



# US OIL SANCTIONS AGAINST VENEZUELA: POSSIBLE EFFECTS

Siddharth Malhotra  
*Research Intern, CAPS*

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On the 1<sup>st</sup> of August 2017, the United States imposed sanctions against the Venezuelan President Nicolas Maduro, and his administration in response to the increasingly authoritarian executive that is helping the President and his socialist party to consolidate their own power within the country.<sup>1</sup> According to the sanctions, the US firms and enterprises have been prohibited from doing business with President Maduro and his administration. These sanctions are the toughest action by the U.S. so far on the oil rich country, and media reports suggest that the Trump administration is considering taking these stringent actions forward by imposing further sanctions targeted at Venezuela's vital oil sectors.<sup>2</sup> The current crisis in the US-Venezuelan relations only begs the question: What next? A deeper analysis of the possible effects of these sanctions would raise important questions, such as: Will oil sanctions harm the U.S. more than benefit? Will the oil sanctions even fulfil their integral mission of

bringing an end to the Maduro administration? And would the U.S. prefer multi-stakeholders such as China and India to build stronger ties with the Latin World?

Although imposing sanctions against Venezuela's oil sector is not definite, the outcome in case of an unrelenting imposition could be detrimental to the country's dwindling economy. In order to determine the potential impact of a possible overbearing US action against Venezuela, it is imperative to take a quick tour of the historical relationship between Venezuela and its oil politics during the years of Chavez and his 'Bolivarian Revolution'.

When Hugo Chavez came into power in 1999, the primary mission of the administration was to fix the problems pertaining to poverty and social inequality, primarily via land reforms and social programs.<sup>3</sup> The Chavez government carried out a series of social programs which

were dubbed as 'Bolivarian Missions'<sup>1</sup> aimed at providing the people with public services (such as healthcare, food and education) in order to improve the social, cultural and economic situation of the country.<sup>4</sup>

In order to facilitate this vision, Chavez utilised the funds from the state-owned nationalized oil company *Petróleos de Venezuela, S.A.* (PDVSA)<sup>2</sup>, as a 'piggy-bank.'<sup>5</sup> As a result of the Bolivarian Missions, according to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), under Chavez, poverty rates fell from 49.4% in 1999 to 23.9% in 2012.<sup>6</sup> It is evident from these statistics that the Chavez administration did manage to alleviate some of the socio-economic issues that plagued the country. But one of the key observations was that his social policies ultimately led to overspending as by the early 2000's, the Venezuelan government was spending more on social programs than the money it was receiving from oil exports.<sup>7</sup>

Oil accounts for 90 per cent of the country's exports, amounting to half the government's total revenue,<sup>8</sup> and like many other OPEC countries, Venezuela is one of the largest oil producers in the world, which means that the country's economy is heavily dependent on the trends of

global oil prices.<sup>9</sup> Hence, there was an evident mismanagement of the money coming from PDVSA but supporters of the Socialist party argued that the financial collapses seen during and after Chavez were largely due to the fluctuating oil prices. Nevertheless, the inability of the government to take steps towards securing foreign exchange reserves, coupled with the lack of investments towards other sectors, and the over dependency on oil, led to Venezuelan economy facing what is analogised in economics as the Dutch Disease.<sup>3</sup>

After the death of Chavez in 2013, President Maduro vowed to keep much of the policies implemented by Chavez under his socialist umbrella. This was a decision that was sure to be faced with a strong reaction, as the U.S often ravaged the socialist policies imposed by Chavez with frequent sanctions. An example can be seen through the 2011 sanctions that were issued by the U.S to Chavez after the PDVSA was found trading with Iran.<sup>10</sup> Today, Venezuela under Maduro continues to being in the midst of an unfamiliar economic and political crisis that is noticeable by severe food and medicine shortages, soaring crime rates, widespread protests alongside an increasingly authoritarian executive.<sup>11</sup> Since 2016, despite the *Mesa de la Unidad Democrática* (MUD), which is the main opposition party, holding a majority in the

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<sup>1</sup>Bolivarian Mission is a series of Social programs that were created by Hugo Chavez, and were aimed at alleviating the socioeconomic problems in the country.

<sup>2</sup> Venezuelan state-owned oil and natural gas company.

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<sup>3</sup>The relationship between a rise in one sector, (e.g. Natural Resources), and the decline in another (e.g. Manufacturing).

national assembly; the Maduro government has taken measures to consolidate the President's power by undercutting and usurping the responsibilities of the legislature, mainly by trying to impose new constitutional changes. President Maduro's undeterred actions since have been met with wide scale protests that have put the country in a state of panic, and international condemnation, especially from the US.<sup>12</sup>

Venezuela is also heavily dependent on the U.S. for cash; hence, the most evident effects of the sanctions would be the massive depletion of government revenue. Luis Giusti who was the CEO of PDVSA until 1999 stated that, "The United States is important for Venezuela because it's the only invoice that is paid on time." The other countries that Venezuela supplies oil to usually do not pay in cash directly, as oil is accepted as a repayment on an existing debt.<sup>13</sup> Thus, the lack of foreign exchange coming into the country would mean that the food and medical shortages that Venezuela is currently facing could potentially worsen.

Given the fact that the West has labelled the current situation in Venezuela as a 'humanitarian disaster,' further sanctions would reduce the petro-dollars coming into the country which would in turn impact the social programs as a result of inadequate funds to support such initiatives. Therefore, the West, especially the US, should not lose sight of the Venezuelan people,

though some Americans argue that the corrupt Maduro regime doesn't allow the petro-dollars to trickle down to the people.

At the same time, the US is the biggest importer of Venezuelan crude oil, importing roughly \$14.6 billion dollars of oil per year.<sup>14</sup> This strong dependence on Venezuelan oil would mean that sanctions could have a direct effect on the U.S. economy too, since Venezuela is America's third largest oil supplier.<sup>15</sup> According to several U.S. Oil companies such as Chevron, Valero, Citgo and Phillips 66, a U.S. backed sanction could heavily affect their business.<sup>16</sup> In addition, since these companies are heavily dependent on the specific crude oil that Venezuela is a supplier of, it would be very difficult for these businesses to find alternative supplier even though Saudi Arabia, Canada, Mexico and Colombia are all viable options for the U.S. However, the oil coming from these countries would not be as cost-effective as the heavy crude oil that comes from Venezuela. Thus, the increased costs of oil from alternative suppliers could also prove to be harmful to U.S. businesses. Some sources, namely Rep. Randy Weber of Texas, feel that "it could jeopardize 525,000 refining-related jobs along the Gulf Coast."<sup>17</sup> In response to this, Trump voiced out that he could protect American jobs and businesses by using the country's emergency oil reserves. Albeit, a farfetched and unlikely response, by selling half of the 700-million barrel U.S. strategic oil reserve, Trump and his

administration believes that it would be able to reduce the budget deficit brought about by the sanctions against Venezuela.<sup>18</sup>

In addition to the adverse economic effects seen by the imposition of a sanction, the U.S. must also look at the potential effectiveness of the sanction in achieving its main political mission, i.e. to end the Maduro regime. From the U.S perspective, possible oil sanctions could be a way to put an end to the 'un-democratic' rule of President Maduro, whom they deem responsible for the Venezuelan collapse. President Maduro, on the other hand, has used heavy anti-capitalistic rhetoric, that could use the sanctions as a means to shift the blame of the ongoing socio-economic problems of the country towards the US, thereby helping him to consolidate his support among the Venezuelan people.

From the current political clash between the U.S and Venezuela, the latter has the opportunity to diversify its partners to other Asian countries. In the midst of this political chaos, where does India position itself? According to the OEC (which is the Observatory of Economic Complexity), Venezuela supplies India with \$5.82 billion worth of crude oil, making it the third largest importer of Venezuelan oil after the US and China.<sup>19</sup> By increasing oil trade, India could benefit from a discounted price of oil, and in turn, Venezuela could ensure that levels of revenue are being channelled back into the State. In this situation,

India could provide humanitarian assistance to Venezuela by providing basic food and medicine, and at the same time increase relations with the Latin American World which contemporary Indian foreign policy is trying to consolidate.

In the midst of this political chaos between the U.S. and Venezuela, the international community is forgetting about the most important casualty of the humanitarian disaster—the Venezuelan people. Instead of taking such strong political actions, which arguably might not get the most desirable result, pioneering countries such as the U.S. should look at alternative measures in order to ensure the Venezuelan people are protected, rather than to impose policies that could be further detrimental to the social programs that are responsible for feeding the Venezuelan people.

*(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])*

## Notes

<sup>1</sup> Claire Felter & Danielle Renwick, "Venezuela in Crisis," *Council on Foreign Relations*, August 01,

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<sup>3</sup> Gregory Wilpert, *Changing Venezuela by taking power: the history and policies of the Chávez government* (New York: Verso, 2007), p.77-78.

<sup>4</sup> Ibid

<sup>5</sup> Javier Corrales, "The house that Chavez built," *Foreign Policy*, March 07, 2013,

<https://foreignpolicy.com/2013/03/07/the-house-that-chavez-built/>, accessed on August 09, 2017.

<sup>6</sup> Cepal, “press releases,” <http://www.cepal.org/en/pressreleases/eclac-calls-redoubling-efforts-combat-poverty-and-inequality-scenario-deceleration>, accessed on August 10, 2008.

<sup>7</sup> Rory Carroll, *Comandante: Hugo Chavez’s Venezuela* (New York: Penguin Books, 2014), p.59.

<sup>8</sup> Ibid

<sup>9</sup> Sanjay Badri-Maharaj, “Venezuela’s Political Crisis: Continuing Chaos,” *Institute For Defense Studies & Analyses*, 2017, p. 2.

<sup>10</sup> Anna Mahjar-Barducci, “U.S. Sanctions Against Venezuela,” *Gatestone Institute: International Policy Council*, (June 2011). <https://www.gatestoneinstitute.org/2170/us-sanctions-against-venezuela>, accessed on August 22, 2017.

<sup>11</sup> Claire Felter & Danielle Renwick, “Venezuela in Crisis,” *Council on Foreign Relations*, August 01, 2017, Trending, Foreign Affairs.

<sup>12</sup> Nathaniel Paris Flannery, “Political Risk Analysis: Venezuela’s Economic Crisis,” *Forbes*, April 11, 2017, Leadership, Foreign Affairs.

<sup>13</sup> Jim Wyss, “As U.S. steps up pressure on Venezuela, oil sanctions remain one way to push out Maduro,” *Miami Herald*, July 26, 2017, Americas, Venezuela.

<sup>14</sup> The OEC, “Venezuela,” <http://atlas.media.mit.edu/en/profile/country/ven/>, accessed on August 11, 2017.

<sup>15</sup> Ibid.

<sup>16</sup> Time, “Time World,” <http://time.com/4894874/venezuela-nicolas-maduro-sanctions-oil/>, accessed on August 11, 2017.

<sup>17</sup> Ibid

<sup>18</sup> Jim Wyss, “As U.S. steps up pressure on Venezuela, oil sanctions remain one way to push out Maduro,” *Miami Herald*, July 26, 2017, Americas, Venezuela.

<sup>19</sup> The OEC, “Venezuela,” <http://atlas.media.mit.edu/en/profile/country/ven/>, accessed on August 11, 2017.