

New Financial Sanctions on Venezuela: Key Issues

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Venezuela continues to be in the throes of a deep [political crisis](#) under the authoritarian rule of President Nicolás Maduro. While the United States has employed various [sanctions](#) as a policy tool in response to concerns about the activities of the Venezuelan government and Venezuelan individuals for more than a decade, sanctions have been ratcheted up in recent months as the political situation has deteriorated.

After a [controversial](#) election of a National Constituent Assembly on July 30, 2017, the Trump Administration weighed a range of possible new sanctions to increase pressure on the Maduro government. Options considered included additional targeted economic sanctions on individuals; restrictions on [U.S. oil imports from Venezuela](#), the Venezuelan government's single largest source of income; and restricting transactions in Venezuelan bonds in U.S. financial markets.

Citing the election, human rights abuses, and rampant public corruption, on August 24, 2017, President Trump signed [Executive Order](#) 13808 that imposes new sanctions restricting the access of the Venezuelan government and Venezuela's state oil company, *Petróleos de Venezuela, S.A.* (PdVSA) to U.S. financial markets.

Restrictions on Venezuela's Access to the U.S. Financial System

Issuing bonds in U.S. financial markets has been an important source of capital for many governments in emerging markets, including Venezuela. The new U.S. sanctions seek to restrict the Venezuelan government's access to U.S. debt and equity markets. According to the [White House](#), the measures "are carefully calibrated to deny the Maduro dictatorship a critical source of financing to maintain its illegitimate rule, protect the United States financial system from complicity in Venezuela's corruption and in the impoverishment of the Venezuelan people, and allow for humanitarian assistance."

The new sanctions on Venezuela seek to cut off new funds flowing from U.S. investors or through the U.S. financial system to the Maduro government. To this end, the sanctions restrict transactions by U.S. investors or within the United States related to new debt issued by the Venezuelan government and PdVSA. U.S. persons are also prohibited from purchasing securities from the Venezuelan government. For example, the new sanctions would prohibit actions like a May 2017, Goldman Sachs Asset Management [purchase](#) of PdVSA bonds from Venezuela's central bank. Goldman Sachs Asset Management bought the bonds at a steep discount—it paid \$865 million for bonds with a face value of \$2.8 billion—but the transaction resulted in a fresh infusion of cash for the government. (This controversial transaction likely

drove development of the new restriction.) Additionally, under the new sanctions, CITGO—whose parent company is PdVSA—is prohibited from distributing profits to the Venezuelan government, though it can continue its commercial operations in the United States.

Concurrent with the release of the Executive Order in August, the Treasury Department issued general [licenses](#) that seek to minimize the impact of sanctions on U.S. economic interests and on the Venezuelan people. The licenses allow (1) a 30-day window to wind down impacted contracts; (2) U.S. investors to continue trading existing holdings of Venezuelan and PdVSA bonds on secondary markets; (3) transactions involving new debt issued by CITGO; and (4) financing for specific humanitarian goods, including agricultural commodities, medicine, and medical devices. Transactions involving new short-term debt (less than 30 days for the Venezuelan government and less than 90 days for PdVSA) are also allowed, ensuring continued access to short-term financing that facilitates U.S. trade with Venezuela, including U.S. imports of oil from Venezuela.

Sanctions targeting sovereign debt are unusual, but not unprecedented. Congress has passed legislation to prohibit investments and transactions in [Iran sovereign debt](#). The Countering Russia Influence in Europe and Eurasia Act of 2017 (§ 242, [P.L. 115-44](#)) calls for a [report](#) studying effects of sanctioning Russian sovereign debt and related derivative products.

Impact of the New Sanctions

The new sanctions come as Venezuela grapples with an [acute economic crisis](#), with [devastating humanitarian consequences](#). Throughout the crisis, the government has prioritized continued payment on its debt obligations, while restricting imports of necessary items, including food and medicine. There has been speculation for months about if and when the government will be pushed into default. The government is running [short on funds](#)—it has \$3 billion of its foreign exchange reserves in cash and \$5 billion in debt falling due between early August and the end of 2017, with continued oil exports an important source of new cash inflows for the government. Now largely shut off from U.S. investors and U.S. financial markets, there are questions about whether the sanctions will accelerate a default by the Venezuelan government.

The short-term impact of sanctions has been mixed. In the hours following the announcement of the new sanctions, [prices](#) on Venezuelan government and PdVSA bonds went up slightly. Investors reportedly were relieved that secondary market transactions in the bonds would be allowed to continue, a point that was not clear in rumors leading up to the announcement. However, [news reports](#) indicate that traders are slowing or stopping trades in Venezuelan government and PdVSA bonds, out of fear that they could be unknowingly trading bonds on behalf of people connected to the Venezuelan government, in violation of sanctions.

The credit rating agency, Fitch Ratings, argues that U.S. sanctions have reduced the financing options of the government and makes default "[probable](#)." Longer-term, the sustainability of the government's finances in light of the new sanctions depends in part on the government's ability to raise funds outside of U.S. financial markets. There are a number of [measures](#) Venezuela could pursue: approaching China and Russia for new oil-for-loan deals, seizing onshore private-sector holdings from Venezuelan banks and insurance companies, taking cash from PdVSA and other state institutions, or trying to issue new bonds in European financial markets. An uptick in oil prices could also alleviate the budgetary pressures facing the government, given Venezuela's heavy dependence on oil.

If the Venezuelan government does default, the new sanctions would [complicate](#) any debt restructuring negotiations between private creditors and the government. Many U.S. investors hold Venezuelan bonds, which are included in the popular JP Morgan Emerging Markets Bond Index (EMBI). Venezuela's dollar-denominated bonds were issued under New York law, and any restructuring would likely result in legal challenges in New York courts. Legal challenges could result in the seizure of Venezuelan assets in the United States, such as CITGO or [oil shipments](#).

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- CRS In Focus IF10230, [Venezuela: Political Crisis and U.S. Policy Overview](#), by Mark P. Sullivan and Clare Ribando Seelke.
- CRS In Focus IF10715, [Venezuela: Overview of U.S. Sanctions](#), by Mark P. Sullivan.

- CRS Report R44841, [*Venezuela: Background and U.S. Policy*](#), by Clare Ribando Seelke.
- CRS Insight IN10741, [*U.S. Petroleum Trade with Venezuela: Financial and Economic Considerations Associated with Possible Sanctions*](#), by Phillip Brown and Clare Ribando Seelke.