

Briefing: The effects of the economic blockade of Venezuela

This briefing covers the following topics:

- The context of the US's blockade of Venezuela
- The illegality of US's sanctions against Venezuela
- How Venezuela has been broadly affected by the sanctions
- The specific impact of the sanctions on Venezuela's economy and its people
- Trump's expansion of sanctions into a total blockade
- The Venezuelan government's response to the total blockade
- Britain's involvement in sanctions
- The US's ongoing support for coup leader Juan Guaidó
- Venezuela Solidarity Campaign's position

The blockade in context

The U.S. has been pursuing a strategy of 'regime change' through destabilising Venezuela dating back to the early years of Hugo Chávez's presidency. This led George W. Bush's administration to support the failed coup d'état against Chávez in 2002 and also the right-wing management lock-out in the oil industry. The lock-out, while ultimately unsuccessful, cost billions of dollars in lost revenues and had a catastrophic impact on the government's social projects.

Declassified US government documents and Wikileaks material have shown that the US has subsequently used covert financial, political, media and diplomatic activities in pursuit of its goal of 'regime change'. These have included channelling millions of US dollars to right-wing opposition groups to support their bid to destabilise and topple the elected governments of both Presidents Chávez and Maduro.

But with the repeated failure of US-financed efforts by Venezuela's right-wing opposition to overthrow the government, even after two major campaigns of street violence and sabotage (in 2014 and 2017), the US government decided to take a central role in the strategy of 'regime change.'

As part of this shift, the US under President Obama's administration adopted the use of unilateral illegal sanctions against Venezuela. Under President Trump sanctions, which can take various forms, have become focused towards creating an extensive economic blockade of the type employed against Cuba since the early 1960s.

The US, with the complicity of Canada and the EU, has adopted a strategy of financial strangulation against Venezuela. This involves, amongst other aggressive measures, an oil embargo, the international blocking of bank accounts and obstruction of financial transactions outside Venezuela, severely affecting the state's capacity to import food, medicine or anything else.

The intention is to attack and dislocate the country's economic and social model, seeking its collapse in order to dismantle it.

To pursue this full-scale economic war against Venezuela, the US State Dept has applied 150 coercive measures against the country. The US sanctions have been intensified since the failure of the US-backed attempted coup of Juan Guaidó, launched in January 2019.

At the same time, comments from Trump himself, Vice-President Pence and Secretary of State Pompeo have included threats of military action against Venezuela. Having created the conditions (or the perception) of economic and political collapse in Venezuela through the blockade, this could take the guise of an international (i.e. US) “humanitarian intervention” in military form, or support for a coup d’état by sections of the military.

*“The pressure campaign is working. **The financial sanctions we have placed on the Venezuelan Government have forced it to begin becoming in default, both on sovereign and PDVSA, its oil company’s debt. And what we are seeing... is a total economic collapse in Venezuela. So our policy is working, our strategy is working and we’re going to keep it.**”*

Declaration by the U.S.
Department of State

Are US sanctions legal?

US sanctions date from April 2015 following President Obama’s Executive Order a month earlier, permitting them on the grounds that Venezuela is an “unusual and extraordinary threat to US national security and foreign policy”.

Each Executive Order since then declares that because of the situation in Venezuela the United States is suffering from a “national emergency”. This designation is required by US law in order to impose such sanctions and is invoked under the 1976 National Emergencies Act.

However, there is no genuine basis for declaring Venezuela an unusual and extraordinary threat to US national security, nor in saying that the US is facing a national emergency. For President Trump, the definition of a national emergency is so flexible that he invoked the Act in February 2019 when declaring a national emergency to sidestep the need for Congressional approval for funds to build a border wall with Mexico.

The unilateral sanctions imposed by the Trump administration are illegal under the Charter of the Organization of American States (OAS), especially articles 19 and 20 of Chapter IV. They are also illegal under international human rights law, as well as treaties signed by the United States. They have no mandate from the United Nations.

The sanctions fit the definition of collective punishment of the civilian population, as described by the Geneva (Article 33) and Hague conventions, to which the USA is a signatory. In addition, given their intentional action to destroy a people, in part or in

whole, and their effect on the preventable mortality of Venezuelans the sanctions also fit the UN definition of genocide.¹

Alfred de Zayas, a former secretary of the UN Human Rights Council (HRC) and an expert in international law, who toured Venezuela in 2018 and produced a report for the HRC, has recommended among other actions that the International Criminal Court investigate economic sanctions against Venezuela as possible crimes against humanity under Article 7 of the Rome Statute.

Idriss Jazairy, the UN's special rapporteur on the negative impact of the unilateral coercive measures on the enjoyment of human rights, has also voiced his major concerns about US sanctions against Venezuela. In January 2019 he said: "Coercion, whether military or economic, must never be used to seek a change in government in a sovereign state. The use of sanctions by outside powers to overthrow an elected government is in violation of all norms of international law."²

What are the key sanctions that make up the blockade?

The set of US financial sanctions – to which new sanctions are continually being added to make them as comprehensive as possible – aims at financially asphyxiating Venezuela's economy. The measures include:

- the prohibition to make dividend payments or other profits to Venezuela's government or government agency (US Executive Order 13808 of August 24, 2017)
- all transactions related to, provision of financing for, and other dealings in, by a United States person or within the United States, any digital currency, digital coin, or digital token, that was issued by, for, or on behalf of the Government of Venezuela (US Executive Order 13827 of March 19, 2018)
- the absolute prohibition for individuals, companies or entities to purchase Venezuelan bonds of any kind, any debt owed by the Venezuelan government, the sale, transfer, assignment, or pledging as collateral by the government or government agency (including the Central Bank and the state oil company, PDVSA) of Venezuela of any equity interest (US Executive Order 13835 of May 21, 2018)
- sweeping new sanctions on Venezuela's gold exports, affecting anyone trading or having anything to do with trading Venezuelan gold in the world market (Executive Order 13850 of November 2018)
- further sanctions in January 2019 against PDVSA, which included freezing US\$7 billion in assets owned by its US-based subsidiary CITGO which has three oil refineries and oversees a nationwide network of pipeline and oil and gas stations in the US

All these prohibitions apply to US persons, entities or companies and those resident or operating within US territory or any jurisdiction within the US (i.e. foreign

¹ UN Office on Genocide Prevention and the Responsibility to Protect Genocide, <https://www.un.org/en/genocideprevention/genocide.shtml>

² United Nations Human rights, office of the High Commissioner, <http://bit.ly/2WNp6U2>

individuals, entities or companies). But they also apply everywhere else extraterritorially, where the US can exert pressure and/or enjoys support for the blockade.

How seriously has Venezuela been affected by the sanctions?

A recent report³ by the respected economists Mark Weisbrot and Jeffrey Sachs has found that “most of the impact of these sanctions has not been on the government but on the civilian population.”

Among the impacts which have disproportionately harmed the poorest and most vulnerable Venezuelans are an increase in disease and mortality (for children and adults). The report estimates that more than 40,000 deaths have since 2017-18, making the U.S. sanctions fit the definition of collective punishment as described in both the Geneva and Hague international conventions, to which the U.S. is a signatory.

How specifically have the sanctions impacted on the Venezuelan economy and people?

Venezuela as a predominantly oil-based economy is inherently vulnerable to effects of a blockade. It is the export of oil that provides the Venezuelan government with the revenue in foreign exchange that is needed to import essential goods: food, medical equipment, spare parts and equipment needed for electricity generation, water systems or transportation.

By blocking payments to Venezuela, the sanctions cut deeply into these export earnings, and therefore the government’s revenue, and reduce the government’s ability to import these essential goods.

At the same time, sanctions that constrain the Venezuelan government’s ability to operate freely in the global market further restrict its essential financial dealings.

Specifically:

- the sanctions levied in August 2017 prohibited the Venezuelan government from borrowing in US financial markets and this prevented the government from restructuring its foreign debt through issuing new bonds
- Executive Order (No.13808) prohibited the direct or indirect purchase of securities of all types from the Venezuelan government, thus drawing a wide range of banks and financial institutions into the net of sanctions.

³ ‘*Economic Sanctions as Collective Punishment: The Case of Venezuela*’ by Mark Weisbrot (Co-Director at the Center for Economic and Policy Research (CEPR) and Jeffrey Sachs (Professor of Economics and Director of the Center for Sustainable Development at Columbia University), CEPR, April 2019.

Immediately, in the remaining months of 2017, a series of banks across Latin America, Europe, Asia and the United States were all unable to process standard commercial transactions with Venezuela. These included, for example:

- a tranche of purchases of food, basic supplies and medicines worth \$39 million
- a delay of four months in the acquisition of vaccines, requiring the rescheduling of vaccination schemes in the country

As the sanctions have continued to bite, the effects have also included:

- the withholding by Euroclear, a Belgium-based financial services company, of at least US\$1.2bn that the Venezuelan government would use to purchase food and medicines
- US-based Citibank financial institution refused to accept money Venezuela was depositing to pay for importing a huge cargo of insulin for diabetic patients, holding up the shipment for many days in port
- the blocking of a shipment of Primaquine, an anti-malaria medicine, from a Colombian laboratory, on the orders of its government, forcing Venezuela to buy it and other medicines for chronic illnesses in India
- international banks suspended payments to foreign suppliers for three months, holding up the arrival of 29 container ships carrying supplies needed to process and produce food products in Venezuela
- in September 2017, 18 million food ration packages could not be distributed because payments for food imports were blocked, requiring complex payment transactions with various allied countries to secure the imports

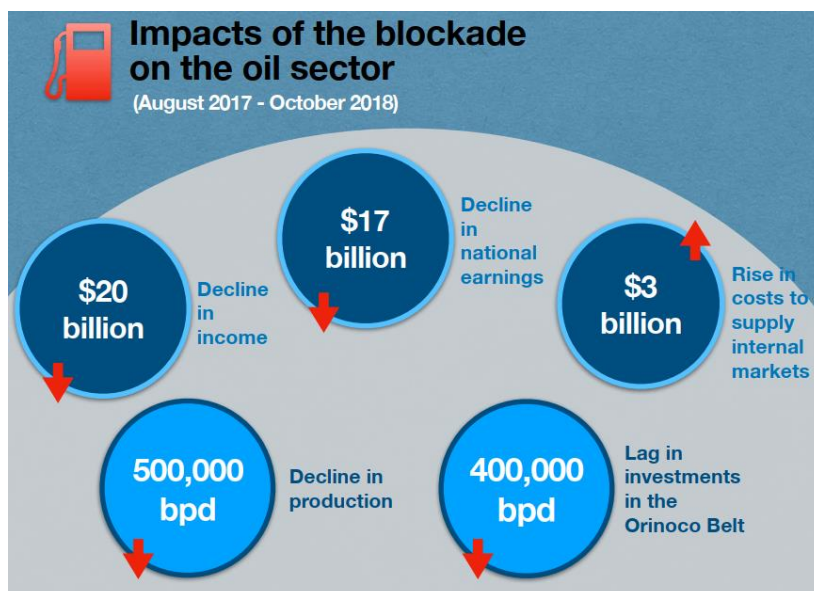
Banks illegally retaining Venezuelan financial resources (at 30 April 2019)		
Bank	Country	US\$
Novo Banco	Portugal	1,547,322,175
Bank of England	UK	1,323,228,162
Clearstream-London	UK	517,088,580
Sumitomo	US	507,506,853
Citibank	US	458,415,178
Euroclear	Belgium	140,519,752
Banque Eni	Belgium	53,084,499
Delubac	France	38,698,931
41 other banks and financial institutions	17 various countries	654,142,049
TOTAL		5,470,030,641

A clear example of how sanctions have directly impacted on vulnerable Venezuelan citizens is that 24 Venezuelan patients in Italy awaiting bone marrow transplants can no longer have their treatments and expenses paid for, as a result of the US.'s seizure of Citgo which had previously covered the costs.

Funds from Citgo worth 5 million euros (\$5.57 million) allocated as payments for bone marrow transplants for Venezuelan patients and held at Portugal's Novo Banco are frozen. As a result, to date three children have died.

In terms of the economy, sanctions have severely impacted on the oil industry, where the loss of credit and therefore the resources to maintain production levels through maintenance and new investment led to production plummeting (see *overleaf*).

Weisbrot and Sachs have suggested that *“the loss of so many billions of dollars of foreign exchange and government revenues was very likely the main shock that pushed the economy from its high inflation, when the August 2017 sanctions were implemented, into the hyperinflation that followed.”*



Additionally, the financial sanctions carry heavy extra costs in higher interest payments, more expensive transport costs, and concrete losses from the illegally confiscated assets, the value of which experts have calculated to be in the region of US\$30 billion.

How has Trump tightened the blockade in 2019?

Following the Trump administration's recognition of Juan Guaidó's unconstitutional declaration of himself as "interim president" of Venezuela in January 2019, Executive Order 13857 extended the reach of existing sanctions to include the Central Bank of Venezuela and the state oil company PDVSA. The US's recognition of Guaidó's "parallel government" also brought into play sanctions implicit in previous Executive Orders.



Steps to strangle the Venezuelan economy included a ban by the US Treasury's Office of Foreign Assets Control (OFAC) on the use of its financial system in oil deals with Venezuela after April 2019, while also reportedly instructing oil trading houses and refiners around the world to further restrict their trade with Venezuela or face sanctions themselves, even if US sanctions did not prohibit such transactions.

The net effect of these actions has been to drastically reduce Venezuela's ability to produce and sell oil, or to sell any foreign assets of the government since its most important foreign assets have been frozen and/or confiscated.

This has reduced still further foreign exchange earnings that would be used to buy essential imports, such that imports of goods are projected to fall by 39.4%, from \$10 billion to \$6.1 billion. This will undoubtedly have an even more severe impact on the lives and health of ordinary Venezuelans, especially the poorest and most vulnerable.

In particular, Venezuela has been cut off significantly from its largest oil market, the United States, which in 2018 had bought 35.6% of its oil exports. At the same time, the Trump administration has tried to pressure other countries, such as India, not to take up the slack, as well as telling oil trading houses and refiners across the world to restrict further their trading with Venezuela or face sanctions themselves, even where such dealings are not prohibited by published U.S. sanctions.

These moves were denounced as unilateral sanctions not against officials but against the general population of Venezuela by Venezuelan Foreign Minister Jorge Arreaza at a United Nations meeting on April 25 2019. He went on to say: "we are campaigning for ourselves so that the world understands the consequences of the unilateral blockade of the US government on Venezuela, consequences that have taken the lives of thousands of Venezuelans."

An immediate response by the Trump administration was to add the Foreign Minister to the list of sanctioned Venezuelan officials.

Particularly pernicious is the inclusion of Venezuela's subsidised food programme (CLAP) in the regime of sanctions, affecting the purchase of food abroad. In late July the US followed through on an earlier threat to sanction the CLAP programme, which currently benefits six million Venezuelan families through monthly deliveries of food boxes at subsidised cost.

The US Treasury Department's imposed sanctions against 13 companies and a number of individuals involved in the importation of food, with further discussions taking place to target sanctions on companies in Brazil, Mexico and elsewhere supplying food to Venezuela. The intention seems to be to starve the population into submission.

The US makes it a total blockade and continues to impose more sanctions

The US blockade has been condemned by the 120-country Non-Aligned Movement at its summit in Caracas in July, the ALBA-TCP countries, a host of individual countries and in demonstrations worldwide.

The Sao Paulo Forum that ended on 28 July 2019 similarly called for "*the broadest global solidarity with the defence of the sovereignty and self-determination of the Venezuelan people and with their right to live in peace*".

However, the Trump administration responded by issuing Executive Order 13884 on 5 August creating a total blockade of Venezuela. The Order freezes all Venezuelan assets in the United States and empowers the US Treasury Department to issue secondary sanctions against non-US third parties doing *any* type of business with the Venezuelan government, not just in the oil, banking and mining sectors.

The now former National Security Adviser John Bolton told a meeting of foreign governments in Lima the following day that “we want to send a message to third parties wanting to do business with the Maduro regime: there is no need to risk your business interests with the United States...”

The new sanctions regime was welcomed by the self-proclaimed ‘interim president’ Juan Guaidó, but criticised for its extraterritorial reach by the EU, the UN and OPEC.

Evidence of the blockade’s potential impact became evident a mere two days, with reports of a ship carrying soy imports being seized in Panama, while. Western Union’s response was to suspend all money transfers to Venezuela.

Since August 2019, the Trump administration has continued to impose more sanctions:

- In October, the US Treasury Department modified the licence of the Nynas AB oil refining company jointly owned by PDVSA and Finland’s Neste Oil, to prohibit new purchases of Venezuelan crude. Under the terms of the new licence, Nynas AB, which operates speciality refineries in Sweden, Germany, and the UK geared mainly towards asphalt production, is authorized to sell Venezuelan oil or petroleum products already in inventory but is barred from making new purchases
- New Treasury Department sanctions were issued against five more Venezuelan officials in November
- The US Treasury Department has also directly targeted non-US, Caribbean-based shipping firms working with PDVSA, in a bid to further hamper Venezuelan crude exports
- In February 2020, the US Office of Foreign Assets Control announced new sanctions against more than 30 aircraft of the Venezuelan Aeronautical Industries and Air Services Consortium, also known as Conviasa, which have met with protests by airline workers and passengers.

The intended reach and impact of the blockade strategy and its raft of Executive Orders not only relies on companies complying with sanctions that directly apply to them but also corporate overcompliance, where sanctions do not or might not apply. For example, in October, Adobe, Flickr, TransferWise and Oracle informed Venezuelan users that they would cease services due to the blockade order.

Companies can recognise the Trump administration’s signal that investments in and dealings with Venezuela carry greater and greater risk, which has led to banks and financial service providers freezing Venezuelan accounts or refusing to process Venezuelan financial operations, and even transfers for the purchase of food and medicine.

All told, losses to Venezuela up to February 2020 are US \$116 billion according to Communications Minister Jorge Rodriguez.

How has the Venezuelan government responded to the total blockade?

President Maduro's initial response was to cancel the government's attendance at the next round of dialogue negotiations mediated by Norway, with Venezuelan Foreign Minister Jorge Arreaza speculating that the US was "trying to dynamite the dialogue."

Nevertheless, the Venezuelan government reiterated its willingness to continue to seek dialogue - in total contrast to US efforts to use force, coercion and violence - as the only way forward.

This has produced results. On September 16, the government reached an agreement with four opposition political parties: Cambiemos, Soluciones, Avanzada Progresista and MAS. Although the parties only have 8 seats in the 167-person National Assembly, the agreement signalled deep divisions within the opposition.

The agreement included key points:

- 1) the governing socialist party (PSUV) and allied parties would return to the National Assembly, which they had left when the Supreme Court declared it in contempt in 2017;
- 2) a new board of the National Electoral Council would be selected;
- 3) prisoners would be released as per the recommendations of the Truth Commission;
- 4) an oil-for-food programme would be established; and
- 5) the parties rejected sanctions as unilateral coercion and called for their lifting.

The accord gained more weight two days later when Javier Bertucci, an opposition evangelical leader who won over 1 million votes in the 2018 presidential elections, signed up to the agreement and joined the newly established National Roundtable Dialogue.

The Venezuelan government has also continued to try to shore up and develop its economy in various ways. For its main export, oil, it has pursued new crude buyers, reportedly selling shipments to Russian state energy company Rosneft which then reroutes them to other customers. However, Trump's national security adviser, Robert C. O'Brien, has signalled that the US could impose sanctions on Rosneft: "I think you're going to see some action either voluntarily from the company or the US will likely take action in the near future."

Deliveries have resumed to Indian customers, including refining giant Reliance Industries. Chinese state oil company CNPC has also reportedly begun buying Venezuelan cargoes after suspending them in the wake of the blockade imposition in August 2019.

The government has also set up its first gold processing complex in Matanzas, Bolivar State, transforming gold ore into commercially marketable gold bars. Although the country has 32 certified gold fields and the world's second largest gold reserves, it currently depends heavily on costly foreign assistance for processing.

But the Venezuelan government is also going on the attack against the blockade. It is pursuing legal proceedings at the International Criminal Court (ICC) to have the US government's unilateral coercive measures against the country investigated, describing them as a "crime against humanity" and a "weapon of mass destruction."

Is Britain involved in any way with sanctions on Venezuela?

The British government is a supporter of the sanctions regime unanimously agreed by the European Union in November 2017, which consisted of sanctions targeted at 18 senior individuals, coupled with demands for Venezuela to ensure what it called 'free and fair elections' and the release of what it deemed were 'political prisoners'.

In addition, the Bank of England, although nominally independent of the government, followed its lead by stopping 31 tonnes of Venezuelan gold deposited in its vaults, worth almost £1 billion, from being repatriated to its rightful owners, the Venezuelan government.

In a speech at Chatham House in 2018, the then Minister of State for the Americas Sir Alan Duncan warned that should the Venezuelan government not accede to the demands, fresh sanctions would be considered with Britain's international partners.

More recently, In January 2020 Foreign Secretary Dominic Raab met with Guaidó as he toured Europe to gain diplomatic support and revive his flagging campaign to overthrow the elected Maduro government, and said: "We condemn what the Maduro regime is doing to threaten democracy and we support Juan Guaidó's efforts towards a peaceful and democratic resolution. In our meeting today I pledged our unwavering support to work with our international partners to bring an end to the appalling crisis."

US support for Guaidó continues

The US's support for Guaidó is undiminished by the scandals besetting him regarding embezzlement of funds, corrupt activity by members of his party and his own association with Colombian paramilitaries.

It has also overlooked Guaidó being beaten by opposition member Luis Parra for election as President of the National Assembly. This forced Guaidó to convene a parallel National Assembly to re-elect him as president, despite crucial irregularities such as lacking a quorum and receiving votes from deputies abroad fleeing charges, as well as substitutes for the legislators who had earlier voted for Parra.

Notwithstanding this, the parallel vote was recognized by US Vice President Mike Pence, who congratulated Guaidó "on his re-election as Interim President of Venezuela."

A more important and high-profile endorsement was to follow. Following Guaidó's European tour and appearance at the world economic Forum in Davos where he failed to meet Trump, the US President feted him at his 2020 State of the Union

address: “Joining us in the gallery is the true and legitimate president of Venezuela, Juan Guaidó....Please take this message back that all Americans are united with the Venezuelan people in their righteous struggle for freedom.”

What is Venezuela Solidarity Campaign’s position?

VSC condemned the British government for welcoming Guaidó as a head of state, saying it “violates all principles of international law and the Vienna Convention”.

VSC also noted that “he has campaigned for foreign sanctions and for military intervention against his own people and nation and has launched a failed military coup attempt,” the group said in a statement. Furthermore, he has failed to support international and regional efforts to facilitate proper dialogue in Venezuela.”

VSC is clear that the blockade will not help Venezuela’s people at all but simply exacerbate the country’s problems and divisions. Sanctions will not help to facilitate a national dialogue to resolve Venezuela’s issues.

As a campaign, we will continue to work to:

- support Venezuela’s right to national sovereignty and reject external intervention
- demand respect for international law
- obtain the immediate and unconditional lifting of all economic and financial sanctions, which are illegal under international law and have criminal consequences
- support a process of dialogue to resolve differences.

February 2020