible that this "sanctions mode" has some influence?

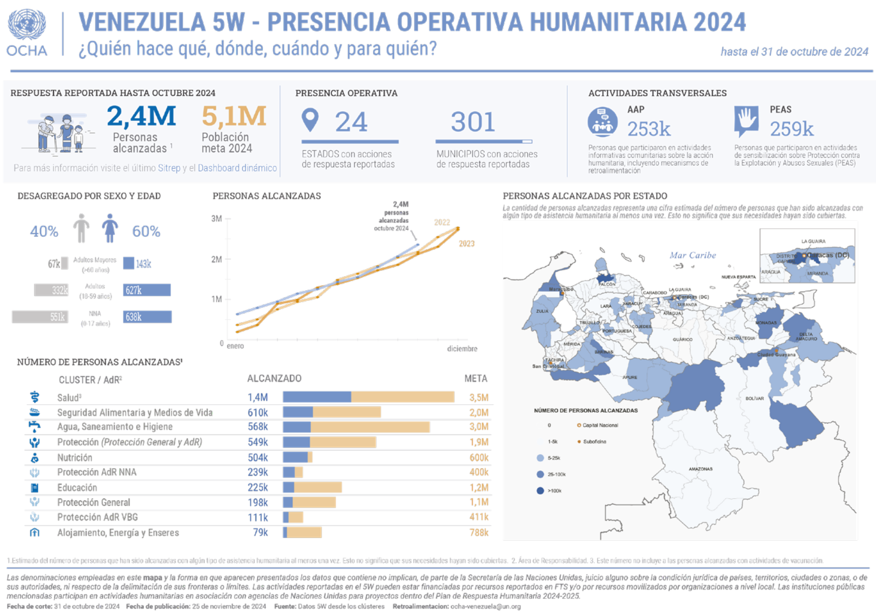
On the other hand, instruments such as the recently approved *Law on the supervision, regularization, performance and financing of non-governmental and related organizations*, not yet published in the Official Gazette, imply serious additional restrictions that can even lead to the arbitrary dissolution of an organization. This law also appears in a context of restrictions on freedoms of expression, association, assembly, participation, and the defense of human rights, which have deepened since July 28, 2024. However, the complexity of the political conflict and the challenges in terms of human rights and humanitarian assistance should result, precisely, in robust and sustained support.

The consequences of the funding deficit for the humanitarian response can be seen in its scope: the population in need of assistance, according to the Humanitarian Response Plan, is 7.6 million people; of these, the goal is to reach 5.1 million.

However, as of October 2024, only 2.4 million people had been assisted[18]. If more resources were received, it would be possible to reach an additional 600,000, that is, 58.8% of the goal would be reached.

18 Relief Web, Venezuela: Humanitarian operational presence 2024: https://reliefweb.int/report/venezuela-bolivarian-republic/venezuela-5w-humanitarian-operational-presence-2024-who-does-what-where-when-and-for-whom-until-30-september-2024. Relief Web, HumVenezuela, "Humanitarian emergency monitoring report

Graph 4.



This funding deficit and its consequence, the insufficient outreach to people in need of humanitarian assistance, are even more worrying when taking into account that, in addition to them, there are still 41% more people in Venezuela who by November 2023 had exhausted their livelihoods, who no longer had how to cover their most basic needs, according to the HumVenezuela[19] platform, an initiative of more than 90 organizations to collect information on the humanitarian situation in 19 states and the Capital District. In a context of more economic restrictions, insecurity, lack of access to services such as water, electricity, transportation and domestic gas, they will consider that their only alternative for survival is migration, with all the risks that it implies, including human trafficking and smuggling, forced recruitment, exploitation and sexual abuse.

19 Relief Web, HumVenezuela, "Humanitarian emergency monitoring report " November, 2023 https://reliefweb.int/report/venezuela-bolivarian-republic/informe-de-seguimiento-la-emergencia-humanitaria-compleja-en-venezuela-noviembre-2023

The multi-track approach

The closeness with hundreds of people affected in their right to health for almost 30 years, particularly in the area of HIV and, shortly after, with those affected by all kinds of complex chronic conditions, and, since 2016, with thousands in need of humanitarian assistance, as well as incessant days of reflection with fellow human rights defenders, humanitarian actors and diverse sectors of civil society, have resulted in this multi-track approach to try to understand the very complex Venezuelan context, its relations within and with the international world, how to act to mitigate its effects on vast sectors of the population, hopefully in the shortest time possible, and, at the same time, contribute to the design of sustainable proposals for reinstitutionalization, respect and guarantee of the exercise of democratic freedoms, validity of human rights and recovery of decent living conditions for the population.

Without attempting to exhaust these multiple paths, which are not mutually exclusive, but can advance or retreat at different speeds and times, or to place them according to their priority, we propose to consider the following:

1. International dialogue and negotiation.
    a. Even with its advances and setbacks, with achievements considered insufficient, this process between national political party actors, with the participation (facilitation, mediation, accompaniment) of international actors, must continue. A "Special Envoy" could be appointed with the authority, experience and capabilities to design a mechanism for building and complying with agreements.
    b. The participation of the so-called "international community" must be multilateral, and include countries from different systems of government, between democracies and authoritarianisms, that contribute to endorsing and guaranteeing compliance with the agreements.
    c. The diplomatic representations that left Venezuela as a result of the political conflict must make all possible efforts to return to the country. Being in Venezuela and having contact with the realities of life of the population in the different regions,

cities and towns is not the same as trying to understand them from abroad.

d. There must be openness to the participation of diverse voices of civil society, with all its plurality, and to other forms of civic and community organization, in any process of generating dialogue and negotiation. Its eventual success requires validation and appropriation by the Venezuelan population.

2. National dialogues and agreements.
    a. Dialogues and agreements between diverse sectors have been taking place in different regions of the country, and include communities, civil society organizations, academia, unions, producers, and businessmen.
    b. There is also dialogue between these sectors and regional and local authorities, even more so if the focus on civil servants extends to other institutions such as education, health, and public services.
    c. This national, regional, and local dynamic must be taken into account in the spaces for dialogue and negotiation that include the participation of international actors. As stated above, social assessment and support can be the guarantee for the defense and sustainability of the agreements.
3. Institutionality.
    a. Agreements for the re-institutionalization of Venezuela could be generated from national and international dialogues and negotiations. Two institutions would be among the priorities:
        - The National Electoral Council, to facilitate the holding of the electoral processes of the year 2025, which would allow for the diversification of political representation in the regional and local government spaces, as well as in the National Assembly.
        - The justice system in general, with guarantees, in the first instance, so that participation in the electoral processes of 2025 represents all political-party or independent options that aspire to be elected.

4. Economic measures.
    a. Venezuela has professionals who have already dealt with these issues, including drawing attention to the framework of legal guarantees and respect for agreements for the recovery of the economic sector. The revitalization of the economic sector can make a decisive contribution to the recovery of guarantees and the enjoyment of social and economic rights of the Venezuelan population.
5. General and sectoral sanctions.
    a. We propose their lifting due to the various consequences that arise from them:
        - Dependence on the internal policy of the country that imposes them.
        - Unwanted effects on the guarantee of social and economic rights.
        - Uncertainty in operations dependent on the award or suspension of licenses.
        - The promotion of transactions in areas where opacity and corruption prevail, instead of facilitating Venezuela's return to formal markets and exchanges with economic agents subject to transparent rules.
        - Perception of Venezuela as a "complicated" country to invest in or with which to cooperate in humanitarian and development programs.
6. Robust scrutiny of human rights.
    a. The mandates of the Office of the United Nations High Commissioner for Human Rights (OHCHR) and the Independent International Fact-Finding Mission on Human Rights were renewed, and they must submit reports over the next two years, until September 2026.
    b. The OHCHR staff must return to the country and aim to formally establish the Office, to maintain the functions of protecting human rights and providing technical advice to State institutions.

c. The cooperation of the Venezuelan State with the Office of the Prosecutor of the International Criminal Court (ICC) must be maintained.

d. Venezuela must revoke its resignation from the OEA, as well as its denunciation of the American Convention on Human Rights.

e. Only through mechanisms of dialogue, cooperation, and the cessation of conduct that has generated human rights violations and the need for the intervention of the ICC, will Venezuela be able to guarantee the democratic re-institutionalization of the country, the validity of human rights and processes of truth, justice, reparation and guarantees of non-repetition. The ultimate goal is for the population to recover full conditions of a dignified life.

f. An enabling regulatory framework must be created for all expressions of civil society organizations to carry out their work, and for a fully open civic space.

7. Humanitarian response.

   a. A framework of legal guarantees, stable investment and growth, and an environment free from the restrictions imposed by general and sectoral sanctions could allow the resources required for urgent investments in assistance to the population in need to be made.

   b. "Localization," as an instrument to provide assistance and create conditions for local organizations to strengthen their capacities and make their actions sustainable, could finally become a reality. These organizations would not need heavy bureaucratic structures but would focus on providing the required assistance quickly, including of course adequate accountability.

   c. As an immediate measure, the Social Fund resulting from the negotiations in Mexico, administered by the UNDP, should be restored. This would allow urgent investments in the areas of health, food and education, and partial recovery of the electric power distribution system.

8. Transparency and accountability.
    a. Venezuela's sustained return to formal markets, as a result of the lifting of general and sectoral sanctions, would imply the possibility that internally generated resources, as well as those obtained from international financial institutions, would be subject to scrutiny and transparent accountability.
    b. It would be possible to reach agreements with people involved in acts of corruption for the return of assets and resources with guarantees of non-prosecution.
    c. The experience of Transparency International and its Venezuelan chapter should be used to implement measures and mechanisms for the prevention and punishment of corruption.

    While we were writing this text, we found an experience of peacebuilding from the perspective described, developed since 1992 by the Institute for Multi-Track Diplomacy, which describes 9 paths from which to act and could be a source of inspiration: "Multi-track diplomacy considers the establishment of international peace as a living system. Since 1992, we have worked to enhance the network of interconnected relationships that work together for a common goal: a world at peace. We seek to strengthen the interconnectedness of activities, individuals, institutions, and communities to improve systems and lives globally." (https://imtdsite.wordpress.com/)

Final reflection.

Even in the midst of the multi-level complexity of the Venezuelan situation, deepened by the events after July 28, 2024, I want to imagine that it is possible to bring conflict management to Venezuela, to travel this long road towards the institutional, social, economic and political recovery of the country, as well as to the peremptory cessation of human rights violations, while solving the immediate problems, which make the majority live precariously or feel that migrating is their only way out. If a structural change were to occur, including a new power group in the government, and with the risk of simplifying a multi-level conflict like ours, do we advocate and work from now on to find a country that is recovering its institutional capacities, with agreements to end repression and its serious consequences, with a population that is better served in its social and economic rights, with a productive apparatus generating certain levels of well-being, or would it be preferable to keep it as a closed space, in permanent conflict, with a small and sanctioned economy, with majorities living in precarious conditions, dependent on geopolitical conflicts between democracies and authoritarianisms and on its internal politics, for an indefinite time?

HEMISPHERIC STABILITY AND VENEZUELAN BUSINESSES

07

Carlos A. Ramirez G.

During the last decade Venezuela went from exporting oil, baseball players and beauty queens, to becoming an exporter of migrants and problems into the Western Hemisphere as its diaspora, based on different estimates, could add up to 7.7 million people. This figure is higher than the number of war refugees that have abandoned Syria and Ukraine. Images of thousands of Venezuelan migrants arriving each month to US cities, sleeping in public parks throughout Latin America, and being victims of violent xenophobic attacks in a number of Andean countries are becoming too frequent.

Latin America's weak state finances, in addition to the limited public health and educational options these countries have, constrain the region's capacity to absorb millions of Venezuelan migrants without facing dangerous local social and political consequences. As experienced during the last five years, the streets of Chile, Ecuador, Peru and Colombia, just to name four countries, could very quickly go from peaceful to violent. The Venezuelan mass migration crises could therefore affect the weak political balances that support the stability of several countries in the Americas. What used to be Latin America's wealthiest country has become an important source of chaos and instability for the entire Western Hemisphere.

As the Venezuelan economy shrank from a GDP of USD 360 billion in 2012 to less than USD 100 billion in 2023, thousands of private businesses disappeared and millions of Venezuelans lost their jobs. Unable to find jobs that pay enough to cover basic needs, millions of people have been leaving their loves ones and their home country behind. During the course of this exodus, migrants face a dangerous journey through desserts, mountains and jungles in search of economic opportunities in South America, and, most recently and increasingly, in the United States.

Only the private business sector has the capacity to create the millions of good paying, productive, and stable jobs Venezuelans need to stay in their own country, and eventually, to reverse the migration flow. Therefore, any policy changes made in Caracas, Washington and/or Brussels that affect Venezuela must consider the effect such policies would have in the private business ecosystem.

While there is an ongoing debate among some scholars about what portion of Venezuela's economic debacle during the last decade is attributable to ill-conceived policies, to inappropriate management, and to US economic sanctions, it seems clear that under the US economic sanctions regime effective during the last years Venezuela will not have a significant and sustainable economic recovery. Top leaders of Venezuela's chambers of commerce and industry, which have historically differed with the country's government over a long list of issues, have publicly requested the end of US economic sanctions. The temporary lifting of certain economic sanctions announced on October 17th of 2023 by the US government was a positive development for Venezuela's private business community, and therefore, for the Venezuelan people. Unfortunately, this general license only lasted 6 months and as expected, the non-surrender generated a negative impact on the economy.

The top concerns and challenges business owners and chief executive officers from all regions and industries of Venezuela have today are mainly related to the unintended consequences of US sanctions. Specifically, they are associated with (i) considerably low demand for their products and services, (ii) over-compliance by foreign banks and business counterparts, and (iii) lack of access to international financing alternatives.

As GDP shrank by approximately 80% during the last decade, Venezuelan companies concentrated on basic survival strategies to cope with the crisis. Fundamentally, they focused on guaranteeing cash flow and generating schemes and policies that would allow them to face the loss of trained personnel at all levels. Surviving Venezuelan companies are currently operating with considerable spare capacity averaging close to 70% in the industrial sector. Having to spread out the fixed costs associated with an important unutilized installed capacity among a reduced number of products, Venezuelan companies' high unit costs place them at a competitive disadvantage against foreign goods and risk their medium-term viability. Another challenge that Venezuelan companies are facing is to have top executive talent that has the capacity to successfully carry out the processes that will guarantee growth, sustainability and profitability. Even in the current economic situation, with a small economy, there is a shortage of skilled talent, largely due to migration.

Given that oil accounts for more than 90% of Venezuela's exports, and oil revenue has historically represented the main driver for consumer spending in Venezuela, US sanctions on the country's oil industry have seriously constrained the recovery potential of all other local economic sectors. As long as consumer spending remains constrained, there will not be a significant recovery of sales by private companies, and therefore in new jobs, in sectors spanning from construction, to agribusiness, industrial, services, etc.

Temporary economic sanctions relief is clearly a positive development that should increase oil exports revenue in the short term. However, it is not enough to trigger the sustainable and significant economic recovery required to create the millions of new decent jobs Venezuelans need.

Given the current situation of Venezuela's state-owned energy company PDVSA, only multinational energy companies have the technological and financial capacity to lead a fast and significant recovery of oil and gas production in Venezuela. The magnitude of the investments needed in the energy sector requires a reasonably predictable long-term business outlook. This will not exist as long as the presence of multinationals in Venezuela depend on a six-month license granted by the US government, with an extension possibility that depends on political considerations.

Fear of US sanctions have created an over-compliance environment that drives foreign banks, insurance companies, providers of technology and equipment, and even potential clients to end existing business relationships with Venezuelan companies. This has considerably increased the cost of doing business to Venezuela's private enterprises, further restricting their capacity to compete with foreign players.

Venezuelan companies have no access to financing alternatives from international development banks currently lending to companies from other Latin American countries, such as the IFC and IDB Invest. Those multilateral banks are currently closed to the possibility of working with private Venezuelan banks to channel loans to credit-starved local companies, which is a financing practice widely used by them in other countries.

Sanctions have also restrained the capacity of Venezuela and its international creditors to sit down to restructure the country's defaulted foreign debt. Such sovereign and quasi-sovereign debt renegotiation is a required step in order to eventually reopen the international capital markets to Venezuela's private corporates. This lack of access to foreign capital, either private or multilateral, strongly affects Venezuelan companies' capacity to compete against products made by foreigners who benefit from global financing alternatives.

Venezuela's private business sector is clearly smaller and weaker than what it was ten years ago. However, Venezuelan business people are, by emerging market standards, highly sophisticated, hard-working and resilient. The country's largest conglomerates became the first truly global Latin American business groups as they internationalized via acquisitions in Europe and the US in the mid 1980's. For over three decades Venezuelans have succeeded in competitive markets such as the US television business, the Mexican soft-drink sector, and the Spanish banking industry, to name just three examples. That business sophistication, combined with the resilience proved facing considerable hardships in Venezuela in recent years, make the country's private business sector a fundamental actor in an eventual Venezuela recovery story.

Only private corporations could lead an energy production recovery capable of pulling the Venezuelan economy forward, while enhancing the energy security of the Western Hemisphere and Europe. Only a strong and sustainable economic recovery in Venezuela could allow private businesses to create the millions of decent, stable and productive jobs needed to revert the current mass migration trend and enhance political stability and security in the Western Hemisphere.

Venezuela's business sector has been an unintended collateral damage victim of US economic sanctions during the last few years. It is time private businesses get allowed to become part of the solution.

08

SANCTIONS AND THE FOOD SYSTEM IN VENEZUELA

Ana María Giorgi

The unilateral sanctions imposed on Venezuela, mainly by the United States and some countries of the European Union, have had a significant impact on the country's food system. We can highlight some of the consequences and impacts on the sector.

The sanctions have contributed to deepening the economic crisis that the country has been facing; Venezuelans' income has been significantly reduced, which seriously impacts the citizenry. This reduction in resources limits the ability to meet essential needs, such as food, thus compromising access to one of the fundamental dimensions of food security.

The sanctions have severely affected the Venezuelan food industry. The country's traditional industries, with decades of experience in food manufacturing, have faced the closure of their bank accounts abroad, which has severely affected their operational capacity. This situation limits their access to financing, as well as to raw materials, supplies, equipment and machinery, in addition to making it difficult to update their computer systems. The imposed measures have had profoundly negative consequences, raising production costs and altering the dynamics of operations in the food and beverage industry.

It is crucial to highlight that multinational or multiregional companies that manufacture food in the country are prohibited from making sales to the State for social programs, an initiative of the National Government that benefits large sectors of the population, with the investment destined for these purposes being extremely important. Many opted to sell their facilities and withdraw from the country.

Multiple factors, driven by the sanctions, came together to aggravate the shortage of basic products in the Venezuelan diet, which led many people to depend on humanitarian aid.

It is also necessary to highlight that the sanctions in Venezuela have caused a significant increase in migration. Millions of Venezuelans have left the country in search of better opportunities abroad, many of them with experience and university training in different areas of knowledge, researchers, teachers, specialist technicians in metal mechanics, oil, food, agriculture, construction, among others. Without a doubt, the impact of migration affects the food system, since it lacks qualified technical personnel that can meet the operational requirements of the production processes.

The sanctions have affected Venezuela's relations with other countries; while some countries have supported the sanctions, others have maintained relations with Venezuela. This has led to the establishment of various geopolitical alliances, particularly with eastern countries that offer support amid the international pressure on Venezuelans.

Without a doubt, the unilateral sanctions imposed on Venezuela have had a profound and devastating impact, undermining human rights and, in particular, violating the right to adequate and healthy food.

The country's international relations are complex, and the effect of the sanctions remains a matter of debate among analysts, academics and citizens. On the other hand, the different companies that carry out surveys and consult on the subject of sanctions strongly reflect the citizens' rejection of the sanctions.

From the point of view of food production and consumption, the unilateral sanctions imposed on Venezuela have also had a negative impact. There are a number of limitations regarding access to essential agro-industrial inputs, such as: vitamins, minerals, solvents, diluents, containers, packaging, lids, fertilizers, seeds, herbicides, insecticides, spare parts for equipment and machinery required by producers in general to be able to comply with their production practices. Likewise, vertically integrated industries have been impacted. Undoubtedly, this situation has been affecting the capacity of farmers and industrialists to achieve adequate yields and has caused a significant decrease in the production of agro-industrial goods.

The food system, due to the lack of timely financing resulting from sanctions, has discouraged medium- and long-term investment; economic agents in the sector have not been able to formulate new investment projects to boost the production of goods. The uncertainty generated by the sanctions has caused investment in the agri-food sector to be relatively stagnant. Many producers have been forced to close their production units or reduce their operations, which worsens food production.

On the other hand, the sanctions have led many workers in the agri-food system to migrate in search of better opportunities in other countries. This loss of human resources has further weakened the Venezuelan food system; some actors in the system have had to change their lines of business to lower-value products, which require fewer inputs, affecting another dimension of food security such as the variety and quality of food available on the market.

In this order of ideas, it is relevant to reflect that the difficulties in food production due to the lack of imports of raw materials and inputs required to carry out the manufacturing processes has led to the shortage of basic food products and consumers have experienced the impossibility of obtaining essential mass consumption products, such as cereals, animal proteins, oils and fats. As a result of the deep shortage of food and the increase in prices, many basic goods have become unattainable for a large part of Venezuelans. This has caused an increase in food insecurity, which has led to many people not being able to access a balanced and adequate diet.

The food situation described has contributed to a considerable number of children being malnourished, as well as to malnutrition in general in Venezuela. Citizens who are heads of household are forced to reduce the amount of food they consume or to opt for cheaper and less nutritious options, considerably lowering the levels of intake of kilocalories and proteins that guarantee a healthy diet, affecting the general health of the population.

Another element, caused by the scarcity present in formal shops, has contributed to the proliferation of informal food trade, where prices are often higher and the quality of products is dubious, affecting the consumer. This has also led to a spread of less transparent markets, where transactions are unsafe.

Venezuelans in some cases seek support and depend on the help of some international entities that are part of the United Nations system and NGOs, which have been working in the country, but the levels of assistance from these organizations are often insufficient to cover the needs of the population.

Many studies by social researchers of enormous national and international reputation have been reporting the alteration of consumption patterns of Venezuelans. The crisis has led to changes in consumption habits, people in general are consuming more cereals and less protein, this reality can affect nutrition and health in the long term, with greater impact on children and pregnant women.

We can say with certainty that unilateral sanctions have exacerbated the food production and consumption crisis in Venezuela, leading to deep food shortages, informal trade, rising prices and a deterioration in the nutritional status of the population. The combination of multiple factors such as lack of inputs, migration and changes in production models has made access to food a critical challenge for Venezuelans.

Food is a human right, enshrined in the United Nations Charter. In this sense, we can affirm that sanctions violate the right to food of the Venezuelan population. This right has also been recognized in various international instruments, including the International Covenant on Economic, Social and Cultural Rights (ICESCR). This covenant establishes in its Article 11 the right of every person to an adequate standard of living, which includes food, as well as the right to be free from hunger. Lack of access to food in adequate and sufficient quantities may constitute a flagrant violation of the right to food. In this order of ideas, unilateral sanctions have contributed to the crisis experienced by Venezuelans, which in turn has led to a significant reduction in food production and consumption. Therefore, it could be said that these sanctions affect the population's right to food.

States have an inescapable commitment to protect, respect and fulfil human rights; in the specific case of Venezuela, the government also has the responsibility to guarantee the right to food of its population; however, despite its willingness to direct a significant effort to contribute to such responsibility through social programmes, the sanctions may have created an environment in which it becomes more difficult for the government to fulfil this obligation.

It is a fact that the sanctions have caused the Food Crisis in the country, by limiting access to raw materials, equipment and machinery, inputs, new technologies as a factor of economic and social development; as well as investment in the sector. This has led to a significant decrease in the availability of food and has contributed to food insecurity in the country. Therefore, it can be considered that the sanctions create conditions that may result in the violation of the right to food.

Sanctions lead to the deprivation of fundamental rights, such as access to food, sanctions cause significant suffering to the population, this raises serious concerns about their morality and effectiveness, deeply affecting the well-being of the population in general.

The international legal framework points out the consequences that sanctions can lead to in situations that impact human rights and in particular food. The debate on the effectiveness and ethics of such sanctions is complex and requires a careful analysis of the negative effects on the population, the protection of human rights, including food, are compromised by the application of sanctions.

The right to food is protected by several international instruments agreed by the countries that make up the United Nations system, where they committed to work together to ensure compliance with the agreements reached after many years of analysis and debate in which they recognize the importance of this right in the context of human rights. Below are some of the main international instruments that address the right to food:

-International Covenant on Economic, Social and Cultural Rights (ICESCR): Adopted by the UN General Assembly in 1966 and in force since 1976, this covenant in its Article 11 clearly establishes "the right of everyone to an adequate standard of living, including food…".

- Universal Declaration of Human Rights (UDHR): Adopted in 1948, although not legally binding, it establishes in its Article 25 that "... everyone has the right to a standard of living adequate for the security of food...".

- Convention on the Rights of the Child (CRC): Adopted in 1989, this convention establishes in its Article 24 that States must ensure the right of the child to enjoy the highest level of access to adequate food.

- Rome Declaration on World Food Security: Adopted at the World Food Summit in 1996, it reaffirms the right to have access to adequate food and highlights the importance of food security, urging countries to take measures to guarantee food for all.

-Sustainable Development Goals (SDGs): In particular, SDG 2 seeks to "end hunger, achieve food security and improved nutrition and promote sustainable agriculture". This UN framework sets concrete goals to address the right to food in a sustainable development context.

09

A NEW WAVE OF SANCTIONS LOOMS OVER VENEZUELA

Tamara Herrera

Executive Summary

The Venezuelan political crisis and the upcoming change of government in the United States on January 20, 2025, have reignited the debate on sanctions as a tool for change.

On the table is extending the sanctions program on Venezuela by withdrawing oil licenses granted between 2022 and 2024 and codifying the sanctions in a U.S. law that would limit the executive branch's flexibility to adjust these measures.

Sanctions evolved over the centuries into coercive diplomacy aimed at influencing adversaries through threats rather than military action. Although their objective is to force change, they produce collateral damage which, depending on the country, affects not only the targeted governments but also the economy of the sanctioned countries and, thus, society.

In Venezuela, the enormous dependence of the economy and society on the State as a fundamental generator of resources through oil activity enhanced the collateral damage of sanctions. Compounding the collateral effects is the phenomenon of *over-compliance*, mainly by financial institutions, which often interpret the sanctions excessively strictly or choose not to incur the costs of the meticulous verification required, leading in practice to broader restrictions that hinder access to essential services for all Venezuelans.

The deteriorating state of the national infrastructure further complicates the situation. Essential services have suffered due to decades of neglect and lack of investment, while sanctions hamper efforts to renovate critical infrastructure. In addition, the government frequently cites sanctions as the only obstacle to accessing international financing and as a justification for chronic opacity, when the root cause lies in the need to undertake the reforms necessary to attract investment into the country.

The current sanctions regime has developed over 10 years. We can speak of four phases since its inception in March 2015, starting with targeted measures against individuals linked to the Venezuelan government. The second phase, initiated in August 2017, introduced financial sanctions restricting Venezuela's access to international financing, exacerbating operational difficulties within Petróleos de Venezuela S.A. (PDVSA) and causing a significant decline in oil production. The third phase began in January 2019, with the ban on Americans buying Venezuelan oil, which forced PDVSA to seek alternative markets with high carrying costs and steep price discounts, resulting in substantial losses in export revenues. The fourth phase, of negotiation *cum* flexibilization, began in November 2022 with General License 41, which allowed Chevron to carry out limited oil production activities in Venezuela under specific conditions. That license was followed by private licenses in 2024 to other oil companies.

The licensed companies have played a crucial role in stabilizing the economy by bringing regularity and momentum to oil production, supplying foreign exchange restricted to the private sector, and providing regularity to at least part of the oil tax collection.

The proposals for tightening sanctions via the withdrawal of licenses or the codification of sanctions will only rekindle the collateral effects on an economy already sufficiently battered, in which the adjustment variable will continue to be the population.

Introduction

The Venezuelan political crisis and the imminent change of government in the U.S. on January 20, 2025, have brought to the forefront the discussion on the role of sanctions in promoting negotiation.

The most vocal proposals range from the withdrawal of oil licenses granted between 2022 and 2024 to a limited number of oil production and service companies to the codification of sanctions in the U.S. through the approval of a law that would reduce the U.S. Executive's latitude to adjust sanctions to the changing political circumstances.

Sanctions are part of coercive diplomacy. Concepts evolved over centuries into a strategy focused on persuasion through threats rather than direct military action. The portfolio includes threats, incentives, and ultimatums, emphasizing communication, negotiation, and coercion. Coercive diplomacy focuses on influencing the adversary's will rather than nullifying its capabilities.

Sanctions inevitably produce collateral damage throughout their duration. Since their purpose is not to punish but to encourage action, when the objective is not achieved within a reasonable time, it is necessary to evaluate the results, acknowledge failure, if any, and adjust course. It is essential to analyze whether the objective was reasonable, whether the sanctioned party is sufficiently understood, whether its capacity to tolerate and ally itself to resist or oppose the pressure is apparent, and whether the collateral damage and risks outweigh the benefits of achieving the objectives pursued[1].

In the case of Venezuela, the damage caused by the sanctions to the government has been enormous. It has spilled over to the economy and society as a whole because the Venezuelan economy and society are highly dependent on the sanctioned party, which is the government.

The effects of the sanctions built on the significant deterioration derived from the economic model that has governed the country since the beginning

1 "The sanctioning State must accept the possibility that, despite a carefully crafted strategy, it may fail due to inefficiencies inherent to the strategy, to a poorly interpreted objective/target, or to exogenous support that strengthens the determination and resilience of the objective/target. In either case, a sanctioning state must be prepared to acknowledge its failure and change course or accept the risk that continuing on its current course could create worse outcomes in the long run." Nephews, Richard. *The Art of Sanctions, A view from the field*. 2018

of the 21st century, and the Venezuelan economy's structural characteristics increased the sanctions' impact.

The Venezuelan economy is virtually a mono-exporter, and exports are in the hands of the State, which is the country's fundamental supplier of foreign currency, public services, and infrastructure. The private economy and society depend highly on the State, its performance, and its markedly interventionist decisions. Moreover, the economic model that has governed Venezuela since the beginning of the 21st century expressly included the reduction of the size of the private sector among its objectives[2].

The tightening of sanctions phase: 2015-2022

The sanctions regime unfolded in several phases[3]. They began in March 2015 with Executive Order (EO) 13,692, which designated a group of individuals related to the Venezuelan government.

The second phase began in August 2017 with financial sanctions supported by EO 13,808 [4] that sought to close the government's access to new financing through U.S. persons/entities and hindered financial operations. It formalized what was already a fact: Venezuela lacked the credibility to access funding in the voluntary markets. After a tortuous negotiation with creditors, the last relevant refinancing was achieved only after Citgo was put as collateral for issuing the PDVSA 2020 bond.

EO 13,808 affected the financial operations of PDVSA and all its related companies, which had to carry out complex readjustments to remain in business without incurring punishable offenses. The oil industry began to operate with sand in its gears, and the effect of the financial limitations was quickly felt.

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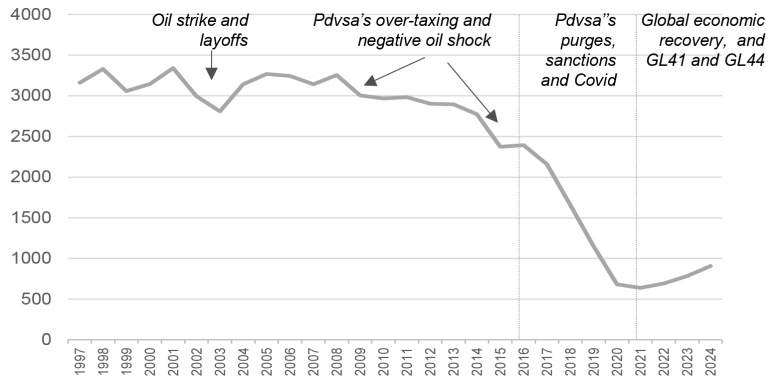
2 Presidency of the Bolivarian Republic of Venezuela, *Simón Bolívar National Project, First Socialist Plan 2007-2013.*

3 For a chronology and detailed analysis by sanctioning measure: Lepervanche, Luisa. *Some notes on the impact on the private sector of the sanctions program imposed by the United States with respect to Venezuela, November 2024.*

4 Executive Order (EO) 13,808 of August 26, 2017 prohibited U.S. persons from engaging in (i) credit operations to the Government of Venezuela and Petróleos de Venezuela, S.A. (PDVSA), if their maturity was greater than 30 or 90 days, respectively; (ii) transactions with public debt bonds; (iii) transactions for the subscription of capital stock of entities owned 50% or more by the Government of Venezuela (the State Companies); and (iv) distributions of dividends to be received by the GoV from State Companies.

Production suffered a negative shock, which was added to PDVSA's internal problems with massive management changes, including top management and the presidency, and a significant desertion of qualified personnel. Operating decisions were frequently paralyzed due to the acephalous situations in the joint ventures. Thus, sanctions and drastic internal changes in PDVSA combined to trigger the industry's collapse in 2017.

GRAPH 1. Oil production, 1997-2024
Thousand barrels a day



Source: OPEC, PDVSA.

EO 13,808 was followed on September 20, 2017, by a warning bulletin issued by the Financial Crime Enforcement Network (FinCEN) addressed to private banks, risk officers, and compliance officers, among others, as parties responsible for ensuring compliance with sanctions subjecting them to the risk of significant penalties in case of omissions in the application thereof. The bulletin included detailed instructions on scrutinizing every operation that eventually involved the Venezuelan government, public entities, government officials, and state-owned companies and on reporting exhaustively. This rule gave rise to *over-compliance* as part of the risk mitigation effort by financial institutions, which has been an essential driver of the collateral damages caused by the sanctions.

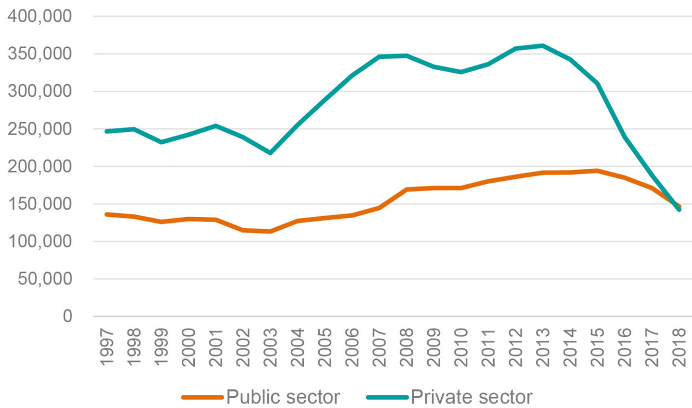
The weakness of the economy also increased the collateral effects of the sanctions

The Venezuelan economy had been suffering the damages of a model that led to disinvestment, economic slowdown, and shortages, whose impact was covered up by a prolonged oil boom that financed generalized prodigality and rising imports to partially compensate for the shortages caused by an economic approach that had expressly stated among its objectives the reduction of the size of the private sector.

The oil industry was managed as an instrument of a political project, not with sustainability criteria. Disproportionate contributions were extracted from it without any accountability until it was left financially drained and incapable of sustaining its production and preventive maintenance of its assets. When the structural oil crisis of 2015 came, the internal economy was incapable of meeting the country's needs, neither in terms of foreign currency availability, supply of goods, nor in the generation of tax revenues. The government resorted to funding the fiscal deficit through credits from the Central Bank of Venezuela (BCV) to PDVSA, and hyperinflation broke out.

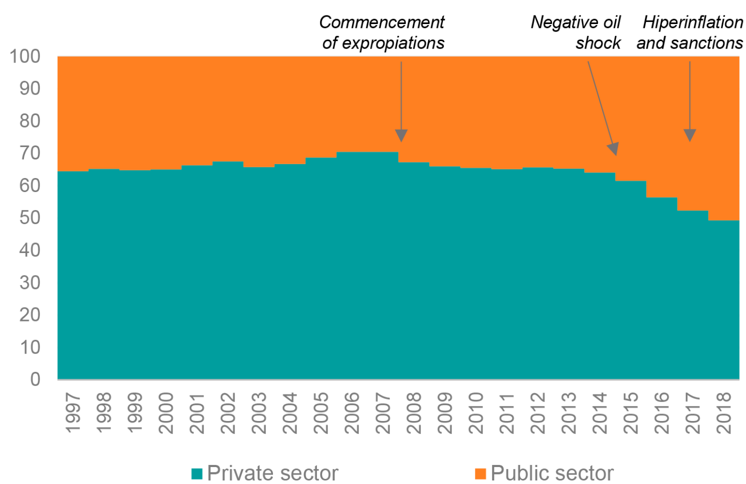
Thus, sanctions were applied to a vulnerable economy, one with a worn-out productive fabric, inflation on the rise, a population in open emigration, amid a fiscal and balance of payments crisis, policies anchored in a distorted notion of oil abundance, without compliance with regulations and with growing opacity. In short, there could not have been a worse confluence of negative factors for Venezuela: falling oil prices, the collapse of the economic model, and sanctions. It proved once again the Venezuelan economy's vulnerability to the oil industry's ups and downs.

GRAPH 2. GDP by institutional sector, 1997-2018



Source: Central Bank of Venezuela

GRAPH 3. GDP by institutional sector, 1997-2018
Percent structure

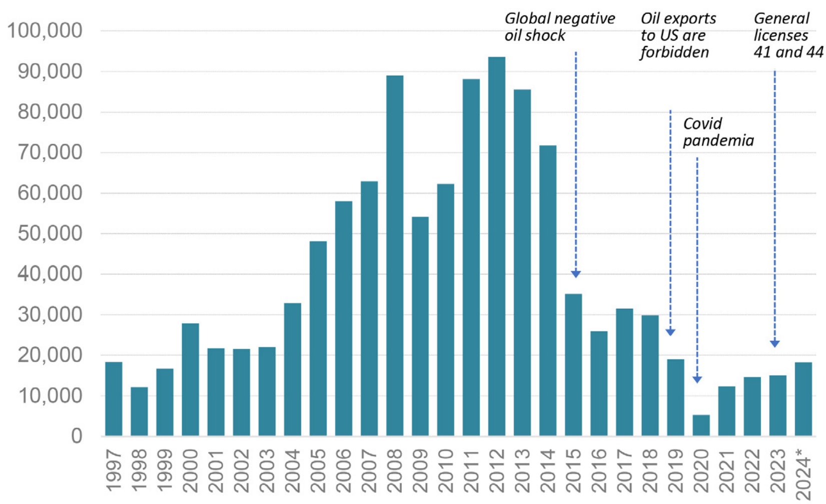


Source: Central Bank of Venezuela

The third phase brought a substantial escalation of sanctions when Americans were prohibited from acquiring Venezuelan oil in January 2019. Immediately, PDVSA had to redirect 60% of its exports to new markets that were not sensitive to the sanctions, with actors ready to risk trading with sanctioned parties (PDVSA) without affecting its ties with the U.S., if any. This market involves high transportation costs and significant discounts. Buyers operate mainly in the Asian offshore transshipment market at black market prices, with a long and very opaque process that goes from the loading in Venezuela to the final delivery of the product after a long "clandestine" navigation and sometimes uncertain collection.

The damage to Venezuela's export revenues was significant due to the loss of the North American market and the drop in the effective price of Venezuelan oil, which has oscillated around 30-40% below the Brent crude oil marker since January 2019.

GRAPH 4. Oil exports FOB, 1997-2024



Source: Central Bank of Venezuela, own estimates.

Over-compliance: a serious problem

Over-compliance refers to obstacles, prohibitions, and damages that extend beyond what is established in the sanctions, involving individuals and companies not contemplated in the sanctions.

Over-compliance occurs due to misinterpretation or decision of the entities responsible for ensuring compliance with the sanctions to protect themselves from the risks of possible non-compliance. It mainly affects financial institutions obliged to abide by the sanctions who interpret them with excessive severity, taking as a reference cases of embargoes, such as Iran or Russia, which fortunately do not apply to Venezuela.

Often, these are not errors of interpretation but decisions aimed at reducing the costs of verification and the risks of omission that lead to excluding persons or companies that "do not deserve" the risk for the service provider. Multiple services are denied by U.S. entities to Venezuelan individuals and companies simply because of their geographic location: Venezuela. Non-U.S. entities also over-comply, totally or partially excluding Venezuelans from any requested service, to protect themselves from the risk of sanctions or penalties.

Over-compliance affects day-to-day activity in Venezuela beyond the public sector and often ignores the exceptions to the sanctions set forth in the EOs on health, human rights, food, and medicine. They have slowed down humanitarian support efforts and made them more uneven.[5]

Sanctions and national infrastructure

The dismal conditions of the national infrastructure of essential services, including the oil industry, render them incapable of meeting the population's basic needs. This includes electricity, water, health, and fuel for the country's production and mobility. It owes its deterioration to decades of negligence, lack of investment, strategic errors, lack of accountability, and corruption.

Sanctions, especially over-compliance, make it more complicated to refurbish the infrastructure with solid solutions, given the complexity of contracting with the original infrastructure manufacturers, essentially North

5 For more details on the Humanitarian Response Plan for Venezuela see https://fts.unocha.org/plans/1158/summary

American and European. This indicates that partial solutions will continue, possible involving other sanctioned countries.

Sanctions as an excuse

An often underappreciated side effect of sanctions is that efforts to circumvent sanctions by any sanctioned country increase the volume of shady dealings, turning sanctions into an excuse to declare everything confidential, report virtually nothing, and enshrine confidentiality by law, often outside the Constitution.

Such a statement may not make sense in a country that long ago buried accountability. However, the large volume of PDVSA's operations[6] (currently over 60% of oil exports) significantly increases opacity and financial disorder. Under sanctions, the few cracks through which sums of money and operations can be inferred disappear.

Another example of using sanctions as an excuse is non-compliance with the constitutional transfer (*situado*) which mandates that at least 20% of ordinary tax revenues must be distributed among the municipalities. The government chose to qualify oil tax revenues as extraordinary, arguing they were uncertain due to the sanctions. Municipalities unleashed an enormous parafiscal pressure to compensate for the disappearance of the *situado*, with severe recessive consequences on economic activity.

Finally, and perhaps most importantly, the government always rightly refers to the obstacles that sanctions pose regarding financing in international markets, both voluntary and multilateral. In the absence of sanctions, the government would lose its excuse. It would have to face the challenge of creating the institutional framework required to attract capital to a country with enormous potential for reconstruction.

The 2022-2024 de-escalation phase

General License 41 (GL41) was issued in November 2022, allowing Chevron and its subsidiaries, including joint ventures in which Chevron has an interest and those who contract with them, to carry out oil production

6 PDVSA stopped disclosing financial statements in 2017. Voluntary markets require periodic and detailed reporting by the country and the issuing company.

activities as well as activities related to maintenance, repair, and others; to sell crude oil and derivatives in the U.S. provided the first buyer is Chevron; and to import goods to Venezuela to accomplish the above, including diluent and other petroleum products provided they do not come from Iran.

GL 41 does not authorize the payment of taxes and royalties, the payment of dividends to PDVSA and its subsidiaries, the sale of oil to any jurisdiction other than the U.S., or the expansion of Chevron's joint ventures to different fields. Nor does it authorize operations with companies with Russian participation.

While GL 41 does not authorize tax payments, GL 35 does. Therefore, Chevron and its joint ventures can comply with their obligations.

There can be no payment of dividends by the joint ventures to PDVSA because it is prohibited by EO 13,808, it is not authorized by GL 41, and no license expressly authorizes it.

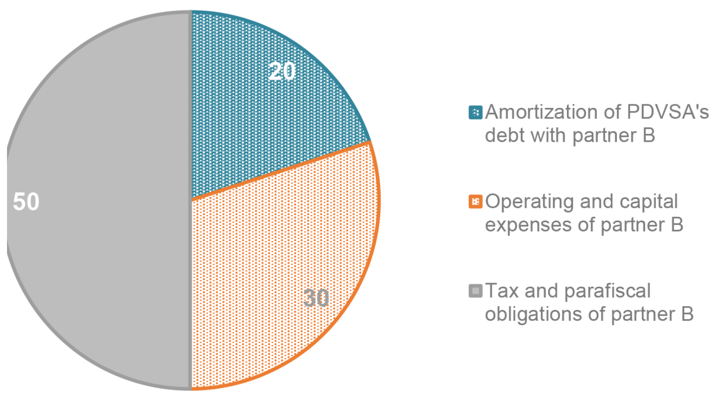
Given that the previous sanctioning framework of "maximum pressure" was already in place and there were few options left on the table to intensify the pressure, in this phase the U.S. government opted to show the benefits of operating under a comprehensive license, General License 44, to indicate what it would mean for Venezuela to sell its crude oil at market prices anywhere in the world if progress was made on the political front. The license was indeed comprehensive, but it was in force for too short a time to generate a flow of funds that would allow substantial changes in the operating conditions of the oil industry and the lives of Venezuelans. The negotiation went into crisis before the end of the license term due to non-compliance by the parties, and the sanctions regime returned to its previous state: an activity allowed only to licensed companies.

Licensed oil companies currently operate under contracts with PDVSA approved by the Office of Foreign Assets Control of the U.S. Treasury (OFAC). In such agreements, legal services concepts were established, giving broad operational management powers to the licensed company, while maintaining the presidency of the joint ventures in the hands of PDVSA to abide by the Organic Hydrocarbons Law.

The foreign licensed company uses an ad hoc local administrative services company to collect exports; to retain 20% destined to amortize its claims on PDVSA and to allocate 50% to taxes and parafiscal contributions.

The remaining 30% covers the joint venture's operating and capital expenses, local and foreign. The license expressly prohibits the payment of dividends to PDVSA and any other payment in foreign currency.

GRAPH 5. Predominant revenue distribution pattern in OFAC-approved contracts



To raise bolivars for payments in local currency, the licensed company sells foreign currency at the national private banks' exchange desks, which private companies operating in Venezuela use to acquire the foreign currency necessary for their business. In other words, the foreign currency needed to obtain the bolivars required to pay the joint ventures' local obligations does not flow to public sector players since it is traded at the foreign exchange desks of four private banks that exclusively fulfill the needs of Venezuelan private companies.

The effect of the détente: the role of the licensed oil companies

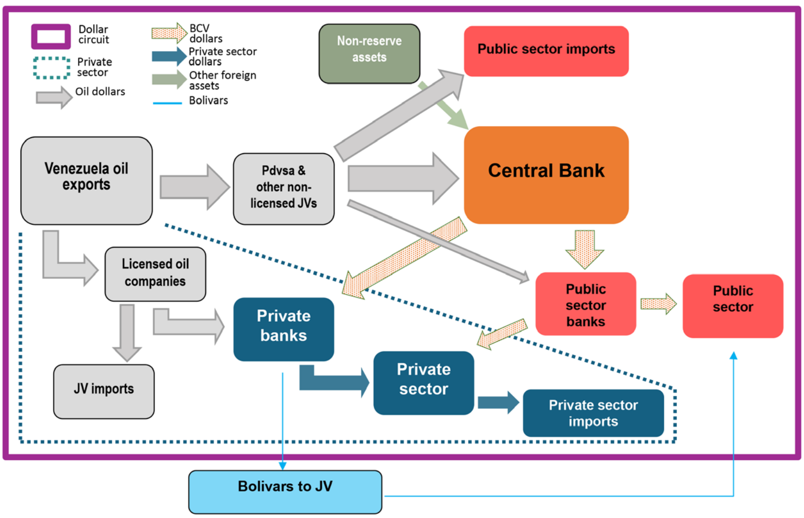
Foreign currency formally circulating in the country is traded in the Exchange Market System (SMC) [7] which operates in the Venezuelan banking system under strict regulation and supervision of the BCV.

7 The Foreign Exchange Market System (SMC) began operations on February 4, 2019.

The foreign exchange that feeds the SMC comes mainly from PDVSA and licensed companies.

Non-oil private sources are insignificant. The Venezuelan private sector is a net demander of foreign currency. It is competitive enough to export only in particular niches. Furthermore, since the domestic industry became a virtual maquila in the last few decades, the private sector operates with a high proportion of imported raw materials and inputs.

GRAPH 6. The flow of oil-based foreign currency to the formal foreign exchange market (SMC)



Linkages of oil activity to other sectors of the economy weakened over the years, but oil activity remains an essential driver of economic activity in Venezuela. Licensed oil companies have contributed to enhancing these linkages, generating positive externalities through efficiency and consequent cost reduction.

The role of licensed companies in oil activity

The production of the licensed companies, essentially the joint ventures in which Chevron is a minority partner, represents a third of the national crude oil production as of November 2024. Their activity is governed by General License 41, approved in November 2022. Other licensed companies obtained private licenses in 2024, and their contribution is incipient.

This group of companies has raised its production from about 70 kbd in November 2022 to an estimated 270 kbd in November 2024, with a total output of 980 kbd[8].

The remainder is produced by PDVSA and joint ventures that do not operate under OFAC licenses. These operations have a weaker cash flow as their exports are made at black market prices 40% below Brent (approximately 25% below the Merey reference price). Furthermore, their management faces the problem of being subordinated to political or non-oil economic policy objectives.

Such is the case of the supply of foreign currency by PDVSA to the BCV to supply foreign currency to the economy and contain the upward trend of the parallel exchange rate. The BCV's foreign exchange intervention absorbs at least 30% of PDVSA's export revenues. In cycles of high demand for foreign currency and/or low export revenues, the incidence rises to 60% at the expense of the funds that PDVSA needs to allocate to investment and maintenance. Under the current sanctions, PDVSA's production will stagnate and decline in the medium term unless there are exceptional increases in the international price of crude oil.

Notably, the production of the joint ventures where China and Russia are partners (Sinovensa and Petromonagas) has remained almost constant at around 20% of total national production. Of these two countries, only China has the financial muscle to fill the production space left by an eventual revocation of the current licenses.

8 Includes an estimate of about 25,000 barrels of condensates that OPEC excludes from the data presented in its bulletins.

TABLE 1. National oil production %

	Nov-24	Jan-23
Total crude oil	**100**	**100**
Under licenses	**28**	**12**
CVX	23	12
Repsol	2	0
Maurel & Prom	2	0
Rest of oil industry	**72**	**88**
China + Rusia	**19**	**19**
China	11	10
Russia	9	9
Other JVs and PDVSA	**53**	**69**

Source: OPEC, PDVSA, own calculations.

The role in the supply of foreign exchange

The supply of foreign currency by licensed companies is relevant to stabilizing exchange rates and slowing down inflation.

Licensed oil companies account for 31% of the total supply of foreign currency reaching the banks, which amounts to almost $8.0 billion this year. If Brent crude oil remains at $70 by 2025, this proportion will increase to 41%.

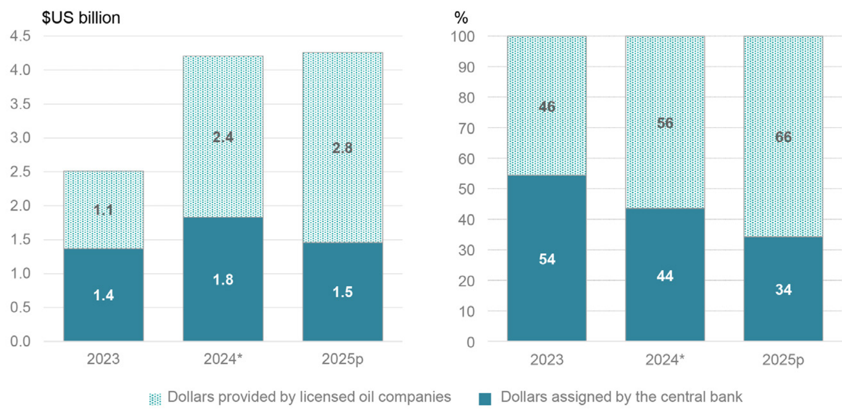
TABLE 2. Foreign currency supply through the national banking system, 2023-2025

	$US billion			Percentage distribution		
	2023	2024*	2025p	2023	2024*	2025p
BCV	4.1	5.3	3.7	78	69	59
BCV en efectivo	3.0	4.3	2.7	58	56	43
BCV divisas electrónicas(*)	1.0	1.0	1.0	20	13	16
Petroleras con licencia	1.1	2.4	2.6	22	31	41
TOTAL OFERTA	5.2	7.7	6.3	100	100	100

NOTE: (*) Electronic foreign currency originates in the local use of international credit cards.
Source: Central Bank of Venezuela, own calculations.

Licensed companies can only sell foreign currency to Venezuelan private banks. They account for 56% of the total foreign exchange acquired by private banks. The proportion will rise to 66% in 2025 under the current licenses.

GRAPH 7. Foreign currency received by private foreign exchange desks, 2023-2025



Source: Banking survey, own calculations.

The role in fiscal management

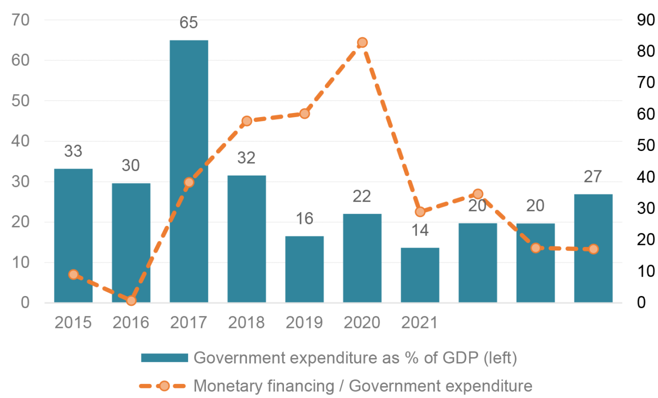
The fiscal and parafiscal contribution of the licensed companies will reach Bs 90 billion this year, for which they will have sold foreign currency for $2.4 billion. This figure represents 13% of the public sector's internal expenditures and 22% of disbursements for remunerations, i.e., public sector payroll and monetary transfers to the formal and informal population. Last year, the contribution totaled Bs 35 billion, equivalent to 11% of total public spending and 18% of remunerations.

The allegations of the petitions for more sanctions

In the sanctions controversy, the defenders of "maximum pressure" do not admit to failing to reach the objectives nor recognize the collateral effects that the sanctions still have.

Instead, they consider that, by affecting the country's finances, sanctions have the merit of having led the Venezuelan government to loosen the controls that had led to shortages, recession, and hyperinflation. They most likely contributed. But it is worth considering that economic easing initiated in mid-2018 was an unavoidable economic policy decision to address the anomalies and long-standing weaknesses causing the shortages and hyperinflation that broke out in 2015-2017, propelled by the escalation of price controls and unbridled public spending funded in colossal proportions by the monetary emission. The other side of the stabilization policy that pulled the country out of hyperinflation is the severe adjustment program, which has been in force until now, which could have been less severe without sanctions.

GRAPH 8. Public sector expenditure and monetary financing



Source: Central Bank of Venezuela, own calculations.

It is also claimed that the negotiation phase with flexibilities and licenses that began in 2022 would not have been reached without the pressure of sanctions. That is true, although it took a change of government in the U.S. and subsequent familiarization of its officials for such a process to begin almost two years after the change of administration.

What if the licenses are revoked?

A license revocation would significantly hurt expectations and hinder Venezuela's economy. The effects would quickly be felt in the paralysis of business decisions and investment plans and a new upsurge in emigration.

The entire oil industry would come under PDVSA's direct control. Operational regularity will be doubtful, given management's traditional subordination to eventual political decisions that may divert it from its course due to changing priorities and consequent resource redirection.

The decline in production will not be abrupt, less so after the refurbishment carried out by the joint ventures, especially in the Petropiar upgrader, where Chevron is a minority partner. However, production is expected to decline as the positive externalities brought about by operating under license weaken. We estimate that throughout a little more than a year, total production will decrease between 12% and 16%, some 150,000 b/d, and consequently, the volume exported will decrease.

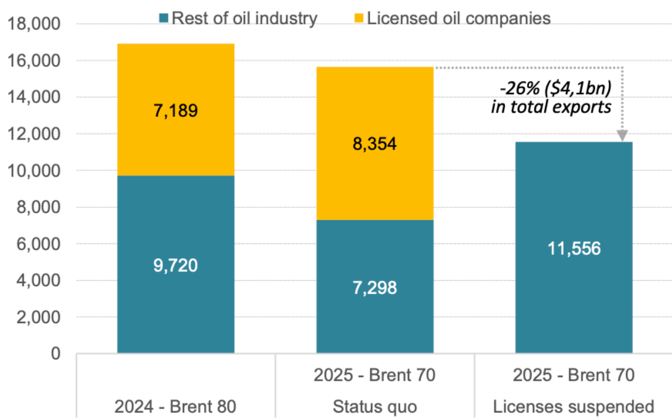
Another consequence would be Iran's return as a supplier of diluents and inputs for PDVSA at a much higher cost, with inappropriate characteristics and irregular supply. The licensed companies operate with diluents brought exclusively from the countries of origin of the licensees.

The price effect will be superimposed on production, and export volumes will drop. PDVSA would sell all exports exclusively at black market prices (25% lower than the average basket), and they would have to travel long distances, with high transportation costs, opacity, uncertain collection, and corruption.

A simple calculation shows that by 2025, assuming Brent crude is at $70 and the status quo of licenses, the average basket price would be $51, and the value of exports would be about $16 billion. In the event of the revocation and the consequent drop in production and price, the value of exports would be $12 billion. That is, $4 billion less (26%) in one year.

Needless to say, there will be greater opacity in the management and financial flows of the industry, the foreign exchange market, and the national treasury.

GRAPH 9. Exports 2024-2025 under different license scenarios



Source: XXX, own calculations

The risk of codification of sanctions

As Donald Trump's inauguration approaches, there have been visible and loud calls for increased sanctions pressure through legislation.

According to the Congressional Research Service, codifying sanctions means *"turning sanctions imposed by the U.S. government into formal law through legislation. When sanctions are codified, they cease to be mere executive actions, policies, or temporary measures. Instead, they become part of the legal framework, making them more permanent and difficult to remove or modify without passing new legislation. Codification is usually done to ensure consistency and signal a long-term commitment to implementing sanction* [9]*."*

This definition makes it clear that with codification, sanctions are no longer an instrument of negotiation and become an instrument of condemnation given the difficulties of modifying or abolishing them.

The most recent step in this direction was taken in November 2024, when the House of Representatives of the U.S. Congress passed the Bolivar Act. This act signals the looming intention to consolidate a permanent

9 Congressional Research Service. Nov 6, 2023. *Sanctions Primer: How the United States Uses Restrictive Mechanisms to Advance Foreign Policy or National Security Objectives.*

sanctions policy against Venezuela. For the time being, Venezuela responded with the worrying Simón Bolívar Liberator Law, implying that the greater the U.S. pressure, the greater the generalized repression of the population would become.

Mutating the sanctions program that affects Venezuela today into law is an abrupt and gigantic step towards greater isolation, a path Venezuela has been following since the program's beginning.

Those who propose and choose this path of pressure seem to be blinded by the desire to punish, completely ignoring the prospects for Venezuelan society despite being so close to the "successful" case of Cuba after three decades of isolation.

Under a course of isolation, misery progressively covers all walks of life.

SANCTIONS IN VENEZUELA: DISCOURSES, LAWS AND ALLIANCES

08

Ronald Balza Guanipa

Introduction

The Constitutional Anti-Blockade Law for National Development and the Guarantee of Human Rights, or Anti-Blockade Law, classifies sanctions into two types: unilateral coercive measures and other restrictive or punitive measures. The former is "economic, trade or other measures taken by a State, group of States or international organizations acting unilaterally to compel a change of policy by another State or to pressure individuals, groups or entities of targeted States to influence a course of action, without the authorization of the Security Council of the United Nations." The others are "any act or omission, whether or not related to a unilateral coercive measure, by any international organization or public or private entity, whether of the State issuing the measure or of another State implementing, extending its effects or taking advantage of it, to breach by act or omission the laws, obligations or other acts incumbent upon it". The Venezuelan Anti-Blockade Observatory, created by the same Law, counts up to November 2024 "947 sanctioning or extortive [sic] measures against Venezuela", 784 of the first type and 163 of the second, starting in December 2014. Of these measures, 481 would have been imposed by the Office of Foreign Assets Control (OFAC) of the United States. Under the title Venezuela-Related Sanctions, OFAC offers a web page with information in this regard. The Congressional Research Service (CRS) updated, on September 13, 2024, a report addressed to congressional committees and Members of Congress, stating that "since 2005, the United States has imposed targeted sanctions on Venezuelan individuals and entities that have engaged in criminal, antidemocratic, or corrupt actions. In response to increasing human rights abuses and corruption by the government of President Nicolás Maduro, in power since 2013, the Trump Administration expanded U.S. sanctions to include financial sanctions, sectoral sanctions, and sanctions on the government." [Ribando (2024)].

The effects of sanctions on Venezuela's political and economic conditions have been discussed from different positions and media, counting among many the contributions of Alvarez (2022), Equipo ANOVA (2021), Fonseca (2024), Hausmann and Morales-Arilla (2021), Oliveros (2020), Penfold (2022), Rodriguez (2023), Voght and Ventura (2024) and Weisbrott and Sachs (2019). More than four months after the presidential elections of July 28, 2024, this article takes up arguments put forward in Balza (2019, 2023) with the purpose of examining the incidence of sanctions in discourses on the economy, new laws and alliances made by the government of Nicolás Maduro. This paper suggest that, given its background and the international context, his government could have and could continue to use sanctions to its advantage.

1. Discourses on economy

National accounts, balance of payments, labor force indicators, fiscal and oil statistics, population and housing census and industrial census, among other sources of information comparable with those of other countries in the world, ceased to be published regularly by public entities since 2013, suspending their updating and even withdrawing historical information from their web pages. Under these conditions, the study of the effect of sanctions on the country's economy requires indirect approximations, using figures from other countries, own estimates and assumptions that are not always convincing. The government, however, using its own selection of data, takes for granted that the worst economic and social results of these years were due to the "economic war" and the sanctions. For example, Maduro (2023) stated in his Annual Message to the Nation that, although "the impact of the sanctions continues to be brutal..., a necessary spirit in the country was created with the good economic news of 2022, which is a spirit of victory, of advancement, of a new era", the good news being the increase in the GDP since the third quarter of 2021, announced by the BCV on December 30, 2022 after fifteen quarters without publishing the data. When enumerating the fundamental guidelines for "the concentration of efforts of the national will, of the national conscience of all the Venezuelan people", he put in first place "consolidating economic growth, the diversification of the economy with equality, the generation of wealth, the generation of goods, of products, of supply, the supply with an objective, to advance in healing the wounds, to advance in healing the inequalities that have been created, product of this inclement economic war and the sanctions that we all know and that we all reject".

On the same occasion, Vice President Delcy Rodríguez stated that:

> I believe that the year 2022 already consolidates the steps that were taken in the year 2021, specifically according to the third quarter and fourth quarter of the year 2021, where Venezuela begins to wake up, not only from the pandemic, but also from the terrible blockade. It has been a national effort, both from the public sector and the private sector, and as you have said, Venezuela with its own effort. This year 2022 the numbers you have shown to the country are conclusive in all areas, we can say that in all areas there has been growth, and there is also a paradox, as you have explained, which has to do with the balances in the nation's income, how those balances were disturbed by the blockade, the loss of 411 million dollars a day due to the blockade and the theft of extremism, which tried to hijack the resources of our homeland...

The statistical information offered by the Venezuelan State until 2012 was useful for the study of the economy at multiple levels [Balza (2007, 2008, 2010a)], and it would certainly be useful for examining the effect of sanctions, public policies and exceptional events, such as the COVID-19 pandemic. The interruption, and even elimination of official statistics, made it easier for the government to focus on sanctions its discourse on the economy. This aspect was very noticeable during the negotiations between the Government of the Bolivarian Republic of Venezuela and the United Platform of Venezuela, with the mediation of the Kingdom of Norway (2021, 2022, 2023). The Agenda of the Memorandum of Understanding between the parties, signed on August 13, 2021 in Mexico City, included as points:

- "Political rights for all.
- Electoral guarantees for all. Electoral timeline for observable elections.
- Lifting of sanctions. Restoration of right to assets.
- Respect for the Constitutional Rule of Law.
- Political and social coexistence. Renunciation of violence. Reparation for the victims of violence.

- Protection of the national economy and social protection measures for the Venezuelan people.
- Guarantees of implementation, follow-up and verification of what has been agreed."

This Agenda was agreed "understanding the need for the lifting of sanctions against the Venezuelan State, vindicating independence, freedom, sovereignty, immunity, territorial integrity and national self-determination as inalienable rights of the Nation". Of eleven remaining statements, one made explicit the commitment between the parties "with the stabilization and defense of the national, productive, diversified and solidary economy", without this explicitly implying access to detailed, timely and verifiable information.

Even without an exhaustive analysis of the negotiation process since then, it is possible to appreciate in two more documents the weight of sanctions in the discourse of the parties: the Second Partial Agreement for Social Protection of Venezuelan People and the Partial Agreement for Protection of Vital Interests of the Nation, signed in Mexico and Barbados on November 26, 2022 and October 17, 2023, respectively. In the Second Agreement, a Special Group for the Attention of the Effects of Overcompliance (GEAES) and a Fund for Social Protection of Venezuelan People were created. Both initiatives were related to "the measures adopted by the international financial system on resources and assets of the Republic". The Partial Agreement included "making efforts for the preservation of the assets of the Republic abroad, as well as for the defense of Venezuelan territorial integrity and national sovereignty", with special mention to "the assets and property of the Citgo Petroleum Corporation". Neither the Memorandum nor the above mentioned Agreements referred to the resources and assets of the Republic within the national territory, although the Budget of the Republic, the Law of Indebtedness, the multiannual budget framework and the financial reports of Petróleos de Venezuela, S.A. (PDVSA) by then had not been published for seven years. This omission is remarkable considering that, according to the Second Agreement cited above:

> With the participation of experts, it has been thoroughly discussed and agreed to implement in the country a program that allows the revitalization and partial

> strengthening of the national public health system and the provision of services; a set of fundamental needs and projects have been identified for the stabilization of the national electricity system; the expansion of the World Food Program already being implemented in the country; the attention of part of the public educational infrastructure; and the implementation of responses to the consequences of the torrential rains that occurred during the second half of 2022. Being fully convinced of the urgency and necessity of such implementations, the parties have agreed to make all the necessary arrangements with the appropriate national and foreign public or private authorities and institutions to obtain the legitimate funds of the Republic that are frozen in the international financial system, necessary to achieve the objectives set forth.

The "frozen" resources would be progressively integrated into the Fund for Social Protection of Venezuelan People and, with the support of the United Nations, would be destined to attend to "the most urgent needs of the Venezuelan people", listed without disclosing the programs designed to attend to them, nor the costs foreseen for their operation, nor alternative sources of financing, nor mechanisms to evaluate results, nor the reports of the participating experts.

The internal negotiations also took as a central issue the lifting of sanctions, without providing detailed information that would make possible to know basic economic relations. An example of willingness to "dialogue" was the creation of the National Council of Productive Economy in 2018, "within the framework of the Program for Economic Recovery, Growth and Prosperity,... to link government management, business groups and initiatives and undertakings of the Popular Power in a dynamic of its own", involving "private, public, mixed and communal companies with the purpose of debating, reviewing, evaluating and advancing in the comprehensive recovery of the national economy under the unilateral sanctions applied to Venezuela" [Misión Verdad (2024)]. On June 27, 2024, the Council carried out a "regional tour... under five economic consensuses:

- To build a new economic model and continue on the path of work, national effort, recovery, growth and productive diversification.
- The absolute condemnation of the criminal sanctions of the United States of America and Europe against Venezuela.

- To defend peace, coexistence, tolerance and dialogue among Venezuelans, as well as to reject hatred and violence, and to repudiate divisionism.
- Recovering the state of social welfare wounded by economic sanctions and aggressions.
- Recovery of the Essequiba Guyana through public, national and international law."

For cases in which dialogue was impossible, the effects attributed to sanctions would also play a central role. On October 15, 2023, the president of the National Assembly and head of the government delegation in the negotiations with the Unitary Platform, Jorge Rodríguez, referred to sanctions as "a kind of people-killing bomb that the extreme right finds very useful, because they kill people but the structure remains more or less lifted and when they take power they do not have to resort to major reconstruction efforts" [Gordillo (2023)]. The explicit linking of the sanctions with fascism preceded the presentation by the Executive Vice President of the Republic, on April 2, of the Law against Fascism, Neofascism and Similar Expressions before the Assembly, which Rodriguez received as "necessary to give the debate with the sectors that define themselves as belonging to the opposition" [Rengifo (2024a,b)].

In the version o this Project published by the Venezuelan Observatory of Social Conflict (2024), fascism is defined as "ideological posture or expression based on motives of racial, ethnic, social or national superiority, which assumes violence as a method of political action, raises the culture of death, denigrates democracy, its institutions and republican values and/or promotes the suppression of the rights and guarantees recognized in the Constitution in favor of certain sectors of society, for discriminatory reasons. Common to this position are racism, chauvinism, classism, moral conservatism, neoliberalism, misogyny and all kinds of phobia against human beings and their right to non-discrimination and diversity". Neo-fascism and similar expressions are understood as "any ideological posture or expression, regardless of its denomination, that totally or partially reproduces the foundations, principles, purposes, methods and characteristics of fascism". It is worth noting that "democracy", "moral conservatism", "neoliberalism" and "phobia against the human being", among other concepts, are not defined, leaving a wide margin to extend the definition of fascism in political, social and economic fields

[Balza (2013)]. On August 14, 2024, before the approval of this law, and after the July 28 presidential elections, Rodriguez also proposed to reform the electoral laws to continue "defeating fascism", preventing foreign interference and the participation of those who promote "*coups d'état*, invasions and theft of goods of the Republic" [Rengifo (2024c)].

Although the speeches on these projects had already related fascism with the support to unilateral coercive measures and the disregard of the legitimacy of the public powers, on November 30, 2024, another Law was enacted with even more severe sanctions than those proposed. According to its Statement of Motives, the *Organic Law Liberator Simón Bolívar against the Imperialist Blockade and in Defense of the Bolivarian Republic of Venezuela*:

> It is created as a legal tool to sanction Venezuelan men and women who, in agreement with a foreign country or republic, terrorist groups or associations, manage, request or assist, in any way, the destruction of our republican political form, the application of unilateral coercive measures, extraterritorial laws and decrees, confiscation of public assets and impede or hinder the normal economic relations of the country. All this constitutes an intentional attack against the Venezuelan people and against their freedom, independence and sovereignty [Redaccion NTN24 (2024)].

The presentation and approval of this Project was an immediate reaction against the approval in the House of Representatives of the United States Congress of the BOLIVAR Act (acronym for *Banning Operations and Leases with the Illegitimate Venezuelan Authoritarian Regime Act*), on November 18, 2024. Its Statement of Motives justified the proposed sanctions by stating that:

> This Law is inspired by the legacy of patriotic and anti-imperialist dignity of the Liberator Simón Bolívar, who on June 15, 1813, in the DECREE OF WAR TO THE DEATH responded to treason, the felony of nationals and foreigners, and imperialist barbarism by stating that: "justice demands vindictiveness, and necessity obliges us to take it. May the monsters that infest Colombian soil and have covered it with blood disappear forever; may their punishment be equal to the enormity of their perfidy, in order to wash away the stain of our ignominy, and show the nations of the universe that the sons of America are not offended with impunity" [capital letters in Redaccion NTN24 (2024)].

According to Maduro, in responding to "the Venezuelan extreme right wing [that] has promoted for more than a year, a law that has sought, in an infamous manner, to name after El Libertador Simón Bolívar"; an Organic Law with his name and "heavy penalties to all Venezuelan persons, born here or with Venezuelan citizenship, who call for, promote or support calls for criminal sanctions, blockade of the country, military invasions or any foreign harm that is wanted to be done to Venezuela..... comes here to balance things perfectly" [Ecosocialismo Press (2024)].

2. Executive Power and "economic emergency".

The exercise of power has been supported, among many things, by the discourse on the economy. Before presenting his Annual Message before the elected National Assembly on December 6, 2015, of opposition majority, Maduro decreed the national emergency throughout the national territory, "so that the Executive can adopt the timely measures that allow to effectively address the exceptional, extraordinary and conjunctural situation through which the Venezuelan economy is going through and that allows to ensure to the population the full enjoyment of their rights and free access to fundamental goods and services and likewise, mitigate the effects of induced inflation, speculation, the fictitious value of the currency, the sabotage to the distribution systems of goods and services, as well as counteract the consequences of the oil price war that has managed to germinate in the heat of the current volatile international geopolitical situation, generating a serious economic crisis". During 60 days, extendable "in accordance with the constitutional process", the other Public Powers, the security agencies, the police and the Armed Forces would be "obliged to collaborate with the full compliance" of such measures, empowering the Executive to dispose of resources and make allocations to projects within or outside the budget, to waive procedures for government purchases, imports of goods, exchange transactions and transportation, to stimulate foreign investment, to require production and distribution to the private sector, to restrict commercial and financial operations and to establish maximum limits for the entry and exit of national currency in cash, among others. In addition, it directly authorized the President of the Republic to "dictate other social, economic or political measures deemed convenient". This first decree, dated January 14, 2016, accused "national and international sectors" of making an "economic offensive", an "economic war... against the Venezuelan people" on the occasion of the death of Chávez (announced on March 5, 2013), "seriously affecting fiscal and foreign exchange revenues" to "destabilize the country's economy, weaken its legitimately established institutions and provoke a rupture of the constitutional thread on the basis of a malaise induced by said sectors". The decree summoned the Venezuelan people to an "active participation" that would be "a faithful manifestation of the existing cohesion among Venezuelan men and women in the national economic development, and against the actions exercised by internal and external factors that seek the economic destabilization of the country".

The decree was successively extended at least until April 2021, "so that the Executive Power may continue providing protection to Venezuelans against the economic war" because, "given the extraordinary circumstances in the social, economic and political spheres, which affect the constitutional order, social peace, the security of the Nation, public institutions and citizens... the exceptional, extraordinary and conjunctural situation through which the Venezuelan economy is going through persists". At the President's request, the Supreme Court of Justice ratified the constitutionality of the extensions in several opportunities, declaring on July 2, 2020, for example, that "the President of the Republic as Head of State and of the National Executive is obliged to attend to restore normality in the operation of the socio-economic system, to ponder and guarantee in a complete and unpostponable manner the fundamental rights of all citizens" and reiterating "once again that the national legislative body is in flagrant contempt of the Judiciary, specifically, the decisions issued by this Constitutional Chamber.... ; reason for which, any act by which it intends to disapprove or disregard the aforementioned Decree is null, nonexistent, ineffective and invalid" [Access to Justice (2020)].

The emergency decrees continued to be extended after the approval of the Anti-Blockade Law on October 12, 2020 by the National Constituent Assembly, being treated as complementary instruments. However, the provisions set forth in the decrees were incorporated in the Law, which has greater scope and indefinite validity, "until the effects of the unilateral coercive measures and other restrictive or punitive measures affecting the country cease", in terms defined by the same Law. The National Executive received the power to "in-apply, for specific cases, those norms of legal or sub-legal rank whose application is impossible or counterproductive as a consequence of the effects produced by a certain unilateral coercive measure or other restrictive or punitive measure... when it concerns the implementation of the measures for the economic and productive balance". Additionally, "the procedures, acts and records carried out on the occasion of the implementation of any of the measures established in the second chapter of this Constitutional Law, which imply the non-application of legal or sub-legal norms, are declared secret and reserved until 90 days after the cessation of the unilateral coercive measures and other restrictive or punitive measures that have brought about the situation".

The Anti-Blockade Law also created, by constitutional decree, the International Center for Productive Investment, whose Board of Directors is composed of members freely appointed and removed by the President of the Republic. Among its functions, in addition to keeping a consolidated record of the "unilateral coercive measures and other restrictive or punitive measures... for the design of public policies, plans and projects of the Venezuelan State in the context of such measures", two stand out: one, "to review and approve the investment projects prepared by the organs and entities of the Public Administration within the framework of the application of the [Anti-Lockout Law]. To such effect, it may establish evaluation methodologies and verify that the economic equation of such projects is favorable to the Venezuelan State, for the purpose of issuing the corresponding prior opinion on their feasibility and technical relevance". The other, "to promote at the national and international level the projects aimed at increasing the flow of foreign currency into the economy, increasing the profitability of the assets and mitigating the effects of the [sanctions], within the framework of the provisions of the [Anti-Blockade Law]". For "better compliance" with these purposes and others, "all the organs of the Public Administration and its decentralized entities are obliged to provide in a timely and complete manner all the information, data and statistics required by the International Center for Productive Investment [,] information [which] will be treated under the terms of reserve and confidentiality required by the referred Constitutional Law".

The relationship between the Anti-Blockade Law and the laws approved by the next National Assembly, installed on January 5, 2021, can be illustrated with two examples: the Organic Law of the Special Economic Zones of July 20, 2022 and the Law for the Protection of Social Security Pensions in the

Face of the Imperialist Blockade of May 8, 2024. The first one establishes that the creation and suppression of the Special Economic Zones is "an exclusive competence" of the President, who will also designate the person in charge of the Sole Authority in each Zone. The decree of creation requires a "draft Development Plan... prepared by the National Superintendence of Special Economic Zones", whose Board of Directors would also be made up of officials freely appointed and removed by the President. The Superintendence must coordinate with the International Center for Productive Investment "the attraction of potential participants to develop economic activities and evaluate their business profile and their participation projects", but it only corresponds to the Center "to establish conditions, technical requirements and procedures for the presentation, study and evaluation of the participation projects" and "to evaluate the modifications to the agreements subscribed", thus subordinating the Law of Zones to the Anti-Blockade Law.

The other law, which "aims to establish transparent and participatory mechanisms aimed at protecting social security pensions from the negative impact caused by unilateral coercive measures and other restrictive or punitive measures adopted against the country," gives the President the power to establish "annually the corresponding percentage of the special contribution, within the limits provided for in this Law," and to "exonerate, totally or partially," its payment. Six months after its promulgation, the amounts collected are unknown and the pensions have not been increased.

3. Sanctions and international alliances

On October 18, 2023, the Office of Foreign Assets Control (OFAC) of the United States Department of the Treasury temporarily authorized transactions with oil, gas, gold and debt (in secondary markets) of the Republic as a temporary and conditional "relief" of sanctions to "welcome the signing of an electoral roadmap agreement between the Unitary Platform and representatives of Nicolás Maduro" in Barbados [Blinken (2023)]. This "concrete step," whose implementation would be "closely followed… by the United States and the international community," was to be followed by two more before the end of November 2024: allowing all those interested in being presidential candidates to participate with physical security and freedom of movement and releasing all Venezuelan political prisoners and "wrongly detained" American citizens. Without these steps, the licenses granted would be withdrawn.

A detailed review of the events before and after the July 28, 2024 elections cannot be made here. However, it is necessary to consider the responses of governments in other countries to Maduro's appointment as the elected president of Venezuela. Russia, China, and Iran, among others, immediately recognized the election result announced by the National Electoral Council. Putin (2024) stated that relations between Russia and Venezuela were one of "strategic partnership," and invited Maduro to the BRICS Outreach/BRICS Plus meeting in its expanded format, which was held in Kazan on October 23-24. Xi Jinping (2024) stated that China and Venezuela were "good friends with mutual trust and good partners for common development." The Iranian Foreign Ministry (2024) stressed that "the elections were held despite oppressive and unfair threats and sanctions," and recalled the strong bilateral ties between Iran and Venezuela. The details of the agreements signed by the Maduro government with these governments have not been published [Bermúdez (2024)].

By August 3, the governments of Indonesia, Iraq, Laos, North Korea, Palestine, Qatar, Saudi Arabia, Syria, Turkey, the United Arab Emirates, Vietnam, Myanmar, Antigua and Barbuda, Bolivia, Cuba, Dominica, Grenada, Honduras, Nicaragua, Saint Kitts and Nevis, Saint Lucia, Saint Vincent, the Grenadines, Algeria, Angola, Burkina Faso, Djibouti, Equatorial Guinea, Eritrea, Gabon, Libya, Madagascar, Mali, Namibia, Nigeria, the Republic of the Congo, Western Sahara, and Zimbabwe had already recognized Maduro [Telesur (2024)].

Among those who rejected or did not accept the results, or expressed concern about the events that occurred, were two sanctioning governments and the United Nations. On August 24, the European Union reiterated that "the Venezuelan authorities have not presented the necessary public evidence to evaluate the electoral process according to the standards indicated by the United Nations Group of Experts," considering a ruling by the Supreme Court of Justice to be insufficient to accept and recognize electoral results.

Furthermore, it insisted that the authorities "must respect the right of all Venezuelans to peacefully protest and freely express their political views without fear of reprisal. They must refrain from excessive use of force, end repression and harassment of the opposition and civil society, and release all political prisoners" [Council of the European Union (2024)]. On September 16, OFAC "designated 16 Maduro-aligned officials who obstructed a competitive and inclusive presidential electoral process in Venezuela and violated the civil and human rights of the people" [U.S. Department of the Treasury (2024)]. On October 15, the United Nations Independent International Fact-Finding Mission on the Bolivarian Republic of Venezuela published "a new report that documents "in great detail" a deeply worrying increase in human rights violations and crimes against victims who have been targeted by the unprecedented repression in the country, especially during the recent electoral period" [United Nations (2024)]. Although these statements could anticipate a tightening of sanctions, they did not mean complete international isolation. Upon his return from the BRICS meeting, Maduro stated that his government held meetings with the governments of more than 30 countries, which "ratified their admiration for Venezuela and gave their express congratulations for the great electoral victory of July 28" [VTV (2024)]. Subsequently, the World Parliamentary Forum against Fascism, Neo-Fascism and Similar Expressions brought together delegates from 53 countries in Caracas on November 4 and 5, according to a press release from the National Assembly [Rengifo (2024e)].

Conclusion

The US Treasury Department (2024) took a few lines to explain the role it attributes to sanctions in a negotiation:

The power and integrity of OFAC sanctions derive not only from OFAC's ability to designate and add individuals to the SDN List [Specially Designated Nationals], but also from its willingness to remove individuals from the SDN List in accordance with the law. The ultimate goal of sanctions is not to punish, but to provoke positive change in behavior.

Given the outcome of the Barbados Accords [International Crisis Group (2023)], it seems clear that the number and severity of sanctions imposed over the past decade and the use of licenses as incentives did not trigger the series of "concrete steps" indicated by the sanctioners. On the contrary, the economic consequences of the sanctions, whether verifiable or not, were exploited in speeches, laws and alliances of the Maduro government with different "internal and external factors", following a pattern identifiable in documents written before February 4, 1992 [Balza (2009)]. This pattern was evident during the governments of Hugo Chávez in his use of enabling laws, his response to the 62-day oil strike called at the end of 2002 [OAEF (2003)], his speeches against "imperialism" and the "economic war" of the "bourgeoisie" [Chávez (2010)], his creation of extra-budgetary funds without public accountability [Balza (2013, 2017)], his proposals for constitutional reform, his approval of laws of popular power [Balza (2010b)] and his alliances with like-minded governments on different continents [Arellano and Cardozo (2018)]. In view of the above, it seems undeniable that the concentration of power in the President of the Republic, with the support of the officials who occupy the public powers, did not have its first manifestation in Maduro's call for a "perfect civic-military-police unit" to defend his designation as president-elect [Alonso (2024)].

Of the many cases that illustrate the continuity between the governments of Hugo Chávez and Nicolás Maduro, at least on this point, one example is the transformation of the Center for Situational Studies of the Nation (CESNA), created by decree on June 1, 2010, into the Strategic Center for Security and Protection of the Homeland (CESPPA) on October 7, 2013, by means of a decree reprinted on October 24, 2013 due to "errors in the originals" [Transparencia Venezuela (2013), Instituto Prensa y Sociedad Venezuela (2014)]. The original established the purpose of CESPPA as "to request, organize, integrate and evaluate information of interest to the strategic level of the nation, associated with internal and external enemy activity, coming from all state security and intelligence agencies and other public and private entities, as required by the political-military leadership of the Bolivarian Revolution" [emphasis added]. This paragraph was replaced by "shall request, organize, integrate and evaluate information of interest to the strategic level that is related to the security of the Nation, coming from all the security and intelligence agencies of the State, as required by the President of the Republic." Although the phrase "internal and external enemy activity" was removed from the CESPPA's object, this idea can be recognized in the Draft Law against Fascism, in the Organic Law of the Liberator Simon Bolivar and in the treatment received by public officials expelled from the dominant group, which could be identified with "the political-military leadership of the Bolivarian Revolution." An example is the explicit link between treason, corruption, destabilization and sanctions that Maduro (2024) made when he stated that:

> ... our PDVSA industry, even though it was blocked, persecuted and attacked... demonstrated the strengths of its internal capabilities that led to overcoming the adversities created by the illegitimate blockade and by the corrupt mafias that have occurred in several PDVSA administrations, which became entrenched in the industry and put themselves at the service of the plans for destabilization and national destruction. PDVSA entered a phase of recovery from these corrupt and bandit mafias... So, to the battle against conspirators and extremists, and the criminal blockade, we added an ethical, moral, political, judicial battle front against everything that means betrayal of our people. That is why, without any authentic and reliable political calculations, without any consideration, we decapitated that mafia and we have been decapitating all the mafias that have been discovered to be entrenched in the State, in association with private mafias

An idea similar to the "reserve" provided for in the Anti-Blockade Law can also be recognized, by providing that the presidents of CESNA and then of CESPPA could "declare the character of reserved, classified or of limited disclosure, to any information, fact or circumstance, which in the fulfillment of their functions they have knowledge of or are processed" in accordance with the laws. In an environment conducive to secret negotiations, Maduro (2024) recognized that:

Many times, many things that I do not say, but we do in silence, it has to be in silence: in silence it had to be the medicines that arrived, in silence it had to be the fuel when we did not produce it and it arrived; in silence it had to be the CLAP when we imported them from abroad and they arrived... Who brings... ultra-modern devices from around the world? We bring many of them from Europe despite the blockade, the Europeans don't know that we triangulate them, don't tell anyone, we triangulate the devices so that people have their pacemaker, their resynchronizer, their defibrillator, their new aortic and mitral valve, their haemodynamic kit, but we do it in silence, nobody finds out about it...

The sanctions did not change Maduro's discourse or actions. Nor did they change the governments of other countries in an international context of greater violence, taking into account that, according to the Anti-Blockade Observatory, as of November 2024, Russia, Iran, Syria, Belarus and Cuba had 28,572, 2,782, 1,359, 255 and 243 unilateral coercive measures, respectively, out of the 37,696 imposed on 30 countries. The sanctions did not prevent the concentration of power under Maduro's control, nor did they cause the disengagements that occurred in the ruling coalition after Chávez's death [Ramírez (2023), Efecto Cocuyo (2024)]. On the contrary, the damages caused by them allowed him to attribute to their promoters all the economic problems of recent years and accuse them of complicity in crimes against humanity, declaring any conduct supporting the imposition of sanctions as an act contrary to the "duty to protect the Homeland." Prison sentences of 25 to 30 years without the possibility of alternative formulas for compliance, fines in bolivars equivalent to up to one million times "the exchange rate of the highest value currency published by the BCV" and political disqualification for up to sixty years are some of the sanctions established in the Organic Law Libertador Simón Bolívar, which includes among its purposes:

Protect the national economy against actions that affect its harmonious development, erode the standard of living of the population or prevent the free administration or disposal of the assets of the Republic or its entities, within and outside the national territory.

Given how the group around Maduro has retained and exercised power since Chavez's death, it seems impossible that the sanctioners could achieve the results they hoped for by extending, or making even more severe, the sanctions applied over the past decade.

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