New Options for Leveraging Sanctions to Address Venezuela's Humanitarian Crisis*

Overview of U.S. Sanctions on Venezuela

The United States imposed the initial set of sanctions on the government of Venezuela in 2009, including an extensive list of specially designated nationals (SDNs) within and beyond Venezuela for their illicit trafficking in drugs and money laundering. In 2014, the U.S. Congress passed the Venezuela Defense of Human Rights and Civil Society Act that, in combination with President Obama's Executive Order 13692 (2015), comprised the U.S. response to increasing repression by the government. As a result, after continued repression of major protests to Maduro's rule by decree, the European Union, Canada, Panama, Mexico, and Switzerland joined the United States in placing sanctions directly on key figures of the Venezuelan government and their associates who were perceived as lending support to the Nicolás Maduro regime.

The Trump administration enacted a "maximum pressure" sanctions campaign, which included freezing of individuals', parties', and organizations' assets and accounts, as well as travel bans. Examples of the comprehensive, punishing character of the U.S. sanctions included canceling visas of 718 individuals, sanctioning more than 150 companies and vessels for their economic exchange with Venezuela, and enacting economic sanctions on gold, petroleum, and financial industries. With Executive Order 13884 (August 2019) the Trump administration effectively blocked all assets of the Venezuelan government from being engaged in any international transaction and invoked secondary sanctions on any foreign actors engaged in material support of the Venezuelan government.

The combination of economic mismanagement by Venezuelan leaders for more than a decade and the devasting impact of U.S. sanctions have resulted in the country experiencing the largest economic contraction in recorded Latin American economic history, with its gross domestic product (GDP) contracting by 74.3 percent during the last eight years. This is the sixth largest contraction in world history and the largest one in Latin American history since 1950. It is also the second largest contraction in the world outside of war.

* This is an executive summary of a case study on Venezuela authored by Francisco Rodríguez of Oil for Venezuela commissioned by the Sanctions and Security Research Project.

Sanctions as Obstacles to Humanitarian Assistance and Welfare

Although the socioeconomic crisis in Venezuela began before sanctions were imposed, the sanctions clearly exacerbated the situation, including the costly, ongoing out-migration from Venezuela. Moreover, during the COVID-19 crisis, U.S. decisions claimed to be responding to the growing humanitarian disaster by streamlining the financing of aid and medical trade via sanctions licensing and exceptions but, possibly by design, were difficult to operationalize and failed to bring relief to most Venezuelans. Among other dilemmas, current sanctions imposed on the Maduro-led Venezuelan government are not only highly restrictive to the government's ability to address poverty and disease but have inhibited other U.S. and international community objectives in Venezuela. The sanctions continue to:

1. **Contribute to the record-setting decline of living standards in Venezuela.** In addition to a near total embargo of Venezuelan oil, the financial sanctions impeded the government and its entities from restructuring its debts from lost oil revenues. Strong evidence exists that sanctions are a significant driver of plummeting oil production, leading to diminished import capacity and fueling the economic contraction. Many international financial institutions, including the IMF, have been unwilling to lend money or provide access to financial relief due to U.S. sanctions, other statecraft actions, and political pressure.

2. **Cause significant delays in providing life-saving humanitarian assistance.** Private and public financial institutions, even those outside of the United States, act with an abundance of caution to ensure they will not—intentionally or not—run afoul of sanctions, especially by inadvertently facilitating illegal transactions of funds of suspect origin. This culture of risk aversion and related over-compliance with sanctions delays the delivery of important life-saving humanitarian goods and services such as medicines, personal protective equipment, surgeries, and vaccines.

3. **Place more barriers for humanitarian actors in conducting activities.** As a correlate of the preceding points, and despite the U.S. government recently issuing of a spate of licenses aimed at ensuring humanitarian operations, humanitarian actors continue to be hindered in delivering goods and processing funds without encountering overcompliance in various transportation, insurance, and banking sectors. Fear of running afoul of sanctions dominates risk-averse regional and international financial institutions.

The evidence strongly supports the contention that economic sanctions and other actions of economic statecraft aimed at the Venezuelan government have strongly impacted the country's economic and humanitarian conditions. The United States can take the following four measures to mitigate these effects:

1. **Reengage Venezuela into the global economy.** Because Venezuela's humanitarian crisis is a consequence of a large-scale economic crisis caused by severed trade and financial links between Venezuela and the global economy, the United States can take focused action to reengage Venezuela into the global economy. One such action would be creating an appropriately established oil-for-essentials program that administers the use of funds in blocked deposits or those that can be obtained through international sources. These can then be directed toward purchasing goods and inputs essential to addressing the country's humanitarian crisis.

2. **Strongly support a new framework** for political humanitarian agreements and make sanctions more flexible to aid Venezuelans, particularly in gaining access to multilateral banks or capital markets.

3. **Issue clear guidance to reduce incentives for overcompliance** by the Office of Foreign Assets Control (OFAC) by devoting more resources to develop the capacity to respond rapidly and proactively to compliance-related inquiries from financial institutions.

4. **Distinguish between strategic and non-strategic sanctions.** Strategic sanctions should be easily reversible whereas non-strategic sanctions should have much higher bars on being reverted. Strategic sanctions should be lifted as soon as the associated conditions of change of conduct are verified.

Moving Beyond Punitive Sanctions to a Humane and Incentive-Based Approach

Efforts to mitigate the detrimental impact of sanctions should be coupled with an incentive-based effort that includes more engaged diplomacy with the Maduro regime and with the regime and opposition jointly. A more nuanced approach to implementing sanctions, which combines threats and emphasizes potential sanctions relief at a later stage, would strengthen their impact and efficacy. This transforms sanctions from a purely punitive pressure tool into a conflict transformational tool, providing incentives for leaders to carry out reforms.

Specific additional steps that could be taken for sanctions relief in exchange for such transformative action include:

1. **Identify and vet select humanitarian organizations.** OFAC could issue a list of select, vetted organizations that carry out humanitarian programs so banks can authorize transactions with less fear that they are potentially violating sanctions.

2. **Establish a U.S.–Venezuela jointly staffed committee.** For this OFAC action and the oil-for-essentials program, the U.S. and Venezuela could establish a jointly staffed committee to monitor, evaluate, and report on the workings of these new mechanisms and their ability to mitigate the unintended consequences of sanctions on humanitarian activities.

3. **Tie actions and other incentives to successful negotiations.** The U.S. can tie these actions and other potential incentives to the demonstrated commitment by the Venezuelan government to meet and negotiate with the opposition in the very recently begun discussions that are being chaired by Norway.