A HUMANITARIAN OIL AGREEMENT FOR VENEZUELA

PROTECTING VENEZUELANS FROM THE COLLATERAL IMPACT OF THE POLITICAL CRISIS

OIL FOR VENEZUELA

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AN EMERGENCY PROGRAM TO PROTECT VENEZUELANS FROM THE COLLATERAL IMPACT OF THE COUNTRY'S POLITICAL CONFLICT

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About Oil for Venezuela

Oil for Venezuela is a non-profit organization dedicated to the study of policy initiatives that can address Venezuela's humanitarian crisis without being conditioned on a solution to the country's political conflict. We search for de-politicized, transparent and sustainable mechanisms that can harness the country's wealth and productive potential in order to attend the most urgent problems faced by Venezuelans today.

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EXECUTIVE SUMMARY

Motivation

Venezuela faces the worst economic and humanitarian crisis registered in the modern history of the American continent. While the crisis has its origins in the disastrous economic policies of the Hugo Chávez and Nicolás Maduro administrations and had begun even before world oil prices fell from their mid-2014 heights, U.S. economic sanctions have contributed to aggravating the crisis by reducing the country's export revenue and import capacity.

Measured in terms of real per capita income, Venezuela's economic contraction will be the worst in recorded Latin American history by the end of this year, as well as the 12th worst decline in living standards in world history since 1950. Significantly, this decline is happening during peacetime, a factor that sets Venezuela apart from historical cases of otherwise comparable magnitude.

Local and international NGOs and multilateral institutions are also now warning that the nutritional impact of the crisis could result in long-term effects that could affect several generations of Venezuelans. UN FAO estimates that between 2016 and 2018 21.2% of the population was undernourished, up from just 6.4% before Maduro took office in 2013. A large proportion of Venezuelans are living on between 1,500 and 1,900 calories a day, significantly below the 2,300 calories per day that experts regard as the minimum requirement to remain healthy, according to local NGOs.

In January of 2019, the Trump administration designated Venezuela's state oil monopoly PDVSA as a sanctioned entity, impeding U.S. persons from entering into any type of business with it and blocking it from using the U.S. financial system for its transactions. These sanctions led to the loss of a market that was previously receiving around 400 thousand barrels per day of Venezuelan oil exports. The resulting export loss has led to drastic import cuts, worsening the already scant supply of essential goods in the country.

U.S. oil sanctions are thus imposed on Venezuela at a moment of high economic and social vulnerability. The country's stock of external assets is depleted, giving the government little capacity to smooth consumption in reaction to the external shocks derived from reduced export revenues. Poverty and nutritional data indicate that a large fraction of the population is living at or near subsistence levels, suggesting that further adverse shocks on incomes and food access can have dramatic adverse consequences.

This paper proposes a mechanism to mitigate the collateral effect of economic sanctions on Venezuelans. The mechanism consists in a humanitarian exception to oil sanctions and a governance structure to ensure that the resources produced by exports to the United States are used for the benefit of all Venezuelans. The mechanism requires agreement and coordination by both parties to the political conflict – the administrations of Juan Guaidó and Nicolás Maduro – as well as the support and collaboration of the United States government.

For the purposes of this paper, we side with a conservative approach of only attributing the observed decline in oil production after the January 2019 designation as an effect of sanctions. That decline of around 400tbd, valued at around USD 7.5bn a year, is essentially the same as the size of the lost U.S. market for Venezuelan exports.

This is the magnitude by which we expect that exports can recover with the launch of the proposed program. However, given that food and medicines imports were only USD 2.2bn in 2018 and are estimated to reach USD 1.1bn this year, even if just a fraction of the estimated gains materialized, they would provide enough resources to achieve a sizable expansion of the country's supply of essential goods.

Background

There is significant evidence of the adverse impact of economic sanctions on the wellbeing of the target-country's general population. Scholarly research has identified that sanctions lead to output contractions, decreases in international trade, increased inflation and increased poverty. Studies indicate that elites are usually able to skip the worst effects of the sanctions, leading to increases in inequality of outcomes among groups of the population in the targeted countries.

Scholarly research has also questioned the effectiveness of sanctions in pushing the targeted regimes into compliance with the norms that the sanctions are intended to bring about. Large-scale studies lumping unilateral and multilateral sanctions have found that they achieve their objectives roughly 1/3rd of the time. This success rate drops to an even lower 22% for multilateral sanction regimes, and 10% when the sanctions seek to elicit a change in behavior from the target (as opposed to merely constraining the illicit activities or signaling their undesirability).

U.S. sanctions against the Venezuelan government go back to 2006. In a first phase of sanctions – from 2006 to August 2017 – the U.S. government targeted officials of the Venezuelan government using personal sanctions. The situation changed on August 2017, when the U.S. government issued financial sanctions barring U.S. persons from providing most types of financing to the Venezuelan government or its entities. A third phase came into effect on January 2019, as the Trump administration designated the state-owned oil company Petróleos de Venezuela (PDVSA) as a sanctioned entity, thereby imposing a prohibition on U.S. persons conducting international trade with PDVSA or its affiliates.

There are also decisions that are not, strictly speaking, sanctions orders but which have had a significant effect on the capacity of the Venezuelan state to conduct business with the rest of the world. For example, on January 23, the United States recognized National Assembly President Juan Guaidó as interim President of Venezuela, a move that was followed by 57 other countries. Since then, Guaidó representatives have moved to seize control of other assets – particularly those owned by PDVSA and its subsidiaries – and have counted with the support of U.S. courts, solidifying a reality where the Maduro administration is the only one that can produce the oil on account of its territorial control, but the Guaidó administration is the only one capable of selling it in the U.S. owing to its control over bank accounts and financial transactions.

The Iraqi experience

On April 1995, the UN Security Council adopted Resolution 986 to implement Iraq's oil-for-food program. Iraq did not export oil under the program until December 1996, and the first cargoes of humanitarian goods arrived at the country only in March 1997. The 9-month delay in implementation was due to the time it took to hire banking services and inspection contractors, as well as some haggling over details for the program's implementation.

The program allowed UN member states to import crude oil and oil products originating in Iraq, as well as conducting financial and other essential transactions for the import of oil, for a maximum aggregated sum that was revised periodically. It also mandated that the full proceeds from these exports be deposited in escrow accounts under the control of the Secretary General of the UN Security Council. Proceeds deposited in the escrow accounts were to be used for the import into Iraq of medicine, health supplies, foodstuffs, and materials and supplies for essential civilian needs.

During the program's thirteen phases, Iraq exported 3.4bn barrels of oil, generating revenues of USD 64.2bn and resulting in USD 39bn in humanitarian imports. Oil production, which had declined from 3,000tbd in 1989 to 600tbd in 1995, recovered to 2,650bd by 1999, with GDP also recovering in tandem. Domestic food supply began steadily rising at an average rate of 6.1% per year, accumulating a 42.7% rise to a peak of 15.9 million tonnes on 2002. Food imports rose 220.1% by 2002 (at an average yearly rate of 21.3%). Increased imports, in fact allowed the government of Iraq to double the size of food rations.

In January 2004, a report was published in local Iraqi media detailing several corruption allegations surrounding the program. An ensuing scandal led the UN Security Council to commission an inquiry into the issue. On October 27, 2005, the Independent Inquiry Committee (IIC) into the United Nations oil-for-food program (chaired by former Federal Reserve chairman Paul Volcker), released its final report (henceforth, the *Volcker Report*). The Iraq Survey Group (ISG), a fact-finding mission appointed by the U.S.-led military coalition, and chaired by Special Advisor to the CIA Charles Duelfer, also commissioned a report (henceforth, the *Duelfer Report*).

Both reports concluded that the Iraqi government was able to employ loopholes in the design of the program to obtain illicit payments from both oil exports and imports of humanitarian goods. They also found that the assignment of oil contracts was employed to influence international stakeholders for the benefit of the Saddam Hussein regime. Both reports identified illicit payments of 1.7bn obtained through loopholes in the oil-for-food program. The Duelfer Report identified a further USD 9.2bn in illicit income, obtained through exports conducted outside the program via bilateral agreements with Iraq's neighbors that ignored the UN sanctions (often at a discount to prices established in the oil-for-food program) or through illegal cash sales to private companies.

The oil-for-food program allowed the Iraqi government discretion in choosing to whom it sold its oil. This discretion allowed the Iraqi government to exploit the assignment of oil contracts both to gain favorable international political support and to obtain illicit payments outside the supervision of the Sanctions Committee. A more significant avenue through which the Iraqi government obtained illicit payments within the oil-for-food program was by requiring illegal kickbacks from humanitarian goods sellers, payable outside the purview of UN-controlled escrow accounts. While surcharges on oil exports amounted to only USD 228.8mn in illicit payments, kickbacks on imports represented a much higher USD 1.5bn.

Broadly speaking, there were two problems of the Iraqi system that need significant attention if we are aiming to design a similar initiative for Venezuela. One was the scope for corruption. The other one was the delay in implementation.

There was a five-year lag between the moment in which the UNSC approved its first oil-for-food program proposal and the actual implementation of the definitive mechanism. Most of this delay pertains to the lack of political will to implement the program, a factor that is outside of the control of the program design. However, the program was also plagued by serious implementation delays even after there was a political agreement. A full two years passed between the adoption of the UNSC Resolution establishing the definitive program and the actual delivery of humanitarian goods to the country's population. This protracted timeline involved negotiation on implementation details and the operationalization of the program itself.

Regarding the evidence of corruption, it is important to note that despite widespread participation in illicit schemes, the amounts deviated under the system amount to a moderate 2.7% of total program exports. While this is still an important magnitude and any new program should be designed to minimize all corruption risks, the characterization of the Iraqi experience as that of a program that only served to feed corruption to the detriment of Iraqis does not square well with the evidence.

Proposed program design

Our proposal is that of a Humanitarian Oil Agreement signed between the administrations of Juan Guaidó and Nicolás Maduro. This agreement would contemplate the setting up of a set of governance institutions to administer a humanitarian exception to United States oil sanctions to Venezuela. The purpose of the agreement would be for Venezuela to resume oil exports to the United States with the condition that the proceeds of those exports be used only for the import of food, medicines, and other essential goods needed to avoid a deterioration of Venezuela's humanitarian crisis.

A necessary condition for the implementation of this agreement would be a decision by the United States Department of the Treasury to issue a General License allowing U.S. persons to participate in transactions related to the import of oil from Venezuela's state-owned oil company, Petróleos de Venezuela, or its subsidiaries as long as the payment is made into escrow accounts to be used only for the purchases of goods and services as determined by the Humanitarian Oil Agreement.

In order to oversee and implement the system, the administrations of Juan Guaidó and Nicolás Maduro would jointly appoint an Administrative Board with broad powers to oversee the operation of the program. The Administrative Board would appoint committees to be in charge of oil sales, procurement of imports, and distribution of goods and services in the country. The Administrative Board would be integrated by an equal number of representatives of the Guaidó administration and the Maduro administration, as well as additional representatives from the international community. The last of these would be represented by a set of countries that have not jointly taken a stance on Venezuela's political conflict. One possibility is that the choice of Administrative Board members representing the international community be designated by the UN Security Council.

The system would require high levels of transparency, with all of its accounts and transactions open to the supervision of the Comptroller General's Office and the Oversight Commission of the Venezuelan National Assembly. The design of the program is based on the recommendations of the Volcker and Duelfer commission studies of the Iraq oil-for-food program to reduce the risk of graft and ensure that the resources are adequately targeted at attending the humanitarian emergency among the most vulnerable populations.

The U.S. government would need to issue a new General License specifying that U.S. persons are permitted to import Venezuelan oil, and potentially other previously restricted commodities, as long as the proceeds are deposited in US-based escrow accounts to the name of the government of Venezuela, and under the control and supervision of the U.S. government. This authorization could be issued for a period of 6 months, renewable by consensus on the Administrative Board upon regular review.

The Administrative Board would appoint an Advisory Committee incorporating representatives from UN Agencies that the Administrative Board deems prudent. All representatives of the Administrative Board, all its designated committees, as well as the Comptroller General's office and the National Assembly Oversight Commission would be granted unrestricted access to all facilities, documents and data pertaining to the program. The Sales Committee would be tasked with organizing open auctions for the sale of Venezuelan oil under the program. The Procurement Committee will oversee the tender for purchases of goods according to a detailed procurement plan based on the Advisory Committee report and the Administrative Board's List of Permitted Imports. The Distribution Committee would be tasked with providing the logistics of bringing goods to consumers, contracting local transportation, and generally carrying out the distribution plan as set forth by the Advisory Committee report.

There are two ways in which PDVSA or its subsidiaries can participate in the program. Partial participation occurs when the entity allocates part of its oil sales to the program. Full participation occurs when it allocates all of its oil sales to the program. Partial participation allows the oil to be sold in the United States with the proceeds used as described in this section. Full participation implies that the entity will also be exempt from sanctions restricting their purchases of intermediate products and capital goods as well as the receipt of debt financing.

Our proposal is consistent with a vision of Venezuela's political problems as stemming from the lack of incentives for co-operation between political actors. In this sense, a Humanitarian Oil Agreement satisfies two purposes. First, it serves to protect the humanitarian space from the arena of political confrontation, helping address some of the most pressing problems of vulnerable Venezuelans by implementing sectoral solutions that are independent of the evolution of political conflict. Second, it creates an environment in which the country's contending political factions can perceive gains from cooperation, creating one of the oases of cooperation needed to signal ways out of the country's "catastrophic stalemate."

The design and considerations of this paper are intended to spark debate on the search of solutions to Venezuela's rapidly deteriorating humanitarian crisis. We view this research as a starting point for an open discussion on the mechanism that can be put to work to mitigate the adverse effects of sanctions on the Venezuelan people.

Contents

1. Motivation

Venezuela faces the worst economic and humanitarian crisis registered in the modern history of the American continent. While the crisis has its origins in the disastrous economic policies of the Hugo Chávez and Nicolás Maduro administrations, and had begun even before world oil prices fell from their mid-2014 heights, U.S. economic sanctions have contributed to aggravating the crisis by reducing the country's export revenue and import capacity.

On January 28, 2019, the Trump administration designated Venezuela's state oil monopoly PDVSA as a sanctioned entity, impeding U.S. persons from entering into any type of business with it and blocking it from using the U.S. financial system for its transactions. These sanctions led to the loss of a market which was receiving around 400 thousand barrels per day of Venezuelan oil exports.[1] The resulting export loss has led to drastic import cuts, worsening the already scant supply of essential goods in the country.

This paper proposes a mechanism to mitigate the collateral effect of economic sanctions on Venezuelans. The mechanism consists in a humanitarian exception to oil sanctions and a governance structure to ensure that the resources produced by exports to the United States are used for the benefit of all Venezuelans. The mechanism requires agreement and coordination by both parties to the political conflict – the administrations of Juan Guaidó and Nicolás Maduro[2] – as well as the support and collaboration of the United States government.

The 2019 U.S. oil sanctions are the latest step in an ongoing effort by U.S. authorities to pressure the Maduro administration to hold elections that are considered free and fair by the international community. Other countries have also imposed personal sanctions, which have limited – if any – spillover effects on the economy, but the U.S. is to date the only country to impose economic sanctions. Because of the relevance of the U.S. oil and financial markets for the Venezuelan economy, the effect of the measures is significant even if they are not multilateral in nature.

This paper does not take a position on the desirability of the objectives of these sanctions – notwithstanding the personal positions that its authors may hold and have expressed elsewhere. We take a more constructive approach by asking how these sanctions can be designed to achieve the objectives that they pursue while minimizing the negative collateral effects of the sanctions on vulnerable Venezuelans. Viewed form a cost-benefit analysis perspective, our task is to find ways to minimize the costs of the sanctions for Venezuelans, while preserving their potential benefits.[3]

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[1] In 2018, Venezuelan oil exports to the United States averaged 586tbd, while in January of 2019, the month at the end of which sanctions were imposed, they reached 631tbd.

[2] We take no position on the claim of these two groups to being the legitimate government of Venezuela. We thus adopt the neutral label "administration" – instead of "government"- throughout this paper. The fact that we mention the Guaidó administration first is simply a consequence of alphabetical ordering and should not be interpreted in any other way.

[3] In this sense, a premise of the analysis is that economic sanctions are perceived by policy makers to have benefits in the sense of creating incentives for political change. We need not share that perception to understand that designing sanctions so as to minimize human costs will be welfare enhancing.

A growing literature has studied the effect of financial and oil sanctions on the Venezuelan economy.[4] While there is an overarching consensus that the economy would have suffered a significant economic contraction in the absence of sanctions, researchers disagree on the magnitude of the additional effect of sanctions on the deterioration of living standards. Most of the controversy centers on the effect of the 2017 financial sanctions, as most scholars agree on attributing a negative effect to the 2019 oil sanctions. For example, while Hausmann and Muci (2019) are skeptical that the 2017 sanctions affected oil output, they recognized (writing in early May when oil output data was available only up to March) that "nobody disputes that they [the January 2019 oil sanctions] will adversely affect PDVSA going forward".

While not all authors have produced quantitative estimates of the effect of sanctions on the economy, those who have find potentially very large effects. For example, Rodríguez (2019) uses an array of statistical estimation techniques to estimate the effect of both financial and oil sanctions. The author estimates that the 2017 financial sanctions were associated with the loss of 797tbd in oil production, valued at annual foregone yearly income of USD 14.9bn at today's oil prices. While warning that it is empirically difficult to distinguish the effect of oil sanctions from financial sanctions, empirical estimates suggest that the 2018 sanctions could have led to an additional loss of 445tbd or USD 8.3bn in annual export revenue, for a cumulative effect as high as USD 23.2bn in foregone annual revenue.[5]

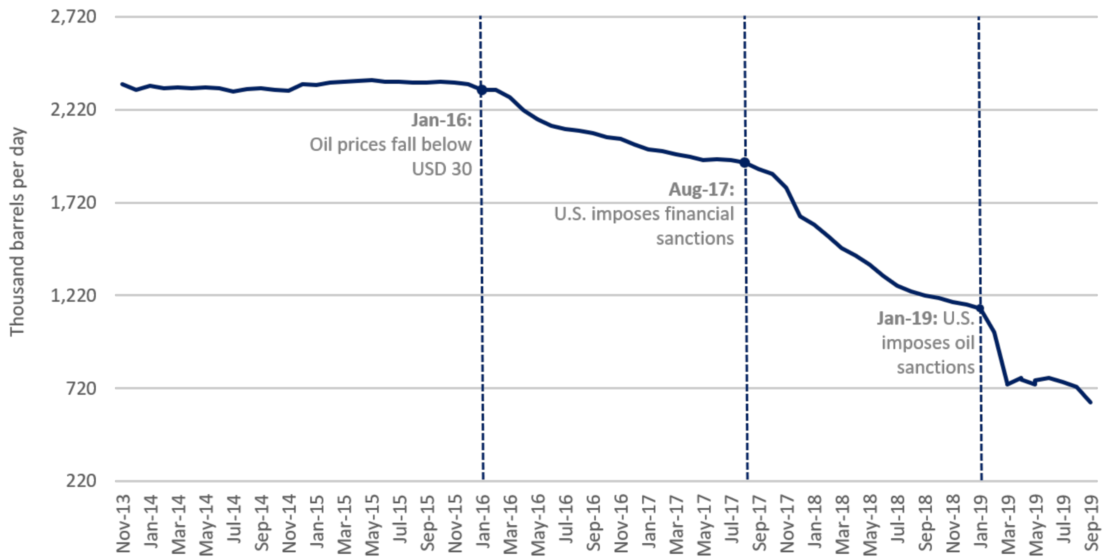
For the purposes of this paper, we side with the more conservative approach of only attributing the observed decline in oil production after the January 2019 designation as an effect of sanctions. Furthermore, in order to provide an even more conservative estimate, we restrict our consideration to the fall in production observed between January and August.[6] As we have noted, that decline – of 424tbd according to OPEC secondary sources, valued at USD 7.9bn a year – is essentially the same as the size of the lost U.S. market for Venezuelan exports. This is the magnitude by which we expect that exports can recover with the launch of the proposed program.

[4] Rodríguez (2018,2019), Weisbrot and Sachs (2019a,2019b), Hausmann and Muci (2019), Morales (2019) and Bahar et al. (2019) are some of the key contributions to this debate.

[5] At June 2019 oil prices used by Rodríguez (2019), these estimates gave the correspondingly higher amounts of USD 16.9bn for financial sanctions, USD 9.5bn for oil sanctions, and USD 26.4bn as an upper bound for the joint effect.

[6] We regard the 400tbd figure as conservative since there is some indication that the significant fall in oil production registered in September 2019 – 82tbd (11.4%), according to OPEC secondary sources, and 184tbd (19.7%), according to direct communication – could revert in coming months as PDVSA clears inventories with the aid of Russia's Rosneft. Whether this happens or not will ultimately depend on how effective the threat of secondary sanctions is; for the purposes of this paper, we prefer to take the conservative approach of estimating a limited effect of secondary sanctions until the evidence shows the contrary.

Chart 1: Venezuela oil production, 2013-2019

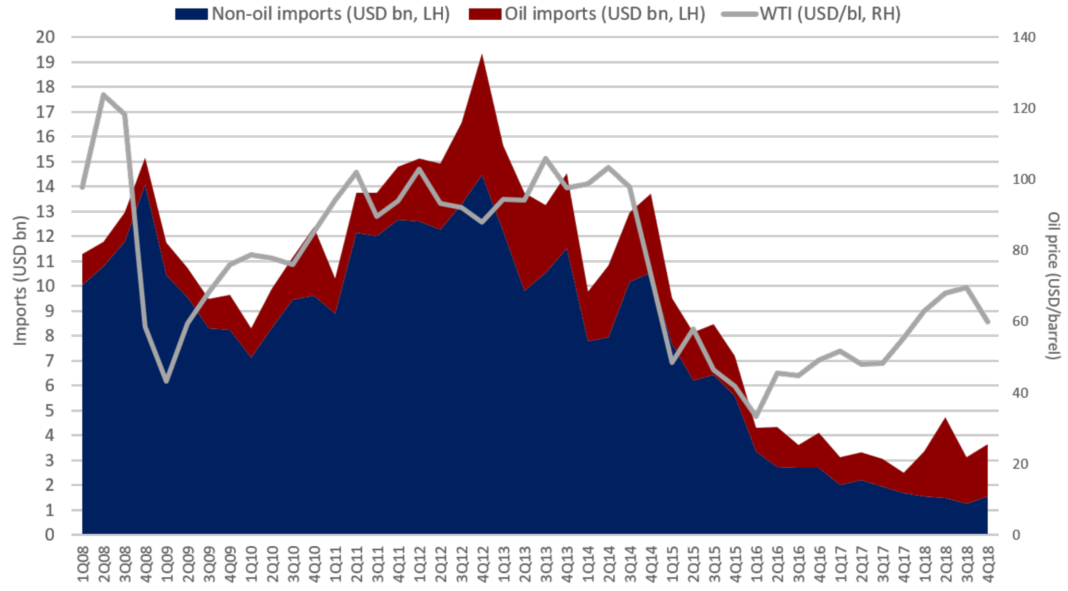


Source: OPEC secondary sources

While U.S. economic sanctions do not restrict trade in general, they forbid Venezuela's national oil company from exporting its oil to the United States. For the Venezuelan case, a ban on oil exports is – for all intents and purposes – similar to a full embargo on imports from the country. This is because nine-tenths of the country's export proceeds (and 95% of its exports to the United States) derive from oil sales. In fact, trade with the U.S. has essentially collapsed after sanctions were imposed, with exports from Venezuela to the United States falling 98% since January. Therefore, Venezuela is adequately characterized as facing a near-total trade embargo with the United States. Since the United States has threatened – and, in some cases, applied – secondary sanctions to non-U.S. firms doing business with Venezuela, and because access to the U.S. financial system is crucial for trade with many non-U.S. partners, sanctions have also impacted on the ability of Venezuela to trade with third countries.

Venezuela's high economic dependence on oil exports makes its economy extremely vulnerable to anything that affects its capacity to sell oil internationally – including sanctions. In fact, Venezuela's economic contraction over the past seven years can be understood as a direct consequence of a massive decline in the country's export revenues. Oil exports fell by 68.1% between 2012 and 2018, from USD 93.6bn to USD 29.8bn. As the country's payment capacity fell, international capital markets became closed-off and the economy began running a current account surplus to service its debt, leading to an even greater decline in imports (77.5%, from USD 66.0bn to USD 14.9bn). Non-oil imports fell by an even greater 88.9%, from USD 52.6bn to a mere USD 5.8bn.

Chart 2: Venezuelan total imports



Source: BCV, Bloomberg

Imports of essential goods, such as food and medicines, also collapsed. According to data from the UN Comtrade database, imports of food items fell 74.1% from USD 8.5bn in 2012 to USD 2.2bn in 2018. Imports of pharmaceuticals registered an even greater 96.2% decline, going from USD 3.3bn in 2012 to only USD 125mn in 2018. These magnitudes are similar to or greater than the 77.5% aggregate import decline, showing that essentials were in no way shielded from the effects of the reduction in the economy's export revenue.

Empirically, Venezuelan growth is highly import-dependent, with imports (which are, of course, paid for with export revenue) accounting for 79% of the variation in growth rates since 1997 (Rodríguez and Guerrero, 2019). The fact that changes in export revenues lead to changes in GDP by altering the economy's capacity to provide for imports is a feature of economies that are nearly fully specialized in any particular commodity (Hausmann and Rodríguez, 2012).

Table 1: Venezuelan total imports

Year	Food imports	Pharmaceuticals
2012	8,546	3,296
2013	11,225	4,312
2014	10,823	4,085
2015	6,878	2,966
2016	4,236	1,514
2017	2,164	297
2018	2,216	125

Source: UN, Comtrade

Venezuela's economic collapse has had massive humanitarian repercussions. Since 2013, GDP has contracted by 48.3% and is expected by the International Monetary Fund (IMF) to fall an additional 35.0% this year, taking the total aggregate economic contraction to 66.4%. Inflation has accelerated to a y-o-y 283 thousand per cent in the latest central bank print (April 2019), while poverty rates have tripled. A mass exodus has occurred, during which at least 4 million persons, or more than one-tenth of the country's population, are estimated to have left the country.

Measured in terms of real per capita income, Venezuela's economic contraction up to 2018 was the second worst registered in Latin America since 1950.[7] By the end of 2019, it will have moved into first place, with a 64.4% aggregate decline, surpassing Nicaragua's 58.2% decline between 1977 and 1993. It will also rank as the 12th worst decline in living standards in world history since 1950.[8] Significantly, this decline is happening during peacetime, a factor that sets Venezuela apart from historical cases of otherwise comparable magnitude.

As a consequence of the decline in economic activity, poverty rates by income have risen considerably. The National Institute of Statistics (INE) registered income poverty rising from 24% in 2012 to 33% in 1H15, its

Table 2: Largest per-capita contractions, world, 1950-2018/19

Rank	Country	Trough-to-peak ratio (percentage decline)	Period	Years	Average percentage decline	Years of initial GDP lost
1	Liberia	-89.2%	1974-1995	21	-10.1%	-737.6%
2	Kuwait	-86.8%	1970-1991	21	-9.2%	-1134.0%
3	Iraq	-77.3%	1979-1991	12	-11.6%	-366.8%
4	D.R. of the Congo	-75.6%	1974-2002	28	-4.9%	-1191.0%
5	United Arab Emirates	-72.4%	1970-2010	40	-3.2%	-1741.6%
6	Tajikistan	-71.4%	1990-1996	6	-18.8%	-289.9%
7	Lebanon	-70.8%	1974-1976	2	-45.9%	-102.1%
8	Georgia	-70.7%	1990-1994	4	-26.4%	-214.8%
9	Iran (Islamic Republic of)	-66.6%	1969-1988	19	-5.6%	-793.6%
10	Djibouti	-66.5%	1971-2001	30	-3.6%	-1477.0%
11	Republic of Moldova	-64.8%	1990-1999	9	-11.0%	-474.5%
12	Venezuela	-64.4%	2012-2019	7	-13.7%	-195.5%
13	Yemen	-62.5%	2010-2017	7	-13.1%	-252.4%
14	Azerbaijan	-61.0%	1990-1995	5	-17.2%	-187.5%
15	Saudi Arabia	-60.1%	1974-1987	13	-6.8%	-362.1%
16	Lebanon	-58.8%	1987-1989	2	-35.8%	-86.9%
17	Gabon	-58.6%	1976-2009	33	-2.6%	-1452.0%
18	Nicaragua	-58.2%	1977-1993	16	-5.3%	-681.9%
19	Ukraine	-57.7%	1990-1998	8	-10.2%	-324.0%
20	Sierra Leone	-57.7%	1970-1999	29	-2.9%	-338.0%

Source: BCV, IMF, Penn World Tables, World Bank

latest available print. These figures are, nonetheless, significantly lower than those presented in the *Encuesta*

[7] Real per capita income fell by 47.3% between 2012 and 2018. Because of the migration exodus, Venezuela is an atypical case in which the drop in GDP per capita is slightly lower than the drop in GDP.

[8] We measure the accumulated decline in per capita GDP from each local maximum – if there is no higher local maximum before it – to each successive local minimum, and rank the largest declines in the results. We employ Penn World Tables (PWT) version 9.1 data for all countries, except Cuba (World Bank) and Venezuela (official central bank data and IMF estimates). Data is not uniformly available from 1950 for all countries, as some series start at later years.

Nacional de Condiciones de Vida (National Living Conditions Survey, ENCOVI) which is prepared by an association of leading local universities.[9] ENCOVI results, which are available starting in 2014, show the poverty rate rising from 48% in 2014 to 87% in 2017 and 94% in 2018. Extrapolating the INE series by using the ENCOVI variation rates, we would conclude that poverty as calculated by INE has risen to 60.3% by 2018, almost three times that of 2012.

The same analytical issue can be found when looking at extreme poverty by income levels. INE shows the later statistic rising from 7% in 2012 to 9% in 1H15, but ENCOVI results show a significantly higher 24% for 2014 rising to 61% in 2017, its latest available print (a partial release was published for 2018). The ENCOVI survey also shows that the deterioration in these indicators has been accompanied by declines in health, education and nutrition indicators. ENCOVI data, for instance, indicates that the percentage of people eating two or less meals per day had risen from 11.3% in 2014 to over 25% in 2018. Regular assistance to education centers – for subjects between the ages of 3 and 24 – had declined from 78% in 2014 to 70% in 2018. This decline has been particularly sharp on the 18-24 age group, for which regular assistance was of 47% in 2014 and has fallen to 35% in 2018.

Local and international NGOs and multilateral institutions are also now warning that the nutritional impact of the crisis could result in long-term effects that could affect several generations of Venezuelans.[10] UN FAO estimates that between 2016 and 2018 21.2% of the population was undernourished, up from just 6.4% before Maduro took office in 2013. Sources cited by Financial Times also indicate that "a large proportion of Venezuelans are living on between 1,500 and 1,900 calories a day", significantly below the 2,300 calories per day that experts regard as the minimum requirement to remain healthy.

U.S. oil sanctions are thus imposed on Venezuela at a moment of high economic and social vulnerability. The country's stock of external assets is depleted, giving the government little capacity to smooth consumption in reaction to the external shock derived from reduced export revenues. Poverty and nutritional data indicate that a large fraction of the population is living at or near subsistence levels, suggesting that further adverse shocks on incomes and food access can have dramatic adverse consequences.

There is of course a longstanding debate on the humanitarian effects of sanctions and whether the collateral damage that they inflict on the civilian population is morally justifiable and even legal under international law.[11] Even if they are justifiable and legal, there is still a fundamental question as to whether their benefits in terms of the changes in conduct of the sanctioned government that they seek outweighs the economic

[9] Encuesta Nacional de Condiciones de Vida de la Población Venezolana – ENCOVI (Multiple editions).
[10] Long & Stott (2019).
[11] A growing literature on the legality and morality of economic sanctions has developed, especially since the 1990 Iraq sanctions. For reference, see Marossi & Bassett (2015). One line of argumentation posits that unilateral sanctions – as opposed to multilateral ones – are illegal, since they violate essential human rights and are not contemplated in international law as codified in the UN charter. See chapter 4 "Unilateral Sanctions in International Law: A Quest for Legality" on Marossi & Bassett (2015). This argument was, in fact, used by Maduro himself on an August 2019 interview. See Blumenthal (2019).

and human costs. An altogether different literature has considered the effectiveness of sanctions in generating changes in the conduct of the sanctioned governments.[12]

We do not take a position on these important debates. Rather, we view our contribution as one of understanding how the adverse humanitarian effects of sanctions can be mitigated given that certain actors have chosen to impose these sanctions. In other words, we treat sanctions as a given, determined by the reality of the country's political crisis, and ask whether they can be designed so as to minimize their humanitarian impact. Viewed from a cost-benefit perspective, our analysis is aimed at finding ways in which the costs of sanctions can be reduced without affecting their benefits.

When considering the design of mechanisms to mitigate the effect of sanctions, it is important to acknowledge two essential realities. The first is that, despite strong legal arguments in his favor and the support of a significant part of the international community, the Guaidó administration has not managed to wrestle effective control over the Venezuelan territory (and the associated means to exploit oil wealth and generate foreign currency inflows) from the Maduro administration.[13]

The second reality is that the sanctions regime appears to have been designed as a short-term strategy to generate maximum pressure in an attempt to produce a rapid regime change. In other words, the current setting in which the Venezuelan economy is exposed to oil sanctions over a period of several months or even years does not appear to have been part of the original plan of those who designed them. Prolonged exposure to economic sanctions can have a significantly more adverse effect than short-term exposure, and thus requires a different design in order to attenuate these effects.

Broadly speaking, there are two alternative approaches, other than the Humanitarian Oil Agreement that we propose in this paper, to help those living in Venezuela while the political crisis continues. One is to rely on humanitarian aid, i.e. grants and donations, to alleviate the humanitarian crisis. Another one is to rely on financing mechanisms through multilateral institutions to finance key spending initiatives. Successful examples include the decision by the administrations of both Juan Guaidó and Nicolás Maduro to allow the Red Cross to distribute humanitarian aid on late March,[14] and the acquisition through a joint financing mechanism involving the United Nations Development Programme (UNDP) and the Andean Development Corporation (CAF) of portable electrical infrastructure for Zulia state.[15]

[12] Biersteker (2015).

[13] We take no stance on the validity of the claim of Maduro and Guaidó to power. This is not because we don't have a view on it, but rather because this view is irrelevant for the purposes of designing mechanisms that mitigate the effect of sanctions on the Venezuelan people.

[14] On March 29, the Red Cross announced that it had received permission from both the Guaidó and Maduro administrations delivering humanitarian medical supplies. At the time, the organization said that the effort's rollout would begin in mid-April and that the effort would be "similar to what is happening in Syria". The move was a significant departure from previous official policy by the Maduro government, as its representatives had repeatedly denied the existence of a humanitarian crisis in the country. Furthermore, the Red Cross sought to prevent politicization of the aid effort by distributing medical supplies through the facilities it directly operates, thus bypassing the government's official distribution channels. See Kurmanaev & Herrera (2019).

[15] Manzanilla (2019).

Both of these remain limited in scope for two reasons. One is the difficulty in reaching political consensus and co-ordination with respect to their implementation (an issue that admittedly extends to the proposal for a Humanitarian Oil Agreement). The other one is that, even if a perfect political consensus to permit all of these initiatives could be achieved, the scope for humanitarian aid or financing to the Venezuelan state would remain limited. **Table 3** shows all of the commitments of humanitarian aid pledged to Venezuela so far this year. The total amount of USD 618mn would be equivalent, even if all of it were disbursed, to only 26.4% of 2018 imports of food and medicines and to 7.5% of the resources that could be obtained if the economy were to recover the approximately 400tbd of oil exports to the U.S. lost as a result of economic sanctions.

At issue here is the fact that humanitarian aid is not meant to substitute for a nation's economy; it is meant to provide concrete assistance to persons and groups facing situations of extreme vulnerability. It is thus difficult to marshal the amount of resources needed to confront a crisis caused by the collapse of oil exports through a system of assistance based on donations. Recent reports quote UN country chief for Venezuela Samir Elhawary expressing concern that the UN has only been able to raise 9% of the USD 223mn it requested for assistance in the Venezuelan crisis, with only the EU making significant donations so far.[16]

Table 3: Humanitarian aid commitments

Country	Amount (USD Mn)
US	373
Canada	40
Germany	6
UK	8
Spain	5
Italy	2
EU	72
World Conference for the Venezuelan Humanitarian Crisis	100
South korea	1
Venezuela Aid Live	2
Sweden	7
Total	618

Source: Author's calculations

On the other hand, while lending could add to the scope of the resources available, the limited capacity of the economy to repay even its current financial obligations implies that new liabilities face a significant risk of not being honored and thus must either explicitly or implicitly be concessional in nature.

In other words, it is hard to find a way to re-establish Venezuela's capacity to feed itself that does not go through the recovery of its capacity to produce and sell oil to the rest of the world.

[16] Kurmanaev, A. (2019).

In the following pages, we will explore in greater detail the differences between the Venezuelan case and that of Iraq, which serves as the most prominent historical precedent. It is nevertheless important to point out that there are institutional particularities which make the Venezuelan case very different. Venezuela's impasse reflects an internal (and mostly non-violent) conflict on the legitimacy of contending state representatives. This presents both additional challenges and opportunities. On the one hand, the mechanism needs to accomplish the non-trivial task of obtaining the support of all key external and internal stakeholders. On the other, this very requirement opens the possibility of using the program's mechanisms to foster cooperation among the parties in dispute.

The Humanitarian Oil Agreement would allow Venezuela to reestablish trade with the U.S. and the rest of the world, which would allow recovering oil production from the current 644tbd to – at least – the 1,200tbd that the country produced before the onset of sanctions. It would thus, allow for an expansion of exports to the tune of USD 8.2bn a year, leading at least to a five-fold increase in imports of food medicine and other essential goods.

2. An outline of our proposal

Our proposal is that of a Humanitarian Oil Agreement signed between the administrations of Juan Guaidó and Nicolás Maduro. This agreement would contemplate the setting up of a set of governance institutions to administer a humanitarian exception to United States oil sanctions to Venezuela. The purpose of the agreement would be for Venezuela to resume oil exports to the United States with the condition that the proceeds of those exports would be used only for the import of food, medicines, and other essential goods needed to avoid a deterioration of Venezuela's humanitarian crisis.

A necessary condition for the implementation of this agreement would be a decision by the United States Department of the Treasury to issue a General License allowing U.S. persons to participate in transactions related to the import of oil from Venezuela's state-owned oil company, Petróleos de Venezuela, or its subsidiaries as long as the payment is made into escrow accounts to be used only for the purchases of goods and services as determined by the Humanitarian Oil Agreement.

In order to oversee and implement the system, the administrations of Juan Guaidó and Nicolás Maduro would jointly appoint an Administrative Board with broad powers to oversee the operation of the program. The Administrative Board would appoint committees to be in charge of oil sales, procurement of imports, and distribution of goods and services in the country. The Administrative Board would be integrated by an equal number of representatives of the Guaidó administration and the Maduro administration, and would count with additional representation of the international community. The last of these would be represented by a set of countries that have not jointly taken a stance on Venezuela's political conflict. One possibility is that the choice of Administrative Board members representing the international community be designated by the UN Security Council.

The system would require high levels of transparency, with all of its accounts and transactions open to the supervision of the Comptroller General's Office and the Oversight Commission of the Venezuelan National Assembly. The design of the program is based on the recommendations of the Volcker and Duelfer commission studies of the Iraq oil-for-food program to reduce the risk of graft and ensure that the resources are adequately targeted at attending the humanitarian emergency among the most vulnerable populations.

3. Previous experience with economic sanctions

Economic sanctions as a foreign policy tool are typically used to generate a change in the conduct of a target agent, usually a government. They are distinct from personal sanctions, which may also be used to elicit changes in conduct but are often adopted with the more specific objective of restricting the access to assets by agents that are believed to have committed crimes or that are a threat to national security. Aside from the instrumental reasons for sanctions, there is often also a moral component, as sanctions are used to punish or condemn human rights violators.

Multilateral economic sanctions – such as those imposed on Iraq in 1990 – are most commonly implemented by the UN Security Council, which has broad discretion to employ enforcement options in order to safeguard international peace.[17] Since 1966, the body has implemented 30 sanction regimes ranging from travel bans to full economic embargoes. Unilateral sanctions – such as those imposed by the U.S. government on Venezuela – are sometimes employed either alongside or independently of broader UN-sponsored sanctions.

Sanctions are usually conceived of as part of a negotiation strategy rather than an alternative to negotiation. They can be most effective when deployed as part of a "carrots and sticks" strategy used to lead the targeted entity towards certain intended actions.[18]

Modern sanctions regimes are usually targeted at specific actors (be they firms, groups or sectors), whereas previous sanctions regimes were usually broadly targeted at whole economies. Most sanctions regimes over the past three decades have been of the targeted variant, with the notable exception of some unilateral U.S. measures (including those on Iran). The evolution towards targeted sanctions came about partly as a result of concerns regarding the humanitarian impact the 1990 Iraq measures.[19] Targeted sanctions allow the international community to better tailor the rewards and punishments in order to create incentives that induce a negotiated solution, as well as minimize the humanitarian impact of the punitive measures.[20]

However, targeted approaches – of which personal sanctions are the more restricted variant – leave significant leeway for the targeting of sectors that are important for an economy. The case of Venezuela is perhaps the clearest example. The decision to designate one firm (PDVSA) as a sanctioned entity had major repercussions on the Venezuelan economy because that firm happens to hold a monopoly over the production of oil, which accounts for more than nine-tenths of the country's exports. In other words, due to the characteristics of the Venezuelan oil sector and its weight in the economy, the sanctioning of PDVSA was identical to an oil embargo, and very similar to a general economic embargo.

[17] United Nations Security Council (2019).

[18] Biersteker (2015), for instance, finds that UN targeted sanctions were employed alongside a number of supplementary policy instruments. Diplomatic efforts are the most frequent type, happening alongside multilateral sanctions on 97% of the reviewed cases, while regional and unilateral sanctions were also frequent, at 77% and 63%, respectively.

[19] Idem.

[20] While U.S. Sanctions on Venezuela can technically be described as "targeted", as we have argued in the first section of this paper, a broad prohibition on oil exports is, for all intends and purposes, equivalent to a fully-fledged embargo on exports in the case of a fully-specialized economy, such as Venezuela.

There is significant evidence of the adverse impact of economic sanctions on the wellbeing of the target-country's general population. Scholarly research has identified that sanctions lead to output contractions, decreases in international trade, increased inflation and increased poverty. Studies indicate that elites are usually able to skip the worst effects of the sanctions, leading to increases in inequality of outcomes among groups of the population in the targeted countries.[21]

Scholarly research has also questioned the effectiveness of sanctions in pushing the targeted regimes into compliance with the norms that the sanctions are intended to bring about. Large-scale studies lumping unilateral and multilateral sanctions – including comprehensive sanctions in both cases – have found that they achieve their objectives roughly 1/3rd of the time. Nonetheless, a 2015 study on multilateral targeted sanctions found an even lower success rate of 22%. The study is particularly interesting because it breaks down sanction success by the specific objectives each regime pursued. It finds that sanctions are effective only 10% of the time when they seek to produce changes in the target's behavior, considerably lower than the 27% success rate at constraining proscribed activities and the 27% for measures that merely seek to signal and/or stigmatize undesirable behavior.[22]

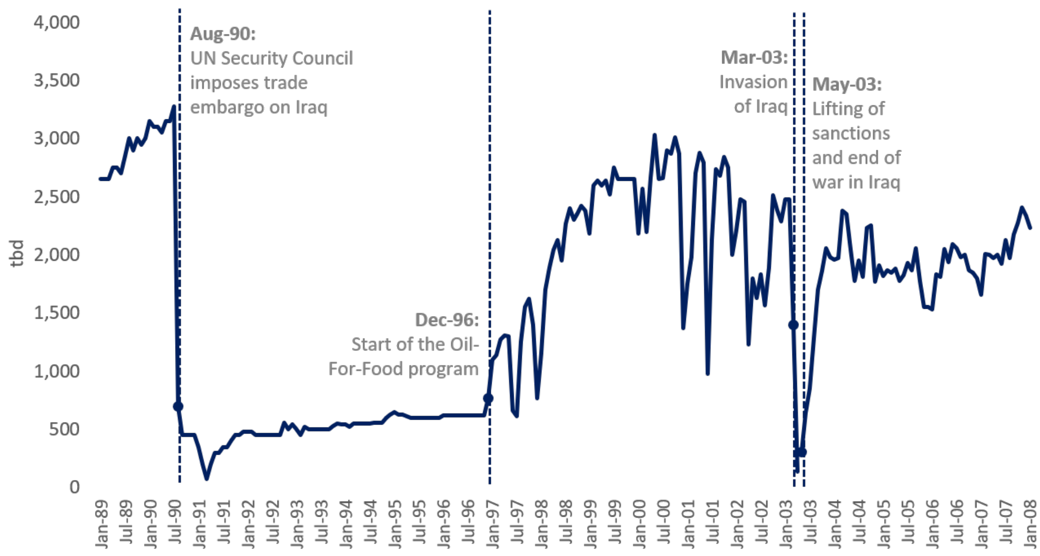
Venezuela's sanctions are not the first to be imposed on a country whose export revenues derive almost exclusively from oil. Several of the most recent experiences with sanctions regimes correspond precisely to cases of oil exporters. This may be a reflection of the fact that in most oil-exporting developing countries, the state holds a monopoly of oil exports, making it easier to target the sanctioned government by cutting off that revenue stream. It may also reflect the fact that oil exporting economies tend to give rise to authoritarian governments funded by oil largesse (so-called "petrostates") which may be more prone to assume the types of conduct that make them target to sanctions.

3.1. Iraq (1990-2003)

In the case of Iraq, we see a precipitous drop in output of 85% on the year of sanctions (which is also the year of the first Gulf War). Output remains low for several years after the war and then recovers almost all the lost ground when Iraq is permitted to begin exporting oil again through the UN-sponsored oil-for-food program. Sanctions are lifted after invasion in 2003, and production begins to recover.

[21] O'Driscoll (2017).
[22] Biersteker (2015).

Chart 3: Iraq oil production, 1989-2004



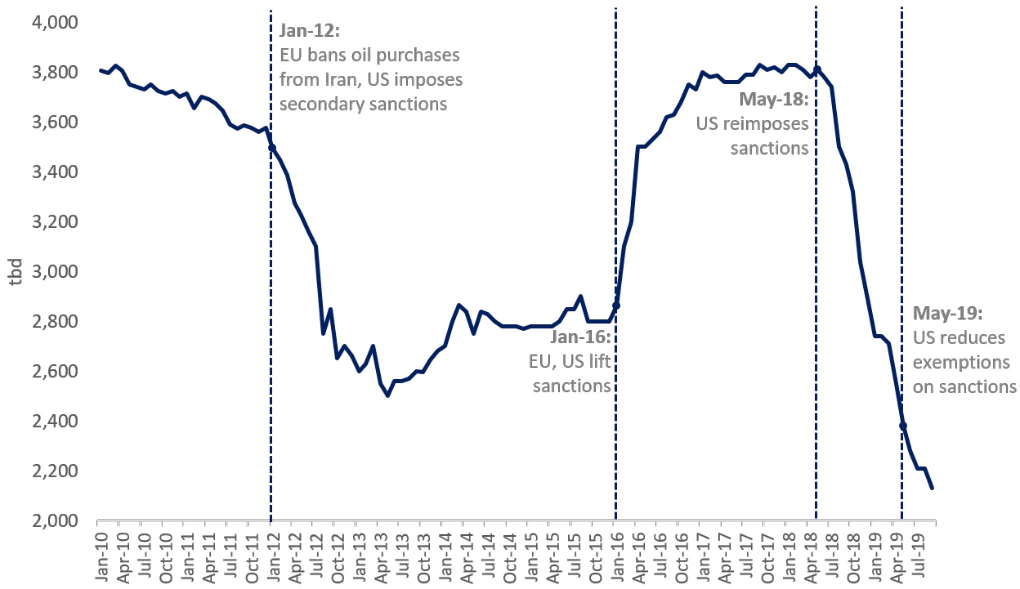
Source: Bloomberg, OPEC

3.2. Iran (2012-2016, 2018-YTD)

Iran oil output fell by 26% after the EU banned oil imports from Iran and the U.S. implemented secondary sanctions on countries trading with Iran on January of 2012. These restrictions are lifted on January 2016, and output subsequently recovered all of the lost ground. On May 2018, the U.S. again imposes secondary sanctions on Iranian oil sales, leading to a decline of a similar proportion. It is worth noting that most of Iran's oil exports go to Asia, making the threat of secondary sanctions very relevant. During these periods, the U.S. exempted several of Iran's trading partners from these sanctions, as long as they made a commitment to significantly reduce oil imports from Iran. This is the main reason why output falls by only one-fourth in Iran, as opposed to the decline of more than four-fifths in Iraq.[23]

[23] In April of 2019, the Trump administration announced that it would not issue waivers to exempt Iranian trading partners from sanctions (known as "significant reduction exemptions"), which suggests that we would expect to see a deeper decline in output following that move. Nonetheless, by the time of the U.S. announcement, production was already falling rapidly, possibly as a result of anticipation of the Trump administration's move. Until now, production has fallen 420tbd (16.5%), a 7.3% average fall per month, only slightly above the 7.0% average fall in the preceding 5 months. See Gilroy, Lamy & Lefevre (2019).

Chart 4: Iran oil production, 2010-2019

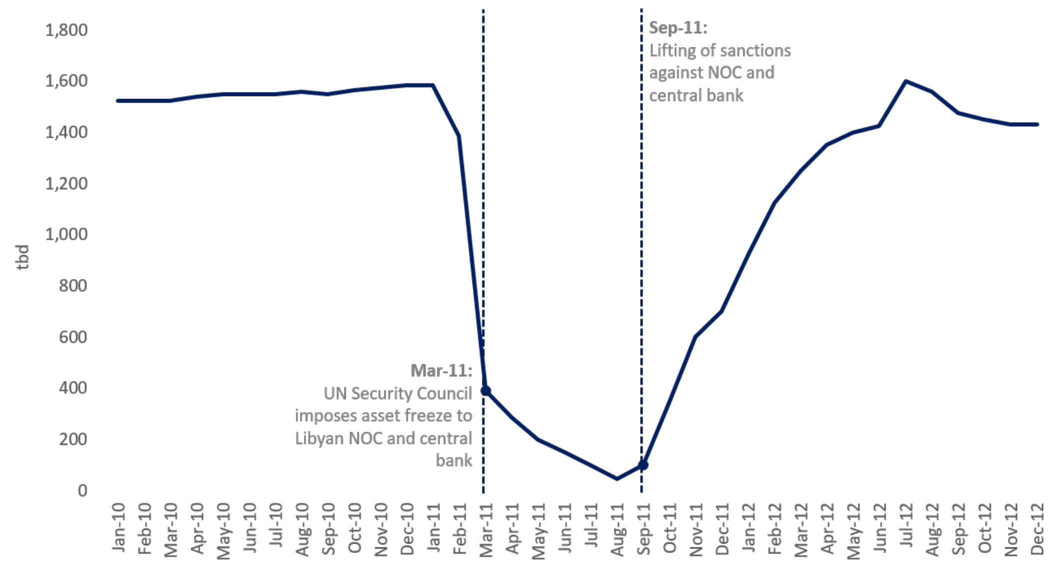


Source: Bloomberg, OPEC

3.3. Libya (2011)

In March 2011, the UN Security Council imposed asset freezes on the Libyan central bank and the country's national oil company (NOC). Note that strictly speaking, these are different measures from the prohibition on oil purchases made by the UNSC in the Iraq and Iran cases. However, they have the same practical implication of generating a *de facto* oil embargo because the Lybian state lost access to the means necessary to sell oil in international markets. Oil output fell 71.8% on March, and continued falling until August. On September, the Security Council lifted the sanctions against the NOC and the central bank, and production begun recovering, regaining pre-sanction levels by mid-2012.

Chart 5: Libya oil production, 2010-2012



Source: Bloomberg, OPEC

3.4. Russia (2014-YTD)

Unlike other examples of sanctions on oil economies, the case of U.S. and EU measures against Russia during the Ukraine crisis have had little – if any – discernible effect on the target's oil output. In fact, Russia has continued to increase its production over the sanctioned period.

International sanctions began on March 2014, as President Obama declared a national emergency, leading to travel bans and asset freezes on designated individuals. Between March and April, the Office of Foreign Assets Control (OFAC) added a number of high-ranking Russian government officials to its Specially Designated Nationals (SDN) list, including Rosneft CEO Igor Sechin. During the same period, the EU also implemented personal sanctions against key Russian officials.

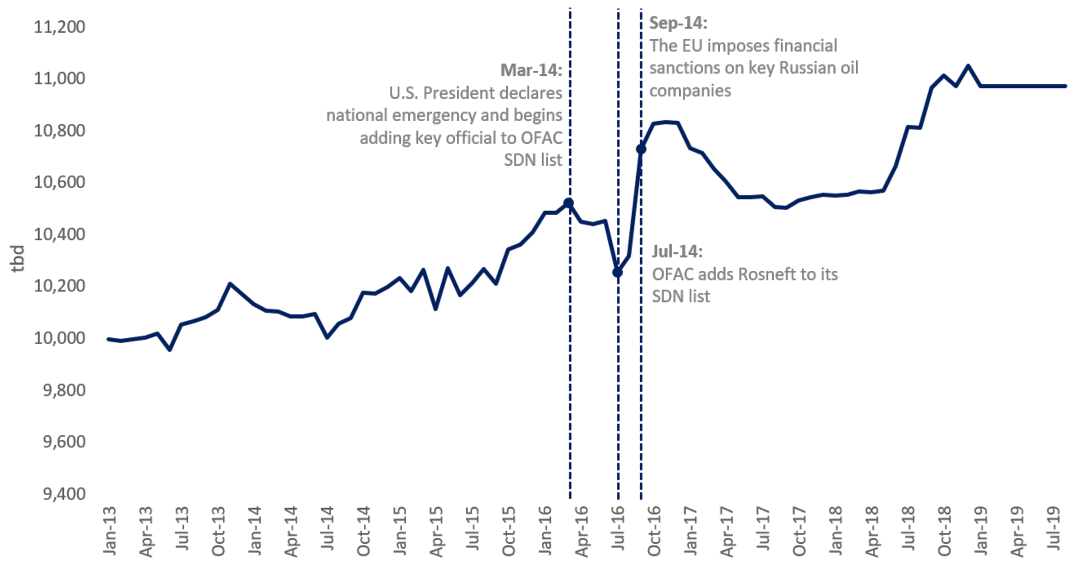
Escalation followed, as both the U.S. and the EU begun targeting major Russian oil companies. On July 16, OFAC imposed financial sanctions on Russian financial and oil entities, including Gazprombank, Novatek and Rosneft. However, these entities have not been added to OFAC's SDN list. The financial sanctions restrict the capacity of these entities to issue new debt, but do not ban transactions with them. On September 12, the EU imposed financial sanctions on three major Russian oil companies, including Rosneft. Nonetheless, despite numerous extensions to existing sanctions, and several additions to the list of sanctioned individuals, the EU has shied away from sanctions on oil trade.

In the case of Russia, the low impact of sanctions over the broad economy appears to be intended in their design. A U.S. Congressional Research Service report, for instance noted that:

"The sanctions' relatively low impact on the Russian economy is by design. The Obama Administration and the EU intended for Ukraine-related sanctions [...] to have a limited and targeted economic impact. They sought to target individuals and entities responsible for offending policies and/or associated with key Russian policymakers in a way that would get Russia to change its behavior while minimizing collateral damage to the Russian people or to the economic interests of the countries imposing sanctions. Moreover, some sanctions were intended to put only long-term pressure on the Russian economy, by denying oil companies access to Western technology to modernize their industry or locate new sources of oil. The full economic ramifications of these restrictions potentially have yet to materialize."[24]

A key feature of the sanctions against Russia is that they cover financing and some technological transfer and service support to the Russian oil industry, but do not prohibit trade with these entities. Furthermore, the sanctions have only been partial, as specific companies have been targeted, but not the oil sector as a whole.

Chart 6: Russia oil production, 1989-2004



Source: Bloomberg, OPEC

3.5. General effects of sanctions

Because sanctions lead to major declines in export revenues, they also lead to a decline in import capacity and cuts in imports of all goods, including essentials. Not surprisingly, embargoes are associated with sharp rises in the price of consumption staples. Garfield (1999) notes that almost all sanctions regimes and trade embargoes include some form of exemption for the import of goods deemed of humanitarian nature, such as foodstuff and medical supplies, yet still result in dramatically reduced imports of these goods. This is because it is insufficient to exempt the import of certain goods if the country cannot produce the revenue

[24] See Archick, et al. (2019), page 3.

stream necessary to pay for those goods, and because the vague wording of these exceptions generates a high risk for many actors (e.g., financial institutions) whose participation is needed to make them operative. This fact highlights the need not only for the formal approval of the humanitarian exception, but also for the design of appropriate institutional mechanisms and clear guidelines to involve all participant entities.

4. An overview of sanctions on the Venezuelan government and economy

U.S. sanctions against the Venezuelan government go back to 2006, when the U.S. government banned arms sales to Venezuela. In June 2008, the George W. Bush administration introduced personal sanctions against some regime officials. These were escalated and used more systematically by the Barack Obama administration. Nevertheless, it was Donald Trump who would take the steps of generalizing personal sanctions to a broad array of public officials and adopting economic sanctions.

In a first phase of sanctions – from 2006 to August 2017 – the U.S. government targeted officials of the Venezuelan government using personal sanctions. The first sanctions were imposed on account of the support by members of the Venezuelan government of international pariah organizations linked to terrorism or drug trafficking; participation in human rights abuses was also invoked later on. During this first phase, the sanctions regime had only minimal economic consequences on the country, resulting from the officials' roles within public administration and possible overcompliance within the finance industry.[25]

The situation changed on August 2017, when the U.S. government issued financial sanctions barring U.S. persons from providing most types of financing to the Venezuelan government or its entities. While these sanctions impeded the government from accessing any type of financing and could have normally been expected to have a devastating effect on the ability to sustain government spending, there is some controversy with respect to their effect on the Venezuelan economy. Some observers have pointed out that Venezuela was on the verge of default at the time of sanctions and thus international capital markets were already closed off to the government, making the financial sanctions redundant. Others have pointed out that the oil industry, and particularly joint venture partners and service providers, still had capital market access at the time, and that the closing off of these channels severely affected oil production. The fact that the pace of decline of oil production accelerated strongly after the adoption of the August 2017 sanctions, but that this decline did not occur in Russian and Chinese joint ventures which were unaffected by sanctions, suggests that the closing off of financing may have had a significant effect.[26]

A third phase came into effect on January 2019, as the Trump administration designated the state-owned oil company Petróleos de Venezuela (PDVSA) as a sanctioned entity, thereby imposing a prohibition on U.S. persons conducting international trade with PDVSA or its affiliates. Other decisions adopted shortly thereafter further restricted interaction with other state-owned entities including banks and mining companies. Oil output declined by almost exactly the magnitude of the lost U.S. market in the two months

[25] In principle, there is no legal impediment to interacting with a specially designated national (SDN) if that person is acting in his capacity as state representative. In practice, almost all financial institutions adopt policies restricting their staff from any type of interaction with an SDN whatsoever. In fact, OFAC explicitly advises U.S. persons to "be cautious in dealings with the government to ensure that they are not engaged in transactions or dealings, directly or indirectly, with an SDN, for example by entering into contracts that are signed by an SDN, entering into negotiations with an SDN, or by processing transactions, directly or indirectly, on behalf of the SDN, absent authorization or an applicable exemption." See OFAC's FAQ 505 of July 2018.
[26] Rodríguez (2019).

following the adoption of sanctions and remained at these levels for several months. August and September of 2019 have seen an additional output decline after the U.S. threatened to impose secondary sanctions on third countries that purchased oil from Venezuelan entities.

There are also decisions that are not, strictly speaking, sanctions orders but which have had a significant effect on the capacity of the Venezuelan state to conduct business with the rest of the world. For example, on January 23, the United States recognized National Assembly President Juan Guaidó as interim President of Venezuela, a move that was followed by 57 other countries. In the case of the U.S., the move was also followed by a State Department directive ordering the transfer of assets owned by the Venezuelan government and Central Bank to the administration of Juan Guaidó.[27] Since then, Guaidó representatives have moved to seize control of other assets – particularly those owned by PDVSA and its subsidiaries – and have counted with the support of U.S. courts,[28] solidifying a reality where the Maduro administration is the only one that can produce the oil on account of its territorial control, but the Guaidó administration is the only one capable of selling it in the U.S. owing to its control over bank accounts and financial transactions.

This reality in fact makes the most recent August 5, 2019 sanctions, which block the assets of the Venezuelan government in the U.S., essentially non-binding, as these assets were blocked to Maduro since January as a result of the recognition of Guaidó. However, the adoption of the August 2019 sanctions came accompanied by an escalation of explicit threats of secondary sanctions against companies that did business with Venezuela or Maduro.[29] Recent data suggests that these threats are starting to have an effect, with Venezuelan oil exports reached new lows as India and China restrict purchases and tankers refuse to load Venezuelan oil.[30]

We now provide a more detailed overview of the specifics and rationales behind these three phases of sanctions. We also provide a discussion of their effects on oil production and, by association, on Venezuela's capacity to import essential goods.

In contrast to the cases of Iraq, Iran or Libya, sanctions on Venezuela have been largely bilateral instead of multilateral. The U.S. is the only country to have imposed economic sanctions on Venezuela, though other countries in the region have pledged to collaborate with these U.S. efforts. Several other countries have imposed personal sanctions, though commonly also as a result of unilateral decisions; we provide a discussion of these at the end of this section.

[27] Wong (2019).
[28] Cohen, Parraga and Stempel (2019).
[29] On a speech given during a Lima Group gathering on August 6, U.S. National Security Advisor John Bolton said that the sanctions were "sending a signal to third parties that want to do business with the Maduro regime: proceed with extreme caution. There is no need to risk your business interests with the United States for the purposes of profiting from a corrupt and dying regime." See John Bolton's comments on Venezuela (2019).
[30] On September 2, Bloomberg reported that in August crude oil exports had fallen to 626tbd, 26.3% down from the 850tbd recorded for July, on account of a fall to zero of exports to India (which imported 248tbd in July). See Kassai (2019). On September 3, Reuters reported a similar trend, with an August print of 770tbd, which was 22.4% down from the 993tbd reported on the previous month. See Guanipa & Parraga (2019a).

4.1. U.S. sanctions

a) First phase: personal sanctions (2006-2017)

The early focus of U.S. sanctions on Venezuelan citizens and institutions was as a policy tool to counter the proliferation of drug-trafficking and terrorism. During this phase, the main source of explicit concern was the links between Venezuelan authorities and a number of international criminal organizations rather than in the Venezuelan government's internal policy actions. However, these decisions did occur in the context of worsening relations between Venezuela and the United States, making it difficult to distinguish between law enforcement and foreign policy motivations.

In April 2006, during the presidency of Hugo Chávez, the U.S. Secretary of State issued a report linking Venezuela to a number of entities regarded by U.S. foreign policy as terrorist organizations, or sponsors of them. The report stated that during 2005:

> *"Venezuelan cooperation in the international campaign against terrorism remained negligible. President Hugo Chavez persisted in public criticism of U.S. counterterrorism efforts, publicly championed Iraqi terrorists, deepened Venezuelan collaboration with such state sponsors of terrorism as Cuba and Iran, and was unwilling to deny safe haven to members of Colombian terrorist groups, as called for in UN resolutions."* [31]

Among the cited Colombian terrorist groups, the Secretary of State included both the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN), which were allegedly granted some degree of logistical support – including local identity documentation – and safe haven in Venezuelan territory. As a consequence of the determination that Venezuela was a collaborating party with these organizations, the U.S. prohibited the sale and transfer of armaments to the country.[32]

The U.S. government began extending its policy into personal sanctions in 2008. These are most commonly implemented through inclusion of persons or firms in the list of Specially Designated Nationals (SDN) maintained by the U.S. Office of Foreign Assets Control (OFAC). The inclusion implies a prohibition on U.S. persons (firms or individuals) doing business with the SDN. This entails the blocking of bank accounts and asset holdings held by the sanctioned person within the United States.

In June 2008, OFAC took a first step in this direction when it included a Venezuelan diplomat serving in Lebanon and a travel agency owner residing in Venezuela in its SDN list, citing their involvement with Hezbollah.[33] In September of that same year, OFAC added two more senior Venezuelan officials and a former official (all three of which were linked to the military) to the list, this time on account of their links with the FARC.[34]

[31] See Country Reports on Terrorism 2005 – Venezuela (2006).
[32] Ribando (2019).
[33] Frieden (2008).
[34] Treasury Targets Officials (2008).

The early focus on terrorism and drug-trafficking activities began shifting when the U.S. Congress passed the "Venezuela Defense of Human Rights and Civil Society Act of 2014" which allowed the President to impose individual sanctions on present or former officials determined to have violated human rights as part of the Venezuelan government.[35]

Building upon this law, the Barack Obama administration issued Executive Order 12751 in March 2015. The order declared a national security emergency in relation to Venezuela and sanctioned seven more Venezuelan officials, coming from law enforcement and judicial backgrounds, for human rights violations during the 2014 protests. The declaration of a national emergency is necessary for the executive branch to appeal to the powers granted in the Emergency Economic Powers Act of 1977 to restrict trade with entities that represent a threat to U.S. national security.

Despite these initial actions, U.S. Sanctions against the Maduro regime did not truly pick up pace until 2017. This occurred after an acute deterioration of Venezuela's governance crisis during 2016, as well as the assumption of Donald Trump to the U.S. presidency in January 2017, marking a much more militant foreign policy stance.

Venezuela's opposition coalition had won a resounding victory in the December 2015 parliamentary elections, defeating pro-government forces by a 56.2% to 40.9% margin. This resulted in a 112-55 supermajority in the legislature, which then became the only branch of power not under the direct control of Maduro loyalists. The two-thirds supermajority boasts broad-ranging powers in Venezuela's constitution. Including the right (also held by the President) to convene elections for a Constituent Assembly with the power to dissolve other branches of government. The Venezuelan Supreme Court, nonetheless, suspended the election of four representatives on charges of vote-buying, effectively eliminating the opposition's supermajority by driving it below the two-thirds threshold.

The opposition refused to withdraw the suspended representatives, resulting in the Supreme Court declaring the National Assembly in contempt of court decisions. Through several additional decisions taken in 2016 and 2017, the Court progressively assumed legislative powers for as long as the Legislature remained in contempt. The opposition leadership refused to back down, cementing the stalemate. At the same time, a set of decisions by regional courts in October 2016 to annul the drive to collect signatures for a constitutional recall referendum – that would have allowed revoking Maduro's mandate – fed into the governability crisis.

It's worth noting that both the National Assembly and the Supreme Court questioned each other's legitimacy, either (in the case of the National Assembly) as a result of its refusal to obey Court orders or (in the case of the Supreme Court) as a result of the appointment of 13 justices in December 2015 by the lame-duck government-controlled Congress under constitutionally questionable conditions. On July 2017, the National Assembly moved to appoint replacement supreme justices; these continue to session as a "Supreme Court in Exile."

[35] Venezuela Defense of Human Rights and Civil Society Act of 2014 (2014).

The crisis escalated further with Maduro's announcement of elections to convene a National Constitutional Convention (ANC). The announcement came at the heights of five weeks of protests, which had left 37 dead and 591 imprisoned. Opposition leaders unanimously condemned the proposal for a constitutional convention, charging that it was nothing more than an unconstitutional attempt to create an all-powerful body whose control by the government was virtually ensured.

Maduro's convening of the election had precedent in Hugo Chávez's 1999 convening of a similar assembly. Yet the country's opposition decided to question the validity of the call on two key arguments: that no preceding referendum was called to decide whether a new constitution had to be drafted or not (as had been done in 1999) and that the members of the ANC would be partially chosen by a method of sectorial representation that over-represented the governing party's supporters.

The escalation of the political crisis came alongside the adoption by the Trump administration of a much tougher Venezuela policy. On February 2017, OFAC added Venezuelan Vice-President Tareck El Aissami and a close associate of his, Samark López, to the SDN list. On May, it also added Supreme Court President Maikel Moreno and all seven justices of the Court's Constitutional Chamber. In contrast to prior designations, these targeted very high-ranking figures in the Maduro administration.

2017 also marked a turning point in terms of the choice of tools that the Venezuelan opposition used in its conflict against the Maduro government. At the start of that year, the National Assembly and opposition politicians developed a strategy to actively try to block the Venezuelan government's access to funds.[36] The key target was debt financing: opposition leaders and lawmakers began arguing that debt issuance should be shunned by international investors for both legal and moral reasons. The outcry against the purchase by Goldman Sachs of USD 2.8bn in bonds maturing in 2022 at a heavily discounted price from the country's central bank made most financial institutions think twice about entering into any dealings with the Maduro administration.[37]

Reports that the United States could be considering oil sanctions began surfacing in June of 2017,[38] marking a major change in the U.S. government's approach to the Venezuelan crisis. As the ANC elections drew nearer, the Trump administration threatened "strong and swift economic actions" if the government went ahead with them.

Elections were held on July 30 under a boycott of all opposition parties, leading the body to be fully integrated by Maduro loyalists. In its first week of activity, the ANC issued a decree declaring that all other branches of government were to be subordinate to it and affirming its power to reorganize these other branches. As the political conflict intensified, the country now had two sets of institutions claiming the legitimate

[36] Rodríguez (2018).
[37] We do not dispute the soundness of the legal arguments made by the opposition to argue against debt issuances. Our purpose is to describe the way in which the political crisis fed into the economic crisis as actors increasingly decided to use their ability to block the government's economic transactions as a bargaining tool.
[38] Spetalnick (2017).

representation of the Venezuelan state at different levels, including the legislative, judicial and accountability branches.

The effects on the Venezuelan economy of sanctions undertaken on this first phase were limited. Since sanctions only affected specific individuals and did not forbid financial or commercial transactions with the Venezuelan government itself (except those related to arms deals, which were forbidden by the 2006 determination), their economic effects operated through secondary channels such as reputational risks and overcompliance by financial institutions. For example, U.S. businesses generally shunned commercial transactions with PDVSA that were subscribed by PDVSA CFO Simón Zerpa after he was added to the SDN list on July 2017. Nevertheless, most firms were able to produce feasible workarounds such as accepting contracts signed by a surrogate official.[39]

b) Second phase: financial sanctions (2017-2019)

On August 24, 2017, the Trump administration issued Executive Order 13808 imposing financial sanctions on the Venezuelan government, marking a new phase of U.S. foreign policy towards the country. The order forbade U.S. persons from participating in any transactions that provided funds for the government of Venezuela or PDVSA. It thus impeded a potential restructuring process, the refinancing of certain types of PDVSA commercial debt and the leveraging of assets held abroad, among a host of other operations.

The order explicitly restricted financial transactions involving:

I. *New debt with maturity of greater than 90 days of PDVSA,*
II. *New debt with maturity greater than 30 days, or new equity, of the government of Venezuela,*
III. *Bonds issued by the government of Venezuela previous to the date of the order, except those listed in an annex.*[40]
IV. *Dividend payments or other distributions of profits from Venezuela-controlled entities (including US-based PDVSA branch CITGO).*
V. *The purchase of new securities from the government of Venezuela.*

The August 2017 sanctions represented a departure from earlier efforts in that they implied a widening of the target of the sanctions; whereas previous measures had targeted individuals, the Executive Order 13808 targeted the Venezuelan government, and its subdivisions, in general. It also appears to have been designed as an intermediate solution given the strong pushback from U.S. refiners that the proposal for oil sanctions appears to have generated.

Accompanying Executive Order 13808, four general licenses were issued. For the purposes of our discussion, perhaps the most important one is General License 4, which authorized:

[39] Parraga & Ulmer (2017).
[40] In practice, out of the outstanding bonds at the time, only the Venezuela 2036 bond was excluded from this list.

> *"All transactions related to, the provision of financing for, and other dealings in new debt related to the exportation or reexportation [...] of agricultural commodities, medicine, medical devices, or replacement parts and components for medical devices to Venezuela."*

This humanitarian exception could have in principle been used to issue debt to fund imports of essentials. Although proposals to that effect were put forward,[41] no attempt was made by the Maduro government to make use of the exception. This illustrates the broader point, to which we return below: for a humanitarian exception to work, it is necessary not just to codify the exceptions into law but to build the political consensus necessary for their use. In the Venezuelan case, it was clear that any issuance of debt by the Maduro government would still have been open to questions about its legality even if it was issued in accordance to General License 4 – and thus open to the same type of questions that plagued pre-sanctions debt operations.

Furthermore, to the extent that the U.S. signaled its purpose of stopping financing to the country unless Maduro ceded in the political terrain, the government could reason that any attempt to use such an extension would ultimately prove futile. This belief was cemented when OFAC issued an answer to one of its Frequently Asked Questions (#522) on 25 August, 2017, saying that it would consider issuing a license for new debt if it was approved by the National Assembly, an indication that the enforcement of sanctions would be dependent on the progress in reaching the U.S.'s intended resolution to the political crisis. In this light, it is reasonable to believe that the exception could have been used only if it was as a result of an underlying agreement between the government and the opposition – agreement that neither side appears to have been ready to consider at the time.

Other clearly defined exceptions applied to short-term debt, which is a necessary part of conducting business in the oil industry and, in general, for international trade. Absent this allowance, the order would have legally restricted PDVSA and Venezuela to pay for its imports from the United States in cash and would have thus replicated some of the more severe features of a trade embargo. Nevertheless, an important part of trade credit to Venezuelan government entities in practice exceeded the 30 or 90-day thresholds, leading it to become restricted after the issuance of the Executive Order.

Financial sanctions can be expected to have an effect on the operational capacity of state-owned enterprises. Lack of access to external finance can lead a firm that has no access to alternative sources of funding to cut back on operating expenses, with immediate effects on production. There is also a myriad of ways in which sanctions barring lending can curtail a firm's ability to carry out its day-to-day activities, as modern finance is commingled with a set of other activities that are essential to the productive process.

Financial sanctions do not exist in a vacuum. They should be seen rather as a stage in the evolution of the "financial toxification" process which resulted in the raising of the legal and reputational costs of doing business with the Venezuelan government.

[41] Rodríguez (2017).

Some of the actions that had the most significant economic effects associated with this period were not – properly speaking – sanctions orders, but rather government decisions that contributed to spreading toxification. For example, a letter of guidance issued by the Financial Crimes Enforcement Network (FinCen) on September 2017 warned financial institutions that "all Venezuelan government agencies and bodies, including SOEs [state-owned enterprises] appear vulnerable to public corruption and money laundering" and recommended that several transactions originating from Venezuela be flagged as potentially criminal.

The issuance of this letter implied that any entity considering deals involving financial transactions by the Venezuelan government would have to be ready to shoulder large reputational and compliance risks. Many financial institutions proceeded to close Venezuelan accounts rather than face the risk of inadvertently participating in money laundering. Venezuelan payments to creditors got stuck in the payment chain, with financial institutions refusing to process wires coming from Venezuelan public sector institutions.

The closing off of international financing precipitated a default on the country's external debt. Yet perhaps more importantly, conversations initiated by the Maduro administration in November with the purpose of restructuring the Venezuelan debt were a non-starter under financial sanctions.[42] [43]

During 2018, the Trump administration continued extending the sanctions. On March, it issued Executive Order 13827, banning transactions related to the Venezuelan government's cryptocurrency, the *petro*, and, in May, Executive Order 13835, which prohibited transactions related to the purchase of Venezuelan debt, including accounts receivable, and the purchase of any equity stake in any entity in which the government had a 50 percent or greater interest.

c) Third phase: sectoral economic sanctions (2019-YTD)

U.S. financial sanctions may have affected the oil industry's productive capacity, but by-and-large they did not restrict access to U.S. oil markets. In fact, in 2018 Venezuela shipped 54.8% of its oil to the United States, as opposed to 48.3% in 2016 and 44.1% in 2017, suggesting that impediments to trade, if any, were minor.

The U.S. appears to have started laying the groundwork for broader economic sanctions in late 2018. Executive Order 13850, issued on November 1 gave the U.S. Treasury Department the authority to designate as an SDN any person (individual or firm) operating in the gold sector of the economy "or in any other sector of the Venezuelan economy" as determined by the Treasury Department. The order in itself had no immediate effect – as it only conceded to Treasury the ability to issue these designations – but opened the door for the U.S. government to target broad types of economic activities.

In the meantime, the end of Nicolás Maduro's first term in office marked a turning point. Starting on January 10, 2019, Maduro was due to be sworn in for a second term. But the May 2018 elections in which he won that term were considered invalid by the United States and dozens of countries, had been boycotted by the main opposition parties, and their results were not recognized by the losing candidate. On December 13,

[42] Faiola (2017).
[43] Orozco & Schineller (2017).

opposition parties announced that Juan Guaidó, a previously little-known legislator from the *Voluntad Popular* [Popular Will, VP] party had been chosen to serve as President of the National Assembly.[44]

On January 23, 13 days after Maduro's swearing-in, Juan Guaidó announced that he was assuming the powers of the Presidency, appealing to Article 233 of the 1999 Constitution that says that the President of the National Assembly will serve as interim president if the elected president cannot be sworn in at the start of his term. In a matter of hours, 24 countries including the United States and 11 members of the Lima Group (a coalition of Latin American countries that are friendly with the opposition) had announced that they would recognize Guaidó as the legitimate President.

U.S. jurisprudence establishes the principle of deference to the executive branch in matters of recognition of governments. This implies that the decision of recognition had concrete economic effects of transferring the management of Venezuelan assets held in the United States to representatives of Juan Guaidó. State Secretary Mike Pompeo in fact instructed financial institutions on January 29 to transfer the accounts of Venezuela's government and Central Bank to Guaidó representatives.[45] U.S. courts have since affirmed the authority of Guaidó representatives over the management of Venezuelan assets.[46]

On January 28, 2019, President Donald Trump included state-owned oil company PDVSA in the list of Specially Designated Nationals (SDNs) maintained by the Treasury Department's Office of Foreign Assets Control (OFAC). The designation was made using the authority granted in Executive Order 13850 of November 2018. The decision effectively barred any U.S. nationals from doing business with PDVSA or any of its affiliates. Since PDVSA is the majority stakeholder in oil joint ventures in Venezuela's oil sector, the decision effectively constituted a prohibition of U.S. purchases of Venezuelan oil, as well as of exports of oil products to Venezuela. It is thus most adequately characterized as an oil embargo.

The designation was accompanied by the issuance of seven general licenses containing exceptions, most of them time-bound, primarily intended to allow for the winding down of commercial transactions between U.S. entities and PDVSA. General license 8 allowed five US-based oil companies (Chevron Corporation and 4 oil service providers) involved in the oil sector to continue operating in Venezuelan territory, originally until July 27, 2019, but since extended to October 25, 2019. General license 12 created a wind-down period allowing U.S. persons to purchase oil from Venezuela until April 28, 2019. Despite the carving out of this allowance, the license specified that the payment of such purchases would have to be made into blocked accounts held under U.S. jurisdiction, eliminating any incentive for the Venezuelan government to actually export any oil to the United States. General License 12 has not been renewed, and the wind-down period has thus elapsed.

Notably, and in contrast to the 2017 financial sanctions, there was no humanitarian exception to the oil sanctions. In other words, there is no provision allowing Venezuela to export oil even if it intends to use the

[44] Confirman que Juan Guaidó será el próximo presidente de la AN (2018).
[45] Wong (2019).
[46] Cohen, Parraga and Stempel (2019).

proceeds for the purposes of importing food, medicines and other essential goods. In fact, the sanctions in their current form embody a somewhat odd principle according to which it would be acceptable for Venezuela to borrow in international capital markets to pay for food imports but it would not be permissible to sell its oil to do the same thing.

This round of sanctions affected Venezuela in two ways: it prohibited U.S. persons from exporting diluents to Venezuela (these are fundamental to process Venezuela's heavy oil into useable grades) and barred access to what was at the time its largest single export market. At a bare minimum, this means that PDVSA would have been forced to sell its oil to less profitable destinations and/or for discounts. We examine the resulting drop in Venezuelan exports to the US, and the lack of shift to other markets, in **Section 3.3**.

The Treasury Department also sanctioned state-owned gold mining company Minerven on March 19, 2019, and several state-owned banks including the National Development Bank BANDES and the Banco de Venezuela, the largest bank in the country, on March 22, 2019. All of these designations appealed to Executive Order 13850, with the implication that the oil, gold and banking sectors were determined by the Treasury Department and the Department of State to be subject to sanctions authority. A humanitarian exception did accompany this decision, allowing transactions related to humanitarian assistance. However, while this made it possible for Venezuelan entities to move funds related to humanitarian purchases, this is a distinct issue from that of selling oil in order to obtain revenue to pay for these imports.

The most recent round of U.S. sanctions was announced on August 5, 2019. On that date, the Trump administration issued Executive Order 38843, which blocked access by the Venezuelan government to its U.S. assets. The order was interpreted by the Guaidó administration as blocking potential external asset seizures by creditors, though most analysts and legal experts disagree.[47] Another provision allowed the adoption of secondary sanctions on non-U.S. actors for business dealings with the Venezuelan government.

Putting aside the issue of asset seizures, the order has very little additional marginal effect because the Maduro government had already lost all access to U.S. assets as a result of the U.S. recognition of Juan Guaidó's government in January. Furthermore, the authority to impose secondary sanctions in the August 5, 2019, order is similar to that to impose secondary sanctions in the November 1, 2018, order for dealings with entities in a sanctioned sector (e.g., oil).

What is perhaps most important is the apparent change in willingness of U.S. authorities to explicitly threaten to impose secondary sanctions on third parties. While the Treasury Department has had that authority at least since January, application of secondary sanctions has been limited.[48] On August 5, National Security Advisor John Bolton stated that day's sanctions were "sending a signal to third parties that want to do

[47] Cohen & Stempel (2019).

[48] On April 5, 2019, the OFAC designated two companies (one Greek and one Liberian), as well as a particularly identified vessel, for participating in Venezuela's oil sector. It also identified 34 vessels owned by PDVSA. These entities were all included into OFAC's SDN list, which, in the case of the two identified non-Venezuelan companies, constituted a case of secondary sanctions predating the August 5, 2019, executive order. See Treasury Sanctions Companies Operating in the Oil Sector of the Venezuelan Economy and Transporting Oil to Cuba (2019).

business with the Maduro regime: proceed with extreme caution. There is no need to risk your business interests with the United States for the purposes of profiting from a corrupt and dying regime," signaling that the U.S. was ready to consider this more aggressive use of sanctions.[49] However, only a handful of new secondary sanctions have yet been announced.[50]

The full effects of the August secondary sanctions are yet to be seen, but early signs point to a marked incremental deterioration of Venezuela's capacity to export oil and conduct financial dealings even with traditional Maduro allies such as China and Russia.

On August 15, Bloomberg reported that Ziraat Bank (the largest Russian bank by assets) cut Venezuela's Central Bank from its services, fearing the imposition of secondary sanctions.[51] On August 16, Bloomberg also reported that the China National Petroleum Corporation (CNPC, a key partner of PDVSA) decided to cancel the loading of 5mn barrels of Venezuelan crude that month, and would curtail direct purchases from PDVSA.[52] A Reuters report dated September 10 confirmed this information and revealed that CNPC had decided to extend this decision for an additional month.[53] Additionally, on October 4, Exxon Mobil issued an internal ban on the use of tankers linked with the transportation of Venezuelan oil over the previous 12-month period. Chinese oil trader Unipec issued a similar ban on October 10.[54]

The August 5 change in signaling appears to have had a marked effect on the willingness of tanker operators and oil traders to deal with PDVSA, forcing the company to cut back on its output on the face of the difficulties it has found in marketing it.[55] Per September 16 reports, PDVSA's joint venture with Chevron, Petropiar, halted blending activities due to replete storage.[56] Similarly, reports published on October 3 indicate the same happened on PDVSA's joint venture with China's CNPC, Petrosinovensa.[57]

Blending activities appear to have resumed in Petropiar and Petrosinovensa as of October 10.[58] This has been the result of PDVSA finding ways to market its crude, and thus clear off excess inventories. Indian trader Reliance, for instance, found a loophole in the sanctions which allows it to resume purchases from PDVSA – after a 4-month halt – by paying the Venezuelan company with refined fuels.[59] We thus, think there are good reasons to believe that the drastic drop in September production will prove transitory.

[49] See John Bolton's comments on Venezuela (2019).
[50] This does not mean the threat has been ineffective. In fact, the game-theoretic logic of sanctions implies that they are most effective when they are not used, because that means that they have dissuaded the sanctionable actor from the conduct that they intended to discourage.
[51] Cagan & Laya (2019).
[52] Cang & Kassai (2019).
[53] Aizhu (2019).
[54] Adamopoulos & Wiese (2019).
[55] Guanipa & Parraga (2019b).
[56] Argus Media (2019).
[57] Guanipa & Parraga (2019c).
[58] Cohen, Buitrago & Guanipa (2019).
[59] Parraga (2019).

4.2. Non-US sanctions

Other countries have also adopted sanctions as a policy tool to pressure the Venezuelan government, though the preference for personal sanctions as opposed to economic sanctions is clear for non-U.S. actors. On September 22, 2017, Canada announced a list of Venezuelan officials subject to sanctions as they were considered to have contributed to a "deterioration of democracy in Venezuela." Sanctions so far include a freeze of all assets to officials' name within Canadian jurisdiction, as well as a prohibition for all Canadians establishing any kind of transactions (financial services, making goods available, dealing in property worldwide) with these listed officials. Though the list began with 40 individuals, it increased to 70 following the May 2018 presidential elections and to 113 on April 25, 2019. Notably, former chief of Venezuelan Intelligence Manuel Figuera was taken off the Canadian (and U.S.) list after he supported an armed insurgency against the Maduro regime on April 30thof 2019.

In November 2017, the Council of the European Union also imposed selective sanctions upon Venezuela, including equipment and arms embargo. These restrictive measures also included a travel ban and the freezing of assets in Europe of 18 high-ranking officials considered by the EU to be responsible for human rights violations and undermining democracy. These selective sanctions were renewed on November 2018 for an additional year.

Switzerland also sanctioned seven Venezuelan ministers and high-ranking officials on March 27, 2018 stating that it was "seriously concerned by the repeated violations of individual freedoms in Venezuela." The measure sought to align Switzerland with the European Union's stance on Venezuela and included ANC president Diosdado Cabello and Supreme Court president Maickel Moreno. Sanctions included travel bans and asset freezes, as well as a ban on the sale or export of arms and goods which could be used for internal repression. After the May 2018 elections, Switzerland added 11 officials to the list, including former VP Tareck El-Aissami, as well as VP Delcy Rodríguez.

Colombia imposed on January 30, 2019, travel bans on 200 persons believed to be close to Nicolás Maduro. The head of Colombia's Migration Office, Christian Krüger, said the county would not "allow these kinds of collaborators of a dictatorship to come for refuge on our country and hide on our country." Notably, the list of persons subject to the bans was not published. Panama also announced on March 30, 2018 "reinforced financial supervision" on 55 Venezuelan officials, though the country claimed these measures to be based on a fight against money laundering and financing on terrorism. Chile, Peru, Argentina, and Brazil have also imposed travel bans on individuals considered to be close to the Maduro government. Argentina has the largest list of sanctioned officials, with 426 persons "strongly linked" to the Maduro government.

4.3. Impact of financial and economic sanctions

As noted previously, personal sanctions imposed before August 2017 had little, if any, effect on the broad macroeconomic conditions of Venezuela. Measures during this phase were targeted at specific individuals (with the exception on the prohibition of exports of military equipment), and they did not exert significant pressures over the country's capacity to generate foreign currency revenues that would allow it to attain the imports necessary to sustain the people of Venezuela.

Much of the academic debate on the effect of economic sanctions centers on the August 2017 financial sanctions and the January 2019 oil sanctions. While there is close to a consensus on the assessment that 2019 oil sanctions have affected the economy, identification of the effect of the 2017 sanctions remains much more controversial.

An argument that is often voiced in the policy discussion is that the fact that the crisis began before the sanctions disproves that sanctions have an effect on the crisis. This argument is logically incorrect. The fact that the onset of the crisis precedes sanctions proves at most that there are other causes different than sanctions that have had a negative effect on the country's economic performance. The fact that A causes C does not disprove that B causes C; both A and B can jointly contribute to bringing about C. Most social sciences models are multicausal and thus allow for several factors to play a role. Nor does the fact that A caused C at time 1 (i.e., pre-2017) disprove that B could cause C at time 2 (i.e., post-2017). Identifying the effect of B on C requires the specification of a counterfactual – a description of what the evolution of outcomes would have been in the absence of B.

Academic research attempting to establish this counterfactual has yielded different visions. Rodríguez (2017) and Weisbrot and Sachs (2019) use the case of neighboring Colombia's oil industry as a proxy for what Venezuela's oil production could have been in the absence of sanctions, pointing to the similar behavior of the output series in both countries in the pre-sanctions period and their shared feature of being a high marginal cost producer. Hausmann and Muci (2019) and Bahar et al. (2019) question this assumption, arguing that Colombia is structurally dissimilar and has a lower correlation in the long-run data. Rodríguez (2019) shows that the association between the 2017 financial sanctions and the decline in oil production is relatively insensitive to the choice of comparison group, making the Colombia discussion essentially moot. Rodríguez uses synthetic control methods to build an appropriate counterfactual and estimates that the 2017 financial sanctions were associated with a 797 tbd decline in oil production, worth $14.9bn at today's oil prices.

While personal sanctions cannot be said to have had any meaningful effect on the Venezuelan economy, the broader process of financial toxification that both personal and economic sanctions are part of does appear to have affected economic decisions significantly. Even prior to August of 2017, tankers carrying Venezuelan oil shipments were stranded off U.S. coasts, as purchasers were unable to obtain letters of credit from financial institutions.[60] One important casualty of financial toxification was the loss by the Venezuelan government of correspondent banking relationships enabling the execution of wire transfers and trade finance. Following the decision of large financial institutions such as Citibank to close Venezuela's correspondent bank accounts, the Maduro government started shifting its correspondent banking activity – which is necessary to carry out wire transfers and trade-related credit operations in the United States – to small and less known financial institutions. At the end of 2017, after the sanctions announcement, these

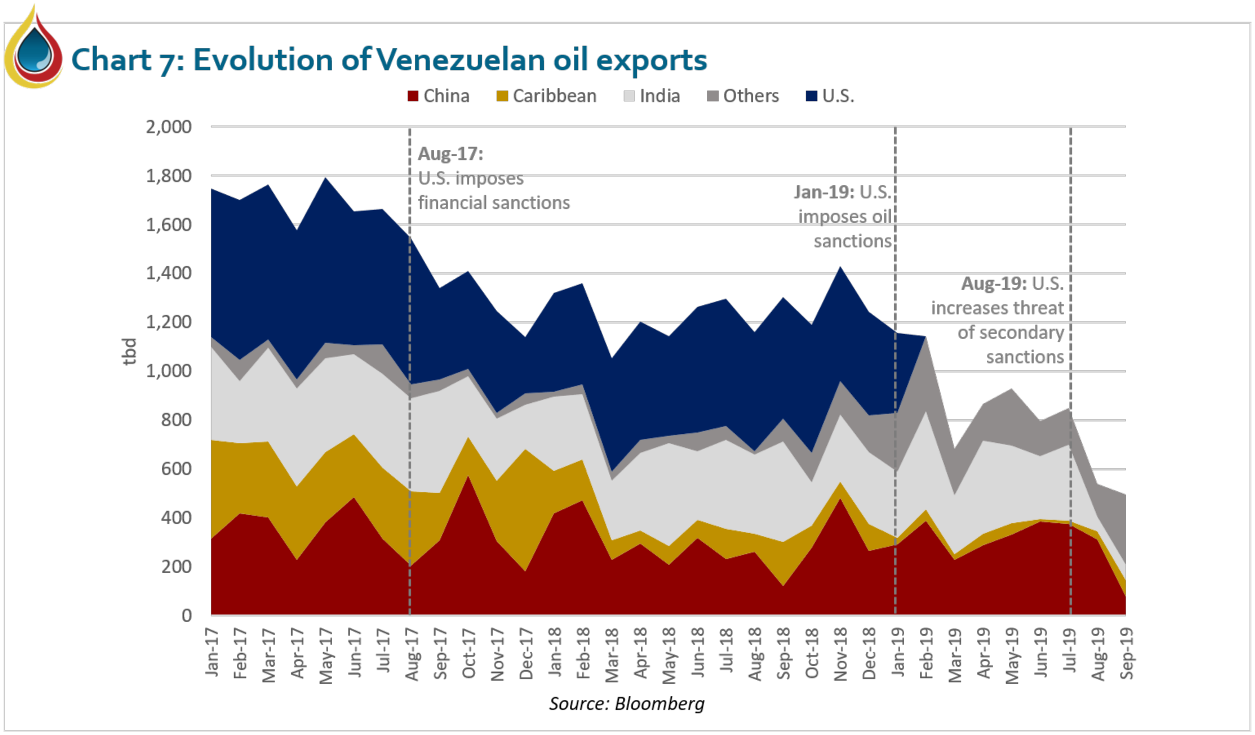
[60] Ulmer, A. and Parraga, M. (2017).

banks ceased providing correspondent services to the Venezuelan government, often citing increased reputational risk.[61]

There are two direct ways in which the August 2017 sanctions affected the state-owned firm's ability to carry out production and investment activities: by impeding PDVSA from entering into financing agreements with its joint venture partners, and by refinancing its arrears with providers through the issuance of New York law promissory notes. Both of these mechanisms were being used intensively by mid-2017; both of them ground to a halt after the sanctions. The fact that Chinese and Russian joint venture output either stabilized or grew in the aftermath of sanctions suggests that sensitivity to financing was a key determinant of the output drop.

Oil sanctions in January 2019 added a further blow to Venezuela's oil production. Between January and September, production fell 44.0% – an average monthly decline of 6.9%. Data on exports drawn from trading partners shows that the country's total exports (nine-tenths of which came from oil in 2019) had fallen by 57% in July with respect to August (68% with respect to August of 2018).

In December, the U.S. imported 426tbd from Venezuela, accounting for 34.3% of the country's oil exports.



818tbd went to non-U.S. destinations. Exports to the U.S. came to a standstill from February onwards. By July, Venezuela was exporting 850tbd to non-U.S. destinations, almost identical to the December figure. By September, non-U.S. exports had fallen further to 495tbd, reflecting the impact of the threat to impose

[61] Pons, C. (2017).

secondary sanctions that came with the August 5 Executive Order. The data thus is consistent with the view that Venezuela lost at least 400 thousand barrels per day of production as a result of the 2019 oil sanctions.

5. A closer look at the Iraqi experience

On August 6, 1990, the UN Security Council issued Resolution 661 prohibiting member countries from importing goods originating in Iraq and occupied-Kuwait, as well as exporting goods to Iraq and providing financing to its government entities. The decision came as a result of the invasion of Kuwait by Iraqi forces two days earlier. While the occupation of Kuwait only lasted until April 1991, the embargo was kept in place as a dissuasion mechanism to ensure Iraqi disarmament and persisted until Hussein's removal in 2003.

While there was broad consensus at the time regarding the need to penalize the Hussein regime, the international community also quickly came to agreement on the need to mitigate the collateral impact of the embargo. Nevertheless, it was almost five years later – on April 14, 1995 – that the UN Security Council created the oil-for-food program for Iraq as a response to the humanitarian crisis precipitated by the multilateral sanctions.[62] Resolution 986, which established the Program, explicitly quoted the organism's concern "by the serious nutritional and health situation of the Iraqi population, and by the risk of a further deterioration in this situation" as a justification.

It is worth noting that humanitarian exceptions to the sanctions were present from the outset but – for reasons similar to those discussed in the previous section – were essentially ineffective. Resolution 661 of August 1990 provided exceptions to the export embargo for medical goods and "in humanitarian cases" food items meant for the benefit of the people of Iraq (with prior case-by-case approval by a committee set to oversee the embargo). In September 1990, the UN Security Council issued Resolution 666, which clarified that the Sanctions Committee would continually monitor the availability of food in Iraq and, if it found an "urgent humanitarian need", it would directly – in cooperation with the Red Cross or other appropriate humanitarian institutions – deliver and supervise the distribution of the necessary foodstuff. Security Council Resolution 687 of 1991, extended these exceptions to cover "materials and supplies essential for civilian needs" (including parts and equipment necessary to restore the country's infrastructure) to be approved under a simple "no-objections" basis. The resolution also simplified procedures for food items so they only required a notification to the Sanctions Committee.

The framework for embargo exceptions nonetheless proved ineffectual both because of protracted authorization mechanisms and because it did not account for the targeted country's actual capacity to pay for these imports in the face of its curtailed export capacity.[63] Iraqi exports plummeted after the sanctions, falling from $15.0bn in 1989 to $1.9bn by 1995. It was the lack of funds to pay for imports, rather than restrictions on the ability to import goods, that drove the Iraqi import contraction.

The Iraqi government had traditionally been significantly involved in the importation and distribution of food at subsidized prices before sanctions. This role expanded significantly after sanctions were imposed and the government implemented a system of explicit food-rationing. In the rationing scheme, the government would import food and distribute it to private retail sellers, provide the general population with universal

[62] Implementation of Oil-for-Food: A Chronology (2019).
[63] Craven (2002).

rationing cards with a limited number of "coupons". Customers would then use the coupons to purchase the items at highly subsidized official prices, and the retail sellers would charge a 10% fee over the transaction.[64]

As export revenues collapsed and the government found itself unable to sustain imports, it began cutting rations. By the beginning of 1991, most ration allocations had been cut by 25 to 50%.[65] The government also began confiscating excess supplies of staples distributed by the private sector in the open market and re-allocating them to the rations system.

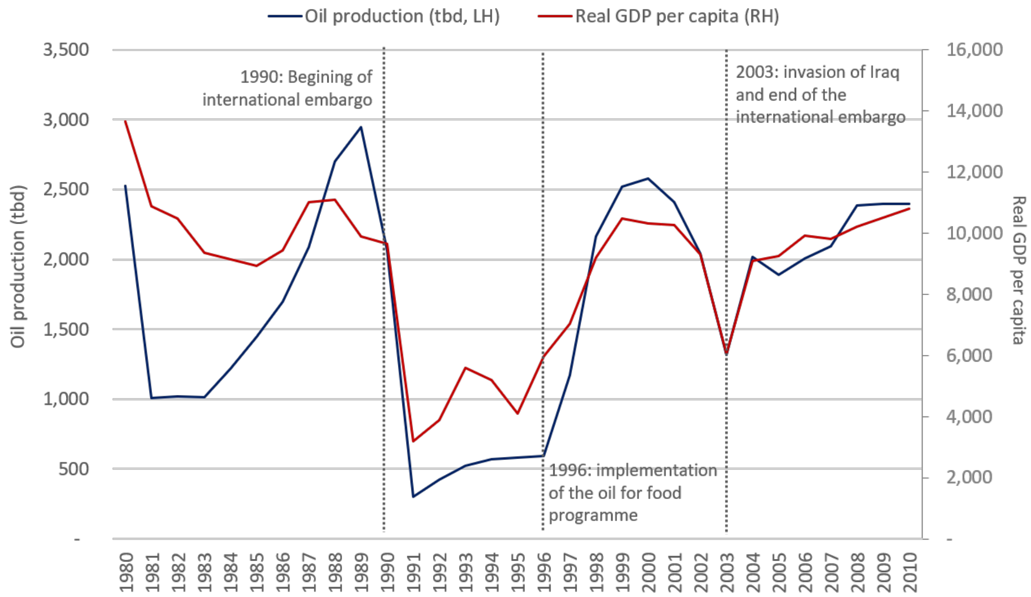
A mission led by UN Security Council Under Secretary-General Martti Ahtisaari issued a report on March 1991 noting widespread devastation of infrastructure and a significant reduction in food staples available for the civilian population due to sanctions and war. The report went as far as describing the situation in terms of Iraq regressing to a "pre-industrial age".[66] The report noted that the embargo had adversely affected livestock farming and agriculture, as these activities crucially depended on the import of feed products and seeds, respectively. The report recommended that sanctions related to foodstuff (including agriculture supplies and equipment) be immediately lifted.

In response to these concerns, as early as August 1991 the UN Security Council issued a number of proposals to allow the Iraqi government to sell its oil in exchange for humanitarian goods meant to benefit the people of Iraq. Early proposals were rejected by the Hussein regime, and it was not until May 1996 that an agreement for its implementation was reached.

Iraq's real per capita GDP fell 58.4% between 1989 (the year before the imposition of the embargo) and 1995 (the year before the start of the oil-for-food program). It subsequently rose 126.3% between 1995 and 2002, the period during which the oil-for-food program was active.[67] Similarly, oil production in the country fell 80.3% from 2,945tbd in 1989 to 580tbd in 1995, and rose 251.7% to 2,040tbd in 2002.[68]

[64] Dreze & Gazdar (1992).
[65] Tyler (1991).
[66] Pérez (1991).
[67] Penn World Table figures.
[68] EIA figures.

Chart 8: Iraq's oil production and per capita output



Source: Penn World Tables, EIA

Although the first oil-for-food program proposal was approved by the Security Council on August 1991, the early proposals were not accepted by the Iraqi government due to their restricted scope and because the Iraqi government deemed them as infringing on its sovereignty. Hussein's long-held refusal to accept the program related to his belief that the humanitarian crisis would force the UN Security Council to withdraw the sanctions, and that the establishment of the program would remove incentives towards this end.[69]

On April 1995, the UN Security Council adopted Resolution 986 to implement the program. Complicated negotiation lasted until May 1996, when the Iraqi government accepted the implementation of the resolution. More than 50 meetings took place between 1995 and 1996 to establish the specifics of the program. The key negotiation point was Hussein's insistence that the Iraqi government be allowed to retain the prerogative to select both the buyers of its oil and the providers of humanitarian goods, which the UN negotiators initially opposed. This would later be highlighted as the main deficiency in the program's design,[70] as it would allow the Iraqi regime to route illicit income to government accounts outside the UN's supervision (we discuss this point further below).

The agreement on the oil-for-food program was the consequence of the confluence of two factors. On the one hand, support for lifting sanctions due to their humanitarian impact began to grow in the UN Security Council, leading the US to accept terms more palatable to the Iraqi government. On the other hand, the defection of a high-ranking Iraqi official who provided new information on Iraq's weapons program bolstered

69 Volume II, Chapter 2, Volcker Report (2005).
70 Lee (2005).

the case for maintaining sanctions. Therefore, consensus began to grow among members that an intermediate solution that provided an alternative to the extremes of lifting sanctions and maintaining them in their current form was needed.

Despite the May 1996 agreement, Iraq did not export oil under the program until December 1996, and the first cargoes of humanitarian goods arrived at the country only in March 1997.[71] The 9-month delay in implementation was due to the time it took to hire banking services (for the escrow account) and inspection contractors, as well as some haggling over details for the program's implementation, including the specifics on humanitarian goods distribution (which the Iraq government wanted to take credit for). A September 1996 military skirmish between U.S. troops and Iraqi forces on the northern regions of the country also contributed to delayed implementation.

5.1. Implementation details of Iraq's oil-for-food program

UN Security Council Resolution 986 of April 1995 laid out the basic conditions for the program:

i. It allowed member states to import crude oil and oil products originating in Iraq, as well as conducting financial and other essential transactions for the import of oil, for a maximum aggregated sum across buyers of USD 1bn every 90 days.[72] The authorization was initially implemented for a 180-day period, with renewal upon successful review by the UN Security Council.
ii. It mandated that the full proceeds from these exports be deposited in escrow accounts under the control of the Secretary General of the UN Security Council.
iii. In order to guarantee the operation's transparency, prospective buyers had to reach an agreement with the government of Iraq and submit an application "including details of the purchase price at fair market value, the export route, the opening of a letter of credit payable to the escrow account to be established by the Secretary-General for the purposes of this resolution".
iv. Proceeds deposited in the escrow accounts were to be used for the import into Iraq of "medicine, health supplies, foodstuffs, and materials and supplies for essential civilian needs". Payment authorization would be granted based on a request by the Iraqi government, a guarantee of equitable distribution of the goods according to plan approved by the Secretary General and authentication of the arrival of the goods to Iraqi territory.
v. A portion of the proceeds was to be destined to a number of activities connected with the program, such as a compensation fund for the invasion of Kuwait, operational and logistical costs of the program (including inspection costs), the costs of the oversight committee, and any other reasonable expenses related to the program.
vi. Periodic reviews of program implementation.

[71] Oil-for-Food: About the Programme (2019).
[72] At 1996 market prices, this would imply exports of 543tbd. By contrast, in 1989 (before the First Gulf War) Iraq produced on average 3,000tbd.

vii. Protection of oil exports conducted under the program from attachment by creditors and other parties.

The implementation of Resolution 986 was to be supervised by the Sanctions Committee established in UN Security Council Resolution 661 of August 1990, which incorporated all members of the Security Council.

Resolution 986 gave broad authority to the Iraqi national oil company to negotiate contracts for the sale of the country's oil. Nevertheless, the contracts had to be approved by a panel of observers reporting to the Sanctions Committee, which conducted monthly reviews of the pricing proposals.[73] A private energy services firm contracted by the committee also monitored export operations.

Regarding imports, the system effectively gave individual members of the Sanctions Committee the capacity to veto an import contract, placing it on hold if the member deemed that the items had a dual use (e.g. they could be employed for military ends).

A memorandum of understanding between the government of Iraq and the UN Secretariat signed on May 20, 1996, further laid out the conditions under which the program would be implemented. The agreement stipulated that:

i. The purchases of essential goods covered by the program would be carried out by the Government of Iraq, following "normal commercial practice." Only goods included in a list produced by the Security Council would be allowable.
ii. The Iraqi government would contract directly with suppliers of goods imported under the program.
iii. Exporting states would submit all required documentation to guarantee the transparency of the operations.
iv. The arrival of goods in Iraq purchased under the plan would be confirmed by independent inspection agents to be appointed by the Secretary-General. No payments could be made before the independent inspection agents provided the Secretary-General with authenticated confirmation that the exported goods had arrived.
v. Inspection agents would be permitted access to relevant entry points in order to survey imports, compare relevant documents and report on irregularities.
vi. UN-designated inspectors would conduct surveys in local supermarkets in order to validate the equitable distribution of food items on quantities and prices. Similarly, surveys would be conducted in medical and pharmaceutical facilities to judge the equitable distribution of corresponding medical imports.

Funds deposited into the escrow accounts were used to pay letters of credits issued for the import of goods covered by the program. These imports were monitored at the point of entry by private overseers contracted by the committee. The firm was, nonetheless, restricted to monitoring those imports carried out under the auspices of the program.

[73] Blanchard & Katzman (2005).

Agreement on the program led to the issue of the first letter of credit on February 1997, the arrival of the first supplies of food and medicines in March 1997, and the initiation of humanitarian goods distribution to the population on April 1997.[74]

Almost six years elapsed from the first time an oil-for-food program proposal was made to the actual implementation of the program. Even after the UN Security Council issued Resolution 986, the negotiation process that led to the final agreement to implement it took almost a year, and an additional year passed between the Iraqi government's acceptance and the actual delivery of the first batch of humanitarian goods.

Food imported by the Iraqi government under the oil-for-food program was distributed in most of the country through the pre-existent rationing scheme (under the monitoring of UN workers), created in August 1990. The exceptions were three Kurdish northern cities, not under the control of the Saddam Hussein government, in which the UN distributed the supplies directly.

As noted previously, the rationing system had both a public and private component. The government primarily conducted importation and storage activities, while the private sector handled most distribution on a retail level through the preexistent rationing system. A regular market for unsubsidized products continued to operate, alongside the rationing system, and Iraqis supplemented their rationed purchases through it.

The program was first authorized for an initial 180 days (phase I). The Security Council then renewed its duration 12 times (marking phases II to XIII), for additional periods of 180 days.[75] Initially, the program allowed for USD 1bn exports per 90-day period (hence USD 2bn per 180-day phase). In February 1998, UN Security Council Resolution 1153 expanded the export allowance to USD 5.3bn per each 6-month phase. In 1998, the UN Security Council – through Resolution 1175 – also authorized USD 300mn in investments on the decaying Iraqi oil infrastructure,[76] in order to help the country meet its export quota under the program. In December 1999 the UN Security Council lifted the quota on Iraqi oil exports entirely.

5.2. Results of the Program

During the program's thirteen phases, Iraq exported 3.4bn barrels of oil, generating revenues of USD 64.2bn and resulting in USD 39bn in humanitarian imports.[77] Oil production, which had declined from 2,945tbd in 1989 to 580tbd in 1995, recovered to 2,520bd by 1999, with GDP also recovering in tandem (**Chart 8**).

[74] Garfield (1999).
[75] Originally, phases were meant to be of 180 days each, nonetheless phases VI and IX were extended for 3 weeks and 30 days, respectively, while phase X was cut down to 150 days. Furthermore, the UN Security Council authorized additional oil exports in certain phases to compensate for decreased revenue on others. See Security Council Resolutions Related to the Oil-for-Food Programme (2019) for a detailed description of decisions in regards to phase renewals and extensions.
[76] Later doubled in Resolution 1293 of March 2000.
[77] The main reason behind the large difference between export proceeds and import payments was the use of funds for reparations to Kuwait and imports for Kurdistan, which were administered outside of the main program. See Table 5.

Allocations of the revenues from oil exports were distributed to be used for several objectives in addition to the purchase of humanitarian goods. These included financing the program's costs and reimbursement of UN members that had provided funds to an escrow account created in Resolution 778 (**Table 5**).

Table 4: Phases and export quantities under the oil-for-food program

Phase No.	Start month	End month	Exported oil (tbd)	Value of exports (USD bn) (2)	Oil exports quota (USD bn)
I	Dec-96	Jun-97	670	2.15	2.00
II	Jun-97	Dec-97	706	2.13	2.00
III	Dec-97	May-98	1,034	2.09	2.00
IV	May-98	Nov-98	1,156	3.03	5.26
V	Nov-98	May-99	2,004	3.95	5.26
VI	May-99	Dec-99	1,938	7.40	5.26
VII	Dec-99	Jun-00	1,908	8.30	No restriction
VIII	Jun-00	Dec-00	2,087	9.56	No restriction
IX	Dec-00	Jul-01	1,395	5.64	No restriction
X	Jul-01	Nov-01	2,001	5.35	No restriction
XI	Nov-01	May-02	1,255	4.59	No restriction
XII	May-02	Dec-02	1,231	5.64	No restriction
XIII (1)	Dec-02	Mar-03	(3)	4.38	No restriction
All	Dec-96	Jan-00	(93)	64.2	

(1) Phase XIII was initially shceduled to last until June 2003, but was terminated early just prior to the invasion of Iraq.

(2) Under the program, Iraq was allowed to exceed the ceillings in order to cover transit fees for the use of Turkish infrastructure, which explains why exports exceeded the quotas on phases I-V.

Source: BCV, IMF, Penn World Tables, World Bank

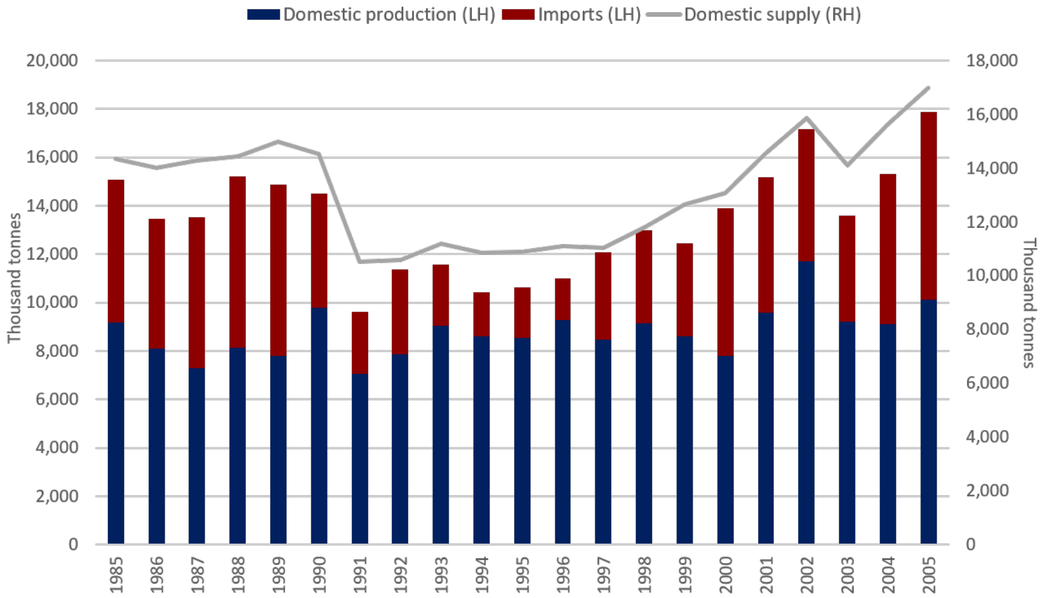
Table 5: Allocation of the proceeds from the oil-for-food program for Iraq

Objective	Allocation before Dec-00 (%)	Allocation post Dec-00 (%)
Humanitarian goods for the Baghdad-controlled regions of Iraq	53%	59%
Reparation fund for the victims of the invasion of Kuwait	30%	25%
Humanitarian goods for the northern regions not under the control of the Baghdad government	13%	13%
Operating costs of the programme	3%	3%
Reimbursement of member states that had previously provided funds to the escrow accounts	1%	0%

Source: BCV, IMF, Penn World Tables, World Bank

The program's results were encouraging. Domestic food supply[78] had fallen 25.8% from 15.0 million tonnes in 1989 (the year before the sanctions) to 11.1 million tonnes in 1996 (the year in which the oil-for-food program was instituted). From that year on, the measure began steadily rising at an average rate of 6.1% per year, accumulating a 42.7% rise to a peak of 15.9 million tonnes on 2002 (the year before the Iraq invasion and the end of the oil-for-food program). Underlying these figures, food imports fell 75.9% between 1989 and 1996, and then rose 220.1% by 2002 (at an average yearly rate of 21.3%). Increased imports, in fact allowed the government of Iraq to double the size of food rations.[79]

Chart 9: Food availability



Source: UN FAO Food Balance Sheets

78 Defined by UN FAO as Domestic Production + Imports - Exports + Changes in Stocks.
79 World Bank (n.d.)

5.3. The Volcker and Duelfer Reports

In January 2004, a report was published in local Iraqi media detailing several corruption allegations surrounding the program. An ensuing scandal led the UN Security Council to commission an inquiry into the issue.[80] On October 27, 2005, the Independent Inquiry Committee (IIC) into the United Nations oil-for-food program (chaired by former Federal Reserve chairman Paul Volcker), released its final report (henceforth, the *Volcker Report*).[81]

The Iraq Survey Group (ISG), a fact-finding mission appointed by the U.S.-led military coalition also commissioned a report. The mission was coordinated by the Pentagon and the CIA, and resulted in the *Comprehensive Report of the Special Advisor to the Director of Central Intelligence on Iraq WMD* (commonly referred to as the "*Duelfer Report*", for the head of the ISG, Charles A. Duelfer), released in September 2004.[82] The report mostly concerns the acquisition of Weapons of Mass Destruction by Iraq, but also contained a detailed section on the regime's financing operations both within and at the margin of the oil-for-food program.

This section summarizes the key finding of these reports, with a special focus on the shortcomings of the program insofar as these are of interest for the purposes of a new program's design. Both reports concluded that the Iraqi government was able to employ loopholes in the design of the program to obtain illicit payments from both oil exports and imports of humanitarian goods. They also found that the assignment of oil contracts was employed to influence international stakeholders for the benefit of the Saddam Hussein regime.

Both reports identified illicit payments of 1.7bn obtained through loopholes in the oil-for-food program. The Duelfer Report identified a further USD 9.2bn in illicit income, obtained through exports conducted outside the program via bilateral agreements with Iraq's neighbors that ignored the UN sanctions (often at a discount to prices established in the oil-for-food program) or through illegal cash sales to private companies.[83]

The illegal revenues generated by sales outside of the program identified by the Duelfer report were stored in bank accounts in countries with which Iraq had agreements to this effect, such as Jordan, Lebanon, Belarus, Egypt and Syria. These USD 9.2bn – representing 84% of the total losses identified by the Duelfer report – does not, properly speaking, indicate a shortcoming of the program, but rather a shortcoming of the monitoring system put in place to ensure sanctions compliance.

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[80] McMahon (2006).
[81] Volcker Report (2005).
[82] Duelfer Report (2004).
[83] These exports were conducted under bilateral export protocols, signed with Egypt, Jordan, Turkey and Syria.

Regarding the USD 1.7bn in program losses, two mechanisms were identified: surcharges on the exported oil (USD 229mn) and kickbacks in the import of humanitarian goods (USD 1.5bn). It's worth noting that the total program losses represent 2.6% of oil exports channeled through the program in this period. While the magnitudes involved are large and any program design should try to minimize this type of deviations, the estimates indicate that the overwhelming majority of resources handled through the program did reach the Iraqi population.

Table 6: Illicit revenues obtained by the government of Iraq (1991-2003)

	Mechanism	Amounts (USD mn)	% of total illicit income
Within OFFP	Oil sale surcharges	229	2.1%
	Kickbacks on import of humanitarian goods	1,512	13.8%
	Illicit income within OFFP	1,741	15.9%
Outside OFFP	Illegal oil sales conducted undet bilateral agreements	8,004	73.1%
	Illegal oil cash sales to international companies	1,202	11.0%
	Illicit income outside OFFP	9,206	84.1%
TOTAL		10,947	100.0%

Source: Duelfer Report

a) Corruption in oil exports conducted under the oil-for-food program

The oil-for-food program allowed the Iraqi government discretion in choosing to whom it sold its oil. This discretion allowed the Iraqi government to exploit the assignment of oil contracts both to gain favorable international political support and to obtain illicit payments outside the supervision of the Sanctions Committee.

At the onset of the program, during phase I, the Iraqi government was more concerned with selling its oil to whomever was willing to buy it, rather than attempting to take advantage in illicit ways from the exports. The initial concern was that potential buyers would be reluctant to participate due to the perceived risks associated from Iraq's decaying oil industry.

By the start of phase II, however, the assignment of the oil contracts became politicized. The Iraqi government would assign the contracts to individuals or organizations that generally had no relationship to the oil-trading market, but were either friendly to Iraq (because they opposed the sanctions regime or advocated for its lifting) or held considerable political influence and could favorably impact international attitudes towards the country. This political assignment of the oil contracts was directed through a clandestine "voucher" system, run by the oil ministry and personally reviewed by Hussein himself, according to the Duelfer Report.

These clandestine vouchers were assigned – as gift or in exchange of political favors – to diverse beneficiaries, such as traditional oil companies, UN officials, foreign politicians, political lobby organizations, among others. The vouchers entitled the bearer to sign a contract for the sale of a given number of barrels at oil-for-food program-approved prices. The beneficiaries, in turn, could sell or trade the vouchers to traditional oil market participants, where they commanded a price of between USD 0.10 and 0.35 cents per barrel.

Note that the focus of the Duelfer report was not to calculate losses under the oil-for-food program, but rather to gauge the amount of illicit income obtained outside it by the Iraqi government. This focus follows from the report's military-strategic viewpoint, which sought to measure the amount of revenues available to Saddam Hussein for the procurement of banned goods (such as weapons of mass destruction). The Volcker report does not present an estimation of the economic losses either.

That being said, the Duelfer report does present comprehensive tables showing the amounts of oil allocated and lifted in each phase of the program, and an estimate of profit margins based on the differential between the Iraqi price and the international price of oil barrels. It is important to note that many allocation holders included in these tables were legitimate oil-traders. This was particularly the case on the first 3 phases of the program, before allocations became heavily politicized. It is also important to note that allocations on phase IX were done purely on the basis of the recipient agreeing to pay the surcharge. This data should thus not be interpreted as additional to the surcharges. On the contrary, it represents an alternative take on the same subject. We present our interpretation of these figures in **Table 7**.

Perhaps the most notable and controversial beneficiary of the vouchers was Benon Sevan, head of the oil-for-food program itself, who resigned and fled justice after his involvement was established.[84] The

Table 7: Estimated losses on oil allocations

Phase	Oil allocated (million barrels)	Oil lifted (million barrels)	Estimated profit margin (USD per barrel)	Economic losses on oil allocations (USD mn)
I	128.8	118.3	0.15	17.7
II	129.1	125.9	0.20	25.2
III	188.9	182.6	0.20	36.5
IV	N/A	308.1	0.40	123.2
V	365.7	355.9	0.20	71.2
VI	391.8	389.6	0.15	58.4
VII	383.6	379.7	0.15	57.0
VIII	410.7	344.7	0.65	224.1
IX	N/A	353.7	0.85	300.6
X	297.0	273.0	0.45	122.9
XI	323.5	249.6	0.15	37.4
XII	391.6	192.7	0.20	38.5
XIII	301.5	148.3	0.75	111.2
Total		3,422.1		1,224.0

Source: Duelfer Report

[84] Shawn & Wachtel (2015).

assignment of these vouchers was carried out with the objective of decreasing pressure on Iraq, supporting anti-sanction activities abroad, and rewarding international allies (especially those sitting in the UN Security Council).

From the start of the program, Iraq attempted to influence U.S. foreign policy by assigning sales contracts to U.S. companies. Once this attempt proved unsuccessful, sales were diverted to Russian companies and to those of other friendly countries.

The clandestine voucher system served to obtain political support in favor of the Hussein regime, and did not entail direct monetary income to the Iraqi government. Nonetheless, by the middle of phase VIII, the government realized it could obtain illicit payments outside the supervision of the Sanctions Committee.

Between 2000 and up until late 2002, the government of Iraq began requiring illicit surcharges[85] to buyers of its oil. These were charged on top of the Sanctions Committee-approved price and deposited outside of the UN-controlled escrow account. The Volcker Report identified surcharge payments to the Iraqi government by 139 buyers (56.0% of participating buyers), amounting to a total of USD 229mn. The voucher allocation system and the surcharge requirements were distinctive and separate. In fact, beginning on phase IX, the Hussein government decided that no allocations would be granted to entities that had previously refused to pay the surcharges.

The surcharges – often disguised as loading or port fees in the purchase contracts – ranged from USD 0.10 to USD 0.30 per barrel and were either deposited to private bank accounts (often in the name of government officials or other affiliated persons) or paid in cash at Iraqi embassies abroad.[86] At one point, the Iraqi government attempted to set its surcharge fees to USD 0.50 per barrel, but this led to a sharp drop in demand for Iraqi oil, with the order reverted soon after.

Another, secondary, mechanism by which Iraq was able to extract the surcharges was by "topping off" tankers, and thus including oil volumes in the delivery that were not covered by the program. These additional oil exports were paid for through illicit channels. The incidence of this type of violation appears to have been rare, with only two cases having been identified. This is because the mechanism required the complicity of program inspectors as well as that of other participants involved in the handling of the tankers.

According to the Duelfer report, the Iraqi practice of surcharges was "an open secret". In fact, the Security Council was aware of their existence and attempted to reduce profit margins so as to reduce the scope for surcharge but did not halt transactions despite knowledge of how the system was being flouted.

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[85] While the premium paid for the vouchers in order to obtain Iraqi oil contracts can be described as a "surcharge", in this paper we employ the term to refer to the payments required from the oil purchaser by the Iraqi government in order to carry out the contracts. Both illicit payments were distinct and coexisted during the period in which the Iraqi government imposed the direct surcharges (2000-2002).

[86] The Duelfer report estimates that surcharges were imposed on 1,117 million barrels. Since the total revenues from this mechanism were USD 265.3mn, average surcharges were of 23.8 cents per barrel. Nonetheless, only USD 228.6mn in surcharges were actually collected.

b) Corruption on purchases of allowed humanitarian goods

A more significant avenue through which the Iraqi government obtained illicit payments within the oil-for-food program was by requiring illegal kickbacks from humanitarian goods sellers, payable outside the purview of UN-controlled escrow accounts. While surcharges on oil exports amounted to only USD 228.8mn in illicit payments, kickbacks on imports represented a much higher USD 1.5bn.

The Volcker Report identified involvement by 2,253 companies (62.3% of participating companies) in corrupt dealings, either directly or through intermediary agents that specialized in obtaining the contracts and charged a fee for it to the ultimate suppliers.

The kickback amounts were often built into the contracts themselves in order to allow the seller to recover the bribe from the UN-controlled escrow accounts. The seller would sign a contract with the overcharge, deposit the illegal fee into accounts held by Iraq officials in friendly countries and charge the UN escrow account for the full amount in the contract (thus incorporating the kickback as an informal "cost" recoverable from the UN escrow account).

The payments were disguised in the contracts as "after-sale service fees", "inland transportation fees" and an array of other smaller fees (most prominently, "tender fees" for the participation in the humanitarian goods tender). The illicit nature of the payments was not reported to the UN by the selling party or the Iraqi government, and the fees were allegedly regarded as legal by the sellers. Crucially, even if the fees were licit, their payment outside UN-controlled escrow accounts was not; the program in no case contemplated an authorization for direct financial transactions between a supplier and the government of Iraq.

Inland transportation fees were charged by the government of Iraq for the transportation of the imported goods from the point of entry into the country to their final destination. They were generally set in relation to the weight or volume of the transported goods. While the Sanctions Committee had issued an opinion allowing transportation fees to be incorporated into the contracts, the actual fees were much higher than necessary, thus allowing room for the Hussein regime to obtain additional profits.

After-sale service fees were fees for services related to the imported goods, and to be conducted after the import took place. The oil-for-food program allowed in principle only for the import of goods (and not services), nonetheless, the sanctions committee had determined that services connected to the purchase of humanitarian goods were allowable. The Iraqi government took this loophole as a conduit to impose mandatory fees on all the import contracts it signed. The standard rate was of 10% of the contract's value, but in some instances went as high as 30%. The Hussein regime distributed a portion of the kickbacks to ministry employees to incentivize kickback collection efforts.

Another venue through which the Iraqi government obtained illicit payments was by misrepresenting the quality of the imported items. The regime would arrange for a complicit seller to obtain a valid contract authorization to export "first quality" goods to Iraq, only to then deliver cheaper, lower quality items to the country. The Duelfer Report qualifies this mechanism as "particularly nefarious since it left the people of Iraq with second-quality, sometimes useless, humanitarian goods". The Volcker report notes that some of the delivered goods were past their expiration dates.

Finally, the Volcker Committee also found some evidence that some goods purchased under the oil-for-food program for the benefit of the people of Iraq had actually been resold to regional neighbors.

As described in the Volcker Report, companies responded to the evidence of corruption with four main arguments:

i. That the illicit payments were made by employees or intermediary agents acting without authorization and without the knowledge of the supplying company,
ii. That it was their understanding that the "inland transportation fees" or "after-sales-service fees" were licit, legitimate expenses,
iii. That the evidence held by the committee was not trustworthy and that the fees were not paid by the supplier,
iv. That the illicit payments were conducted knowingly, but regarded as the "cost of doing business" with Iraq.

5.4. Lessons from the Iraq Experience

Venezuela and Iraq were both highly oil-dependent economies at the time that sanctions were adopted. On average, oil accounted for 83% of Iraq's exports between 1980 and 1990, and for 94% of Venezuela's exports in 2016, the year before the first economic sanctions.[87] In both cases, oil was sold through a state-owned monopoly, giving the government control over vast resources. Both countries boasted highly centralized political decision processes with a very strong presidency, a powerful and influential military and significant state intervention in the economy.

However, there are also key differences. Though the first Gulf War – and the associated political conflict – had affected the Iraqi economy, there was nothing in Iraq on the scale of the devastation experienced by Venezuela prior to sanctions. In fact, as of 1989 Iraq was one of the most developed Middle Eastern economies, boasting enviable infrastructure and living standards in relation to regional peers.[88] With a 2.9mbd output, the country was also one of the largest oil producers in the world. In contrast, as we discussed in **Section 1**, Venezuela had suffered an unparalleled collapse in living standards before the first sanctions were adopted.

The sanctions regimes were also different. Most importantly, Iraq faced multilateral economic sanctions approved by the UN Security Council, while Venezuela faces U.S. unilateral primary and secondary sanctions. At the institutional level, despite the international repudiation of its actions, the international community did not put in doubt the recognition of the Saddam Hussein government. In the case of Venezuela, a large number of countries, including the one imposing economic sanctions, recognizes a government different from the one that has *de facto* control over the territory.

[87] Dreze & Gazdar (1992).
[88] Iraq: A decade of sanctions (2000).

Broadly speaking, there were two problems of the Iraqi system that need significant attention if we are aiming to design a similar initiative for Venezuela. One - which has been the focus of most attention - was the scope for corruption. The other one was the delay in implementation.

As we have already noted, there was a five-year lag between the moment in which the UNSC approved the oil-for-food program mechanism and its actual implementation. Most of this delay pertains to the lack of political will to implement the program, a factor that is outside of the control of the program design. However, it does suggest that negotiations on program conditions have to be afforded a relatively high level of priority. Importantly, conditioning an oil-for-food program to a broader political agreement could unduly delay program implementation and, at worst, make the program irrelevant once agreement is reached.

But what is perhaps most important from the standpoint of program design is that the program was also plagued by serious implementation delays even after there was a political agreement. As we noted in **Section 4.1**., a full two years passed between the adoption of Resolution 986 by the UN Security Council and the actual delivery of humanitarian goods to the country's population. This protracted timeline involved negotiation on implementation details and the operationalization of the program itself.

The Iraqi experience suggests that procurement authorization periods for the purchase of foodstuff and other humanitarian goods was unnecessarily long. This much was pointed out by the 2000 UN FAO report,[89] which indicates that "the mechanisms and procedures for the contracting, screening, approval, and distribution of humanitarian supplies under SCR 986 [Security Council Resolution 986] have been protracted and cumbersome." The large level of red tape did not impede corruption in the system. This suggests that oversight needs to rely significantly on external institutions and system transparency rather than on detailed implementation rules that raise the risk of delays or even paralysis even as they potentially increase corruption incentives.

Regarding the evidence of corruption, it is important to note that despite widespread participation in illicit schemes, the amounts deviated under the system amount to a moderate 2.7% of total program exports. While this is still an important magnitude and any new program should be designed to minimize all corruption risks, the characterization of the Iraqi experience as that of a program that only served to feed corruption to the detriment of Iraqis does not square well with the evidence.

That said, the results of the Volcker and Duelfer reports both underscore the fact that government discretion in the choice of trading partner was the key element allowing deviation of funds to occur. Note that what was happening was that the Hussein government was using its discretionary power over elements of the program in order to skirt sanctions, for example by obtaining side payments in funds whose use was not restricted by sanctions.

Broadly speaking, the potential response to this problem would be to take away the discretionary power of the sanctioned government. For example, instead of letting the sanctioned government decide how to allocate oil

[89] Assessment of the Food and Nutrition Situation (2000).

sale contracts, this decision could be put in the hands of an independent board. Similar principles apply to the decision to purchase goods (procurement) and allocating them among recipients (distribution).

This of course, opens up the question of who would take these decisions. In some dimensions, it may be easy to find impartial or disinterested parties, such as humanitarian aid agencies, to administer part of the program. Some international organizations, including the United Nations and international financial institutions like the World Bank or the Inter-American Development Bank, may have sufficient technical expertise in some areas to oversee implementation. However, it will in general be difficult to fully staff the administration of the system only with staff of international organizations. In addition, while a comprehensive recruitment could be carried out for the program among international civil servants, it is unclear that the relevant pools of expertise are available in abundant supply.

A case in point would be the issuance of oil sale contracts. No major international organization has significant amounts of staff with experience in oil marketing. This staff is employed by oil companies and traders, and subcontracting the work to them would raise a host of potential conflict-of-interest problems. In fact, the highest level of expertise in the activity of selling Venezuelan oil can be naturally found in the current and former employees of Venezuela's national oil company PDVSA.

Governments can in fact be conceived of as teams with expertise in the provision of publicly provided goods and services, while political parties assemble prospective teams and present them to the electorate (or, in non-democratic systems, to the "selectorate") to be selected for managing state affairs.

In this sense, the fact that Venezuela has two forces with contending claims on power may facilitate implementation, in that it raises the possibility of technical bodies integrated by appointees of both the Maduro and Guaidó administration, and drawn from the staff of current and former employees of the national oil company and social assistance institutions. If the composition of the program's governing boards requires the approval of both the Guaidó and Maduro administrations, the resulting boards would count with a high level of credibility – which should be reinforced in terms of legal authority – to oversee the process.

The Iraqi experience also suggest the need to incorporate stronger oversight mechanisms in the design of the program. Ideally, these would be implemented by independent oversight entities. Again, in the case of Venezuela, the existence of alternative oversight entities representing each of the two administrations suggests that joint oversight by both entities (i.e., the Guaidó and the Maduro oversight institutions[90]) would severely constraint the scope for wrongdoing by the system's administrators.

Lastly, there is the issue of the choice of distribution mechanism. Iraq's system relied on food rationing through vouchers but used the private sector for the distribution of the goods at the retail level. *De facto* food rationing also exists in Venezuela, though final distribution is directly administered by the government. Thus, broadly speaking, there are two potential program designs: one in which imports are distributed to the private sector

[90] Currently, there is a Comptroller General appointed by the National Constitutional Convention (ANC). which is loyal to the Maduro government. No such appointment has been made for the Guaidó government, though nothing constrains the National Assembly from doing so. However, this role could also be taken up by the Oversight Commission of the National Assembly.

which, in turn, distributes them at the retail level through a voucher system, or one in which an attempt is made to replicate the existing public distribution network in a depoliticized way. A combination of both approaches may be feasible: non-governmental organizations may be able to effectively channel the distribution of resources in a depoliticized way, while some sectors of the population may be most easily reached through a system that uses the private distribution network combined with a vouchers or cash transfer system.

The Iraqi model was also associated with high levels of rationing. Rationing has become so ingrained in Iraqi society that it has ended up morphing into a hard-to-eliminate entitlement that exists to this day.[91] The use of rationing reflects more than anything a government decision to conduct social policy through indirect subsidies. If the imported gods were instead sold at market prices (which would of course be lower after the increase in imports made possible by the program) then the government would reap revenue from its sales, and that revenue could be reallocated to consumers through an incomes policy. When goods are sold at subsidized prices, then the subsidy is being delivered in-kind rather than through a monetary transfer. While an incomes policy is generally more efficient, it may be impossible to apply in a truly depoliticized way in the current Venezuelan setting, suggesting that direct allocation will play an important role at the outset of the program.

Much as in the case of the Iraq embargo,[92] it is unlikely that the 2019 oil sanctions against Venezuela were initially intended to persist for a long duration of time. The evolution of statements by Guaidó and Trump administration officials appears to signal that the original intention of the sanctions was to aid in producing near-term regime change by generating a break in the military's support of Maduro. If this interpretation is correct, then the need to revise the sanctions regime to adapt to a more protracted conflict would appear to be clear.

[91] Considering the Future of the Iraqi Public Distribution System (n.d.).
[92] Wallensteen, Staibano, & Eriksson (2005).

6. Proposed program design

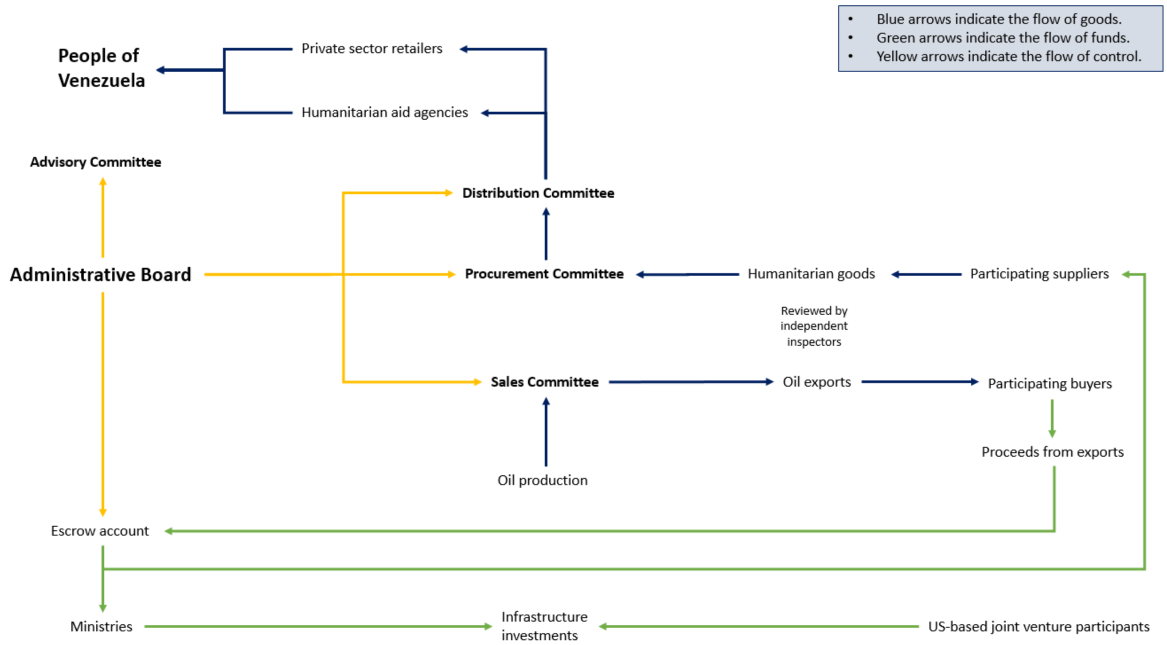
This section lays out the description of a general program design to be implemented in Venezuela. The idea of this proposal is not to provide a finished and ready design, but rather to prompt discussion among key actors on the desired program characteristics and safeguards. Because this program can only emerge as the result of negotiation among the different parties in the conflict, the program design will ultimately be influenced not only by technical but also by political considerations. At the very least, all actors whose participation is required should prefer a scenario in which the program is implemented to the status quo.

A key insight derivable from the Iraq experience is that the design for the program should be as simple and as transparent as possible. Much of what went wrong in Iraq was related to the highly complex oversight required from the UN by the program's mechanisms. We thus propose a system that is simpler in its rules, but that also creates incentives that are aligned to protect against corruption and misuse of resources.

The proposed program would be governed by an administrative board that would be integrated by designees of the Maduro and Guaidó administration. The international community could also appoint members of the administrative board to bring international expertise to the table and serve as impartial actors that would, among other things, break deadlocks between the representatives of both administrations. One possible mechanism is to have the UN Security Council appoint additional board members; the veto power of permanent members of the council would ensure that the composition would be acceptable to allies of both Guaidó and Maduro, which would bring us closest to ensuring impartiality of the chosen board members.

At the same time, three subcommittees of that board would oversee oil sales, import procurement, and goods distribution. Export proceeds would be deposited in escrow accounts, with disbursement for humanitarian imports carried out by the procurement committee. Distribution would use a combination of non-governmental organizations as well as private sector retailers. The basic structure is laid out in **Figure 1**.

Figure 1: Schematic representation of the flow of goods, funds and control in the program



6.1. Program design and implementation

The program would be initiated by the signing of a Memorandum of Understanding in which the Guaidó administration,[93] the Maduro administration and the UN Security Council agree on the rules and mechanisms set forth in this proposal.[94] An Administrative Board would oversee and implement the program, incorporating five representatives from the Guaidó administration, five representatives from the Maduro administration, and three representatives appointed the UN Security Council member, for a total of 13 Administrative Board members. The board should decide on substantial matters (that is, in relation to the rules and their broad interpretation) relating to the program under a consensus basis and approve specific import/export contracts under a "no-objection" rule so as to guarantee the necessary expediency.[95]

The U.S. government would need to issue a new General License specifying that U.S. persons are permitted to import Venezuelan oil, and potentially other previously restricted commodities, as long as the proceeds are deposited in US-based escrow accounts to the name of the government of Venezuela, and under the

93 For the purposes of this discussion, we understand the Guaidó administration to be the representation of the National Assembly that stakes a claim to authority to run the executive branch. Because the Guaidó administration is born out of a delegation of powers by the National Assembly, then one can also read this as referring to the National Assembly.
94 While our proposed design establishes a key role for the UN Security Council, this is not essential to the design of the program, and other organizations mutually agreed on by the dual Venezuelan administrations could also serve the purposes fulfilled by the United Nations in our design.
95 Under this mechanism, any Administrative Board member can veto a particular import/export contract by putting a hold on it. As long as the contracts entered into by the Sales and Procurement Committees (described in the following pages) are fair and do not generate an undue benefit to any of the parties, we expect this veto prerogative to be scantly used (and would not significantly interfere with the agile working of the system).

control and supervision of the U.S. government. This authorization could be issued for a period of 6 months, renewable by consensus on the Administrative Board upon regular review.

Program participants would not be subject to any type of U.S. primary nor secondary sanctions related to activities included in the program. Nevertheless, firms or persons currently included in the SDN list would not be allowed to participate in any program transaction. The U.S. would retain the ability to impose secondary sanctions to entities that do business with the Maduro government outside of the program.

The Administrative Board would appoint an Advisory Committee incorporating representatives from UN Agencies that the Administrative Board deems prudent. All representatives of the Administrative Board, all its designated committees, as well as the Comptroller General's office and the National Assembly Oversight Commission should be granted unrestricted access to all:

a. Venezuelan government facilities,
b. Financial and commercial documents related to the program,
c. Participating bids in the sale and procurement phases of the program,
d. Statistical data necessary for the successful carrying out of its missions and the evaluation of transactions under the program.

The Administrative Board will appoint a technical Sales Committee, endeavoring when possible to carry out the appointments from competent professionals with experience in the Venezuelan oil industry, including current and former PDVSA employees. The Sales Committee would be tasked with organizing open auctions for the sale of Venezuelan oil under the program. Purchase contracts conducted under the program would be assigned to the best bidders on public and transparent open auctions. Contracts should only be offered on a Free-on-Board (FOB) basis, as to restrict PDVSA's capacity to overcharge on transportation fees.

The Sales Committee, with approval from the Administrative Board, would set a fixed volume allocation for supply to Citgo and Nynas AB, in order to ensure the preservation of the value of Venezuelan assets abroad. These allocations should not be subject to open auctions but should still be conducted at a reasonable market-based price, as determined by the Sales Committee.

All proceeds from exports conducted under the program would be deposited in escrow accounts to the name of the Venezuelan government under the control of the Administrative Board, without any direct financial transactions taking place between the government of Venezuela, or its entities, and the buyers.

The Administrative Board would contract independent inspectors, reporting to it, and tasked with validating the shipped volumes exported under the program and the appropriateness of the price in the contracts.

Within 30 days of its appointment, the Advisory Committee will draft a report on the most urgent needs to stabilize the humanitarian situation in Venezuela, specifying the priorities, required amounts and general distribution of the assignment of export proceeds. The Advisory Committee will seek further technical advice in order to determine the investment requirements to recuperate key infrastructure in the country. The report should detail gross amounts and general requirements for:

a. Procurement of food items to attend the needs of the people of Venezuela.

b. Procurement of medical and other health items to attend the needs of the people of Venezuela.
c. Procurement of other essential humanitarian items.
d. Investments required for recovering the infrastructure of the oil, energy generation and telecommunication sectors in the country.
e. Financing of the program itself, its various oversight committees and contracted inspectors.

In consideration of the report submitted by the Advisory Committee, the Administrative Board would draft and approve by consensus a List of Permitted Imports under the program and a general 6-month proceed distribution plan that sets priorities in relation to the requirements set in the Advisory Committee report.

The Administrative Board will designate a Procurement Committee, endeavoring when possible to appoint competent Venezuelan professionals with experience in public procurement and social assistance. The Procurement Committee would draft a detailed 3-month procurement plan based on the Advisory Committee report and the Administrative Board's List of Permitted Imports and 6-month proceed distribution plan. The Procurement Committee would open a tender for the required items. Import contracts would be assigned to the best bidders in attention to the price, quality of the offered goods and international reputation of the bidder.

The UN Security Council will require UN member states to provide the Administrative Board with timely statistics on exports to Venezuela, including values, exports routes and other relevant information required to cross-reference imports conducted under the program. The Administrative Board would contract independent inspectors reporting to it and tasked with validating the imported goods under the program and the appropriateness of the price in the contracts.

The Administrative Board will designate a Distribution Committee, endeavoring when possible to appoint competent Venezuelan professionals with experience in humanitarian aid agencies or the food and pharmaceutical distribution systems. The Advisory Committee will issue a report detailing the recommended distribution of the imported items aiming to maximize its beneficial impact over those segments of the population most requiring them. The report should also contain proposed quantity and geographical allocations of imported goods under two modalities:

a. Direct relief distributions to be performed by UN Humanitarian Agencies, with no charge to the recipient,
b. Non-subsidized distributions to private sector retail businesses.

The Distribution Committee would be tasked with providing the logistics of bringing goods to consumers, contracting local transportation, and generally carrying out the distribution plan as set forth by the Advisory Committee report. Payments from the escrow accounts for all local transportation and handling fees are to be contracted and approved by the Distribution Committee directly.

Local currency-denominated proceeds from sales conducted under private retailers will be transferred to accounts under the control of the of the Distribution Committee, which would employ said proceeds to finance the handling and transportation costs of the program as well as all other costs necessary for the operation of the humanitarian agencies' missions in the country. Any remaining local currency not earmarked for the operational costs of the program would be distributed in the form of direct cash transfers for the most vulnerable segments of the population, as decided by the Distribution Committee.

A consortium of international humanitarian agencies, as designated by the Secretary General, would select and contract independent inspectors to monitor the appropriate and equitable distribution of goods under the program. These could include UNICEF, Food and Agriculture Organization of the United Nations (UN FAO), the International Committee for the Red Cross and United Nations Development Programme (UNDP).

In attention to the Advisory Committee report, the relevant ministries would present investment and procurement plans to rehabilitate the local infrastructure in the oil, energy generation, and telecommunication sectors, as well as recommended contracts. The Administrative Board, in attention to the Advisory Committee report and in consultation with private consultants, will allocate the funds earmarked for this end in the 6-month distribution plan to the proposed contracts.

If the Administrative Board deems that proposed contracts do not meet minimum standards of transparency, are not in line with reasonable prices or otherwise deem that proposal are not appropriate, it can transfer the funds to a separate interest-bearing account, under the same conditions set for the escrow account, for future use in the rehabilitation of the local infrastructure.

OFAC would issue a new General License that would allow U.S. persons to enter into dealings with the Venezuelan government for the purposes of investing in the infrastructure of the local industry. These investments would require Administrative Board approval, would be legally subscribed by both the Maduro administration and the National Assembly, and would be conducted through already existing joint ventures. OFAC would also issue amendments to General License 8, allowing for the import of diluents and other goods required for increased oil production and refining activities in the local industry for entities that participate in the program.

There are two ways in which PDVSA or its subsidiaries can participate in the program. Partial participation occurs when the entity allocates part of its oil sales to the program. Full participation occurs when it allocates all of its oil sales to the program. Partial participation allows the oil to be sold in the United States with the proceeds used as described in this section. Full participation implies that the entity will also be exempt from sanctions restricting their purchases of intermediate products and capital goods as well as the receipt of debt financing. Full participation would initially be aimed at joint ventures between PDVSA and minority private sector partners, and would enable these firms to have access to investment and inputs necessary to raise oil production, as long as they ensure that no production will be directed away from the program.

Any equity sales by the Venezuelan government would be permitted only insofar as the complete proceeds go to escrow accounts managed by the program in order to be used for approved program imports. Any decision to sell Venezuelan assets would have to be approved by a two-thirds majority of the Administrative Board.

7. Concluding Remarks

This paper has laid out the rationale and proposed a design for a program intended to protect the most vulnerable groups of Venezuelans from the impact of U.S. economic sanctions. The work is part of the research agenda of the Oil for Venezuela Foundation, a non-governmental organization that aims to promote research and advocacy to identify solutions that make use of the country's resource wealth in order to address the most urgent and pressing problems faced by Venezuelans.

Our proposal is consistent with a vision of Venezuela's political problems as stemming from the lack of incentives for co-operation between political actors. For years, Venezuela's political system has been the stage for a winner-take-all contest with extremely high stakes of power and where strategic interactions between political actors have the structure of a zero-sum game. In zero-sum contests, negotiated solutions are improbable as they imply a deterioration from the status quo for one of the actors involved. Therefore, prolonged confrontation becomes a much more likely outcome than negotiated agreements, with the associated costs for society.

A peaceful transition to a stable democracy has a lot to do with changing the structure of these zero-sum interactions. In order to reach a negotiated agreement that all groups can see as an improvement over the *status quo*, it is necessary for these groups to become confident in the existence of gains from cooperation. However, in order for an agreement to be viable it must not only offer to produce an outcome that both groups would prefer: it must also be such that both groups will have an incentive to comply with the agreement once it is reached.

The evolution of cooperation is strongly premised on the ability to build trust among the actors involved, and trust is not built in a social vacuum. This is the Catch-22 of political transitions in highly polarized societies: each group needs to earn the other's trust, but fears that the other group will betray their own trust. Small-scale exercises in trust-building have the merit of allowing groups to earn the trust of their counterparts without putting everything at risk.

In the context of negotiations among contending political groups in polarized societies, one can think of three varieties of agreements: **global agreements** which tackle the key questions of political alternability and the design of the social contract, **partial agreements** aiming at incremental progress in the macro-political sphere, and **sectoral agreements** which cordon off certain spaces of understanding from the broader negotiation. The Humanitarian Oil Agreement is best conceived as a sectoral agreement that creates a space of understanding around the need to provide a large-scale solution to the country's humanitarian crisis that is not dependent on the success of global negotiations.

In this sense, a Humanitarian Oil Agreement satisfies two purposes. First, it serves to protect the humanitarian space from the arena of political confrontation, helping address some of the most pressing problems of vulnerable Venezuelans by implementing sectoral solutions that are independent of the evolution of political conflict. Second, it creates an environment in which the country's contending political factions can perceive gains from cooperation, creating one of the oases of cooperation needed to signal ways out of the country's "catastrophic stalemate."[96]

The design and considerations of this paper are intended to spark debate on the search of solutions to Venezuela's rapidly deteriorating humanitarian crisis. We view this research as a starting point for an open discussion on the mechanism that can be put to work to mitigate the adverse effects of sanctions on the Venezuelan people. Our work takes no position on the debates regarding the desirability and legality of sanctions. Rather, we take a pragmatic approach that takes both economic sanctions and the existences of a political crisis of state legitimacy as given and ask what is it possible to do under this context so as to protect the most vulnerable Venezuelans from the fallout of this conflict.

[96] Hisrt et al. (2019)

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