‘Maximum pressure’ sanctions on Venezuela help US adversaries, hurt Venezuelans

About this brief

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Introduction

The reelection of Donald Trump as US president has spurred calls for a return to a “maximum pressure” sanctions policy against Venezuela, which would force Western oil firms to exit the country.[1] But experience shows that reimposing maximum pressure would increase Russian, Chinese, and Iranian influence in Venezuela to the detriment of US interests, with no guarantee of progress toward democratization.

The United States has deployed multiple strategies to promote democracy in Venezuela and dislodge Nicolás Maduro from power.[2] In 2019, the Trump administration’s maximum pressure campaign imposed broad sanctions on Venezuela, including secondary sanctions on companies that invest in its oil sector. The US government sanctioned the national oil company PDVSA, the Central Bank of Venezuela, and the state gold mining company. This followed executive orders restricting the Venezuelan government’s access to debt and equity markets, as well as prohibiting transactions with the Venezuelan government-issued cryptocurrency, the Petro.[3]

Important lessons were learned from this experience. Venezuela’s oil production was rerouted to China at discounted prices, Iran supplied the diluent Venezuela required for oil production, and Russian investors became more critical to maintaining production amid a prohibition on Western investment. A democratic transition remained elusive while repression and human rights violations continued. Venezuelans suffered, US adversaries expanded their influence, and Maduro remained.

Maximum pressure was a gift to China, Russia, and Iran

The maximum pressure sanctions strategy was not only ineffective at driving Maduro from power, but also benefitted the United States’ geopolitical adversaries. Venezuela is a microcosm of the unfolding competition between the United States and China—and secondarily between the United States and Russia and Iran—in Latin America and the Caribbean.

This competition is reflected in the three most prominent foreign investors in Venezuela’s oil sector: the US company Chevron, the China National Petroleum Corporation (CNPC), and Russia’s Roszarubezhneft, comprising Rosneft’s former Venezuelan assets. During the maximum pressure campaign, a path was created for US entities to cede influence to Russian and Chinese counterparts, and for Iran to play an enabling role in sustaining PDVSA’s output.

This loss of influence was precipitated by the 2020 annulment of the provisions in General License 8 (GL8) by the US Department of the Treasury’s Office of Foreign Assets Control (OFAC).

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Issued in January 2019, GL8 authorized certain transactions by US firms related to the maintenance of operations, contracts, or agreements with PDVSA. This allowed Chevron, Halliburton, Schlumberger, Baker Hughes, and Weatherford International to operate in Venezuela under restrictive terms. The Trump administration demonstrated its commitment to maximum pressure by revoking GL8 in April 2020. This directed US entities to wind down those operations.[4] The simultaneous issuing of secondary sanctions prompted non-US Western firms to exit Venezuela as well, allowing Chinese, Russian, and Iranian firms to expand their influence.

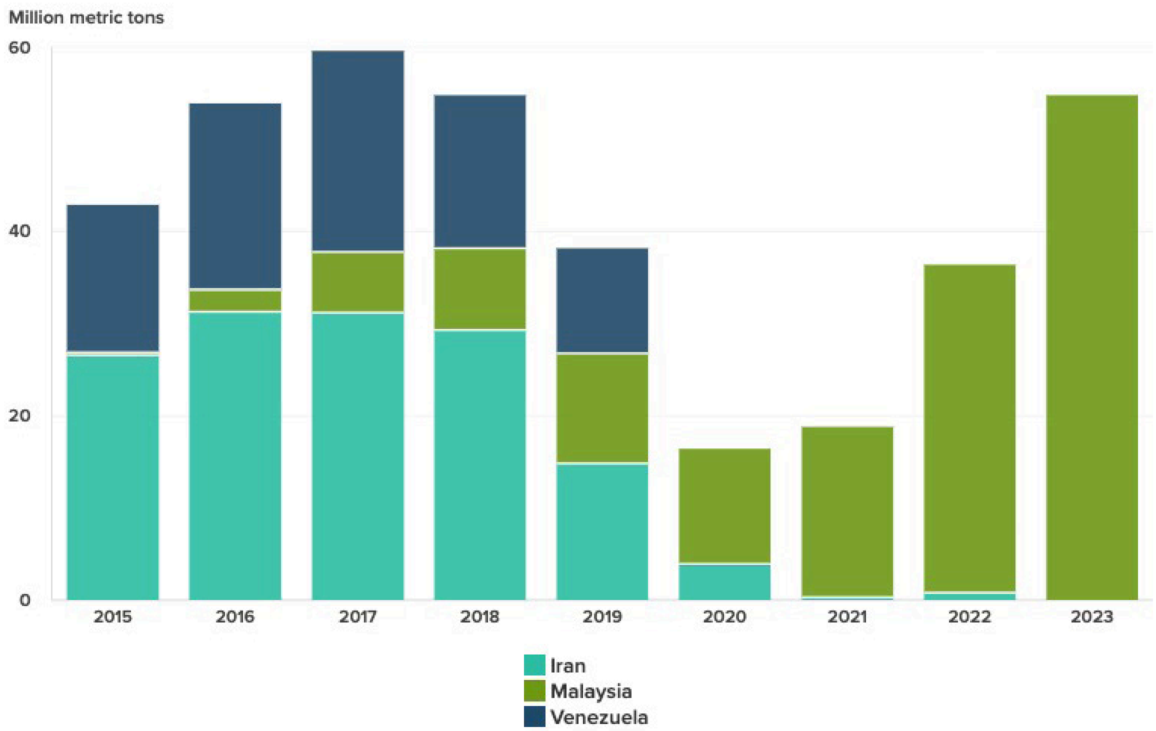
Following the revocation, China's CNPC—which had already been active in Venezuela as a partner to PDVSA through the joint venture Petrolera Sinovensa—assumed a more critical role in Venezuela's oil sector. In 2021, the firm was reported to be sending engineers and may have contracted service providers on PDVSA's behalf.[5] The same is true of Roszarubezhneft, which helped PDVSA sustain its production at the Petromonagas joint venture through maintenance of essential crude processing infrastructure in 2022–2023.[6]

Chinese entities helped PDVSA restructure its transport and logistics operations to market sanctioned crude, following US sanctions imposed on Rosneft and its subsidiary TNK Trading in February and March 2020. For instance, the Chinese defense firm CASIC became part of a phantom fleet of tankers that transported Venezuelan crude during the maximum pressure campaign.[7]

As the phantom network took effect, China became Venezuela's main customer, receiving nearly all of its exports, masked as Malaysian crude, at a discount. From May 2020–June 2021, the volume of “Malaysian bitumen” shipments routed to China rose thirteenfold.[8]

Furthermore, the exit of qualified Western service providers from Venezuela opened a vacuum, which was filled by Iranian entities. In May 2022, the National Iranian Oil Refining and Distribution Company (NIORDC) signed a $116-million agreement to repair the Venezuelan refinery El Palito.[9] Then, in early 2023, NIORDC signed a roughly $500-million agreement to repair the Paraguaná refinery complex.[10]

Figure 1. Chinese crude oil imports by selected partners (Million tons)



Source: UN Comtrade

The sanctions regime also spurred Iran's trade with Venezuela in crude and condensate. From July 2021–July 2023, Venezuela imported from Iran more than 35 million tons of oil condensate, a diluent necessary for producing Venezuela's extra heavy crude oil.[11] PDVSA swapped this condensate for crude exports. This was a beneficial trade for Iranian entities such as Naftiran and East Asia General Trading Company, which sent large volumes of these cargoes through Malaysia and onward to China.

It is clear that the maximum pressure strategy ran counter to US interests by increasing the influence of the United States' principal adversaries in Venezuela's oil sector.

The system of specific licenses works in US interests

The benefits that China, Russia, and Iran saw under maximum pressure were lessened by the new sanctions regime, which began in November 2022 with the Treasury Department's authorization for Chevron's Venezuela operations under General License 41 (GL41).

The use of sanctions policy has had a demonstrable effect on the amount of Venezuelan crude directed to China.

Box 1. Abbreviated Venezuela energy sanctions policy timeline

Initial sanctions

- March 2015: Barack Obama administration issues sanctions on specific individuals.
- August 2017: Trump administration Executive Order (EO) 13808 issues sectoral sanctions on Venezuela's oil industry and PDVSA, targeting financial transactions, including those related to Venezuelan government debt and dividend payments.

Maximum pressure campaign begins

- November 2018: EO 1350 authorizes the secretary of the treasury to impose sanctions on any entity or individual in the Venezuelan economy used to support corruption, repression, or human rights abuses.
- January 2019: EO 13857 freezes PDVSA's assets in the United States, and sanctioned the Venezuelan Central Bank, together effectively halting crude exports to the United States.
- January 2019: GL8 outlines conditions for specific US companies to maintain limited operations with PDVSA.
- August 2019: EO 13884 creates an avenue to impose secondary sanctions on entities conducting business with PDVSA or transacting with other Venezuelan government entities.
- April 2020: GL8F rescinds the conditions of GL8 and directs US entities to wind down operations in Venezuela.

Change in sanctions policy

- November 2022: The Joe Biden administration issues GL41, allowing Chevron to resume limited operations in Venezuela.
- October 2023: GL44 broadly lifts sanctions on the Venezuelan oil sector.
- April 2024: General License 44A (GL44A) rescinds the conditions of GL44, beyond authorizing activities during a wind-down period through the end of May.
- May 2024–present: The United States permits specific entities with operations in Venezuela to continue under individual licenses issued by OFAC.

Following the Chevron authorization and General License 44 (GL44) in October 2023—which temporarily authorized all transactions related to oil- and gas-sector operations in Venezuela—exports from Venezuela to China significantly diminished while the policy remained in effect, from 500 million barrels per day in September 2023 to about 170 million in March 2024.[12]

Venezuelan oil exports to China have continued to decline, particularly as a share of total exports. In February 2022, Venezuela exported about seven hundred thousand barrels per day to China.[13] By September 2024, this had dropped below four hundred thousand barrels per day, while Venezuela's total exports have increased over the same period.[14]

Since May 2024, the Treasury Department began issuing licenses to Western oil firms seeking to operate in or export from Venezuela. This is known as the system of specific licenses.

Under this strategy, nearly half of Venezuela's exports have been routed to the United States or to Europe since May 2024, according to local consultancy Gas Energy Latin America (GELA). This builds on progress in diverting exports from China, which began with GL41.[15]

Furthermore, large Western joint ventures have outperformed their Chinese and Russian counterparts in production growth since the introduction of the specific licenses policy.

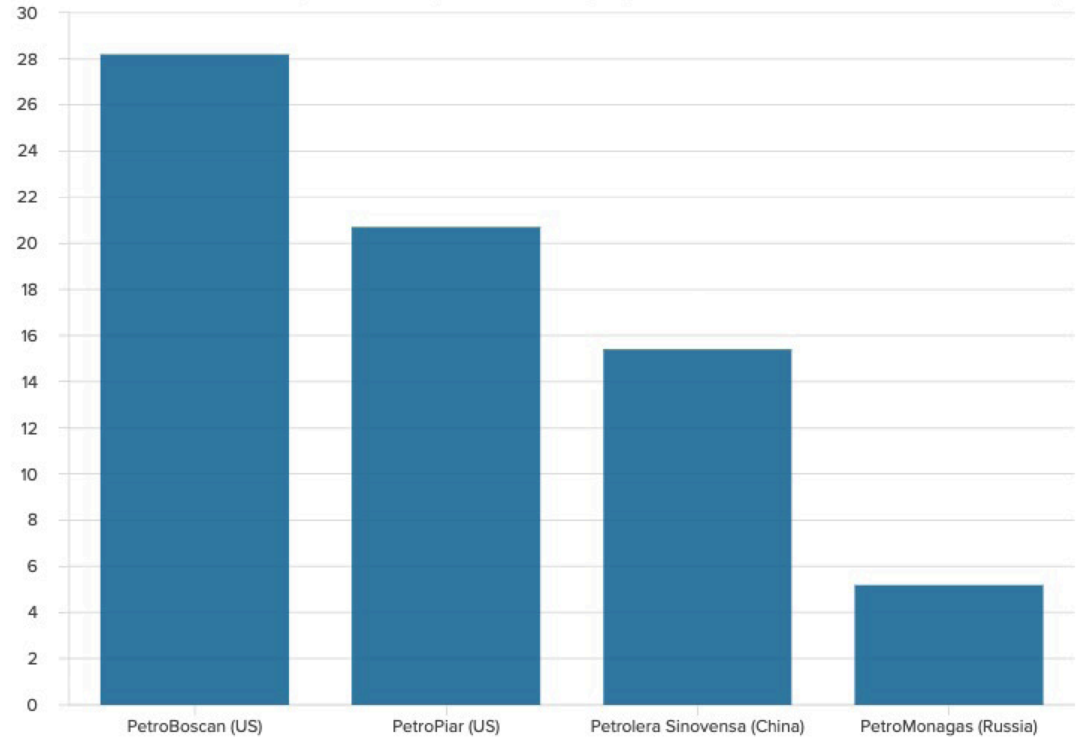
Thus, the policy has had a material effect of diverting cargoes from US adversaries that were purchasing oil at a discount. The licensing system has also enabled Western firms to provide PDVSA with diluent, replacing Iranian companies.[16]

The system of specific licensing has brought four primary benefits.

First, it has rerouted Venezuelan oil exports to friendly nations.

Second, the system gives the Treasury Department increased visibility over oil-related transactions, avoiding the clandestine shipment of oil through shadow tanker fleets operated by the Chinese defense establishment, Iran, or PDVSA.

Figure 2. Percent increase in production (Annual change, year to date as of December 5, 2024)



Source: GELA Caracas Office

Third, revenue to the regime is limited to taxes and royalties, an arrangement required by Venezuelan law predating the Maduro regime. Importantly, these monies are deposited in the Central Bank of Venezuela.[17]

Fourth, the system has enabled the return or reemployment of qualified engineers, technicians, and operational managers who can undertake drilling programs or restore production from Venezuela's degraded oilfield infrastructure.[18]

Box 2. Limiting remuneration to Maduro's enablers

PDVSA's ability to obtain operating profit is strictly confined. Any revenues associated with PDVSA's stake in the joint venture can be redirected to covering costs associated with taxes or royalties, or can be deposited in escrow or specially designated accounts subject to strict surveillance and traceability. Dividends that would otherwise be transferred to PDVSA are not authorized. Private partners manage reinvestment in operations and maintenance, and work only with vetted oilfield services partners. As such, the system of specific licensing limits the financial support that the Maduro regime and its enablers can receive from the operations authorized under specific licenses. Of course, the Venezuelan government continues to access revenue from oil sales under this licensing scheme through taxes and royalties, and the system does not prevent the government from using proceeds to benefit patronage networks or even fund the repressive state apparatus. It provides safeguards against corruption in the activities in which oil companies are directly involved. But these restrictions are not in place for organizations operating outside of OFAC authorization, which benefit the regime directly.

How to better apply pressure to the Maduro regime

Going forward, the most enduring adage of economic policy should be paramount: do no harm.

With the regime's anti-democratic consolidation of power and its capture of key institutions, Maduro has strengthened his control and made it less likely that a maximum pressure sanctions campaign could convince him to negotiate any form of democratic concession.[19]

Therefore, the United States should seek to inflict more harm on the regime and its enablers than on the Venezuelan people—or on US interests.

To do so, sanctions must be targeted and explicitly linked to clear objectives. The change in behavior that the sanctions are designed to create should be clearly communicated and made known to the regime in coordination with the opposition.

An uncalibrated reapplication of maximum pressure would cede influence to China, Russia, and Iran, while doing little to loosen the regime's grip on power.

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The incoming Trump administration should avoid the reimposition of sectoral sanctions on the oil industry in Venezuela. Instead, the existing system of specific licenses should be maintained.

To punish Maduro, the administration should continue targeting individuals who enable his illegitimate rule, adding to the more than two hundred individuals already sanctioned by the Treasury Department.

Additional sanctions or coercive measures can also be employed to provide the right incentives to the Maduro regime without benefiting US strategic rivals. These measures include the following:

- freezing new investments or licenses in Venezuela until democratic conditions improve;
- sanctioning the network of Chinese, Iranian, and other vessels operating outside of the licensing system;
- continuing strategic engagement on US interests such as advancing democracy, but refusing to recognize Maduro as the legitimate president; and
- issuing criminal indictments against those who stole the election.

A targeted sanctions policy—not maximum pressure—is the most effective way to ensure that US actions to confront the Maduro regime do not play into the hands of Beijing, Moscow, or Tehran.

Chevron and Baker Hughes are donors of the Atlantic Council Global Energy Center, but were not involved in the conception, writing, or review of this publication.

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