#### Our sole contention is long term stability

#### Sanctions are not the root cause of Venezuela’s economic crisis

**Moises Rendon wrote for the Center for Strategic and International studies in** 9-3-**2019**, Director, The Future of Venezuela Initiative and Fellow, Americas Program, Center for Strategic and International Studies, “Are Sanctions Working in Venezuela?,” <https://www.csis.org/analysis/are-sanctions-working-venezuela> kegs

Sanctions **did not cause** the economic or humanitarian crisis in Venezuela as dire conditions in Venezuela preceded the implementation of sanctions. By 2016, a year before any financial or sectoral sanctions hit the country, Venezuela’s economy was already enduring severe hyperinflation, which surpassed a rate of 800 percent. Between 2013 and 2016, food imports fell 71 percent and medicine and medical equipment imports dropped 68 percent. Over the same period, infant mortality increased by 44 percent. By the time sanctions were introduced, Venezuelans earning the minimum wage could only afford 56 percent of the calories necessary for a family of five. Over two million Venezuelans had already fled the country at this point. The extent of the humanitarian damage suffered before sectoral sanctions indicates that the blame cannot be placed on the sanctions themselves. As an example, Venezuela’s Central Bank confirmed in 2014 that plummeting oil prices had triggered a severe economic contraction with simultaneous hyperinflation. Under the guise of austerity, Maduro announced cuts to major social services upon which millions of citizens relied.

#### The real cause is decades of failed economic policies

**Dany Bahar noted for the Brookings Institute in**, May 22, **2019**, The Brookings Institute, “Chavismo is the worst of all sanctions: The evidence behind the humanitarian catastrophe in Venezuela,” <https://www.brookings.edu/blog/up-front/2019/05/22/chavismo-is-the-worst-of-all-sanctions-the-evidence-behind-the-humanitarian-catastrophe-in-venezuela/> kegs

Thus, it is clear from our analysis that the further deterioration observed since 2017—whether caused by the sanctions, management incompetence, or whatever it was—**by no means constitutes the bulk of the collapse** that has caused widespread suffering, death, and displacement to millions of Venezuelans. **The weight of evidence** seems to indicate[s] that much of the suffering and devastation in Venezuela has been, in line with most accounts, inflicted by those in power for more than 20 years already. Ignoring this and blaming the damage on agents other than Maduro and the Chavista governments after decades of failed policies is, to put it mildly, highly misleading.

v

#### But sanctions have helped correct state-driven mismanagement in 2 ways

#### First is market liberalization

#### Analyst Viktor Katona noted in 2019 that

 Viktor Katona, 12/31/2019, Oil Price, “Venezuela Is Quietly Ramping Up Oil Production,” Katona is a Group Physical Trader at MOL Group and Expert at the Russian International Affairs Council, currently based in Budapest.https://oilprice.com/Energy/Energy-General/Venezuela-Is-Quietly-Ramping-Up-Oil-Production.html# kegs

If anyone is to ever write a guidebook on political survival, the skills of Venezuelan President Nicolás Maduro would certainly top the contemporary charts. This autumn went relatively well for the besieged leader as the political headlines drifted towards the US-China trade wars, OPEC+ production cuts and the US impeachment saga. In fact, the weakening of media attention against the background of a rigid sanction regime nudged the Venezuelan authorities to render their economy a bit more market-based and also to throw more efforts into fighting the nation’s main scourge, hyperinflation. Yet once again elections in Venezuela are around the corner and the fragile stability might be jeopardized again.

**Argus elaborated in** **December that**

Argus Media Group, 12/12/2019, Venezuela defies sanctions with dollar-driven upswing, (Argus is an independent media organisation with 1000 staff. It is headquartered in London and has 22 offices in the world’s principal commodity trading and production centres. Argus produces price assessments and analysis of international energy and other commodity markets, and offers bespoke consulting services and industry-leading conferences. Companies in 140 countries around the world use Argus data to index physical trade and as benchmarks in financial derivative markets as well as for analysis and planning purposes. Argus was founded in 1970 and is a privately held UK-registered company. It is owned by employee shareholders and global growth equity firm General Atlantic.) https://www.argusmedia.com/en/news/2037897-venezuela-defies-sanctions-with-dollardriven-upswing?backToResults=true kegs

US sanctions have failed to dislodge Venezuelan president Nicolas Maduro so far, but they have compelled the government to ease economic controls this year, modestly improving the Opec country's 2020 economic outlook. The sanctions "have forced the Maduro government throughout this year **to erase most price controls, loosen capital controls, tighten controls on commercial bank loan operations and accept informal dollarization** as it seeks to capture new hard currency streams and reduce hyperinflationary pressures," a Venezuelan central bank economist tells Argus. Maduro's biggest economic achievement this year has been to curb hyperinflation, the economist said. Opposition-controlled National Assembly advisers acknowledge the slowing inflation, but caution that inflationary pressures persist on years of structural distortions. The advisers estimate cumulative inflation from January through November at over 5,500 [percent] pc compared with the central bank's 2018 inflation estimate of 130,000pc. They now believe it is likely that 2019 inflation could average about 7,000pc, a marked improvement over end-2018 forecasts from entities such as the International Monetary Fund that anticipated 10mn pc [million percent] inflation in 2019. In October the IMF reduced its 2019 inflation forecast to 200,000pc, rising to 500,000pc in 2020.

#### These reforms will boost foreign investment and allow for critical infrastructure improvements

Valentina **Sanchez**, 8/3/**2019**, “Venezuela hyperinflation hits 10 million percent. ‘Shock therapy’ may be only chance to undo the economic damage,” https://www.cnbc.com/2019/08/02/venezuela-inflation-at-10-million-percent-its-time-for-shock-therapy.html

Shock therapy measures, based on recent economic history, can include ending price controls and government subsidies, instituting higher tax rates and lower government spending to reduce budget deficits, devaluing the currency to boost foreign investments and selling state-owned industries to the private sector. Venezuela will have to transform its current scheme of restricting foreign investment in order to fund the restoration of the energy sector, as well as its infrastructure, including the country’s roads and bridges and the power grid.

#### They are also fixing Venezuela’s import crisis and revamping the private sector

Fabiola **Zerpa reported on**, **November 5th that**, 2019, 3:51 PM EST, Bloomberg, “Venezuela Is Now More Than 50% Dollarized, Study Finds,” <https://www.bloomberg.com/news/articles/2019-11-05/venezuela-is-now-more-than-50-dollarized-study-finds> kegs

Venezuela’s economy is increasingly dollarized, with more than half of retail transactions now being carried out in U.S. currency, a study found. An estimated 54% of all sales in Venezuela last month were in dollars, according to a survey by Econoalitica, a Caracas-based research firm. More than four million Venezuelans have migrated in recent years to escape the economic crisis, and many of their families back home now survive on the remittances they send back. This has caused a breach in living standards between those with access to hard currency, and those without, said Asdrubal Oliveros, director of Ecoanalitica. “Venezuela lives in an economy dominated by dollar transactions,” Oliveros told reporters. “This excludes those who only have access to bolivars, whose ability to buy things is severely restricted.” A recent loosening of price controls has led to a boom of product imports -- from Nutella to Heineken -- sold in foreign currency. But the products are sold at prices that few people dependent on local currency salaries can afford, in a country where the monthly minimum salary is about $6.

**Argus** Media Group, 12/12/**2019**, Venezuela defies sanctions with dollar-driven upswing, (Argus is an independent media organisation with 1000 staff. It is headquartered in London and has 22 offices in the world’s principal commodity trading and production centres. Argus produces price assessments and analysis of international energy and other commodity markets, and offers bespoke consulting services and industry-leading conferences. Companies in 140 countries around the world use Argus data to index physical trade and as benchmarks in financial derivative markets as well as for analysis and planning purposes. Argus was founded in 1970 and is a privately held UK-registered company. It is owned by employee shareholders and global growth equity firm General Atlantic.) https://www.argusmedia.com/en/news/2037897-venezuela-defies-sanctions-with-dollardriven-upswing?backToResults=true kegs

Dollarization is a necessary "pressure release valve" **that is allowing private-sector companies to secure hard currency to finance imports**, Maduro said in October, adding "thank God for dollarization." Food and medicine imports have rebounded, benefiting about 15pc of the population with access to dollars. The other 85pc scrape by on the equivalent of $1-$2/day. Venezuelan business chamber Fedecamaras said this week the private sector will account for the first time in decades for up to 25pc of GDP in 2019 and likely more in 2020.

#### Second is oil management

#### Maduro destroyed the management of oil production in 2017. Reuters noted last week that Rafael Ramirez, a former oil minister and president of Venezuela’s largest oil company

Ramirez blamed the collapse on Maduro’s decision to place the military in charge of [Venezuela’s state-owned oil company] PDVSA. After jailing two former PDVSA presidents on corruption charges, Maduro in 2017 appointed Manuel Quevedo, a major general from the National Guard **with no experience in the energy sector**, as PDVSA’s head and oil minister. That year, Maduro and Quevedo promised to add 1 million bpd to Venezuela’s flagging output, but instead crude production and refining have slid to their lowest levels in almost 75 years. Ramirez said some 30,000 employees have left PDVSA in recent years, amid an exodus of experienced workers also described by union leaders and former staff. “**It’s been a disaster**,” Ramirez said. “The main processes in the industry - human resources, contracts, supply - are in the hands of military officials with no knowledge of oil.”

#### But sanctions have driven Venezuela’s state-owned oil company towards letting private firms handle operations, fixing mismanagement

Stefanie **Eschenbacher**, Marianna **Parraga**, Luc **and Cohen reported last Friday that**, “Exclusive: Weakened by sanctions, Venezuela's PDVSA cedes oilfield operations to foreign firms,” JANUARY 3, 2020 / 3:00 PM / 2 DAYS AGO <https://www.reuters.com/article/us-venezuela-oil-ramirez-exclusive/exclusive-weakened-by-sanctions-venezuelas-pdvsa-cedes-oilfield-operations-to-foreign-firms-idUSKBN1Z221R> kegs (companies)

(Reuters) - Venezuelan state company PDVSA is letting some joint venture partners take over the day-to-day operation of oilfields as its own capacity dwindles due to sanctions and a lack of cash and staff, according to a former oil minister, an opposition lawmaker and industry sources. Crude production by PDVSA and its joint ventures has fallen to about a third of its peak 20 years ago. The steepest fall has occurred since military officials with no oil industry experience took over PDVSA’s management in late 2017 and Washington imposed sanctions on the state-run company in early 2019 in a bid to oust socialist President Nicolas Maduro. Maduro’s government and the opposition last year discussed allowing partners in PDVSA-led joint ventures to operate the oilfields, which would reverse a legal requirement that PDVSA control the operations.

Stefanie **Eschenbacher**, Marianna **Parraga**, Luc **and Cohen continue**, “Exclusive: Weakened by sanctions, Venezuela's PDVSA cedes oilfield operations to foreign firms,” JANUARY 3, 2020 / 3:00 PM / 2 DAYS AGO <https://www.reuters.com/article/us-venezuela-oil-ramirez-exclusive/exclusive-weakened-by-sanctions-venezuelas-pdvsa-cedes-oilfield-operations-to-foreign-firms-idUSKBN1Z221R> kegs

That could give Maduro more breathing room by encouraging fresh investment in PDVSA’s operations, potentially **boosting oil revenues**. However, it would be controversial after late President Hugo Chavez, an iconic figure to many Venezuelans, made nationalization a flagship policy. Rafael Ramirez, a former oil minister and PDVSA president who left office after clashing with Maduro in 2014, said the company had already effectively handed control to joint venture partners even though an agreement had not yet been formally reached. Ramirez, an adviser to some international energy firms that have recently worked in Venezuela, said PDVSA had been reduced to little more than an administrator of contracts with oil companies. “PDVSA is no longer producing. It’s signing contracts for others to produce in a de facto privatization,” Ramirez told Reuters during an interview at a location he requested not be disclosed.

Martin ’19, Sabrina Martin, 24 December 2019, “After Collapse of Venezuela’s State Oil Company, Maduro Weighs Privatization,” <https://panampost.com/sabrina-martin/2019/12/25/venezuelas-state-oil-compan-maduro/>

A [BBC Mundo](https://www.bbc.com/mundo/noticias-america-latina-50820042?ocid=socialflow_twitter) report revealed that sources in the oil sector in Venezuela are betting that Maduro “will end up promoting a change in the Hydrocarbon Law that will allow foreign companies that collaborate with PDVSA to exploit the oil fields.” It is not the first time that this news has come up about the possibility of somehow privatizing the oil fields in Venezuela. On 6th December, the Reuters news agency [revealed](https://gestion.pe/mundo/petroleo-gobierno-y-oposicion-venezuela-sopesan-entregar-operacion-de-campos-a-socias-de-pdvsa-noticia/?ref=gesr) that both the regime and the opposition “are considering handing over field operations to PDVSA partners”. So far there is no official information on this matter. Meanwhile, Jose Ignacio Hernandez, Special Prosecutor of the interim government of Juan Guaido, described this action as a possible “de facto privatization, a sign of the collapse of the state.” The Reuters report notes that the amendment to the law is being discussed with joint ventures such as , Russia’s Rosneft, and China’s state-owned CNPC. The talks appear to be taking place within the framework of the Boston Group, where officials close to Maduro, opponents, and economists critical of the regime meet to discuss economics and politics. The initiative also arises at a time international sanctions have “strangled” the tyranny and forced it to make some areas of the economy, such as price and exchange control, more flexible. The BBC Mundo report points out that allowing joint ventures to invest in Venezuela “would mean breaking with the statist energy policy that the Bolivarian Revolution has maintained in [Venezuela](https://panampost.com/jovel-alvarez/2019/12/24/guaido-military-intervention/) since the time of the late President Hugo Chavez.” The crude oil production that had bottomed out in Venezuela in the middle of a production of 600 thousand barrels per day has increased recently but not thanks to PDVSA but to the partner companies. According to Reuters, oil production averaged 926,000 barrels per day in November, which is 200,000 barrels more than in October. That is a 20% increase. What has happened is that PDVSA delivered production, sales, and collections to the partner companies, even though they were a minority in the partnership scheme. Repsol, Rosneft, Chevron, and Gazprom manage the whole process according to Al Navío. Everything coincides: Maduro will hand over operations to mixed companies and the Venezuelan opposition in the National Assembly will discuss a new Hydrocarbons Law. According to [Konzapata](https://konzapata.com/noticia/72771/konfidenciales/la-produccion-de-petroleo-sigue-en-alza-y-no-hay-milagro.-lo-que-hay-son-negocios-muy-pragmaticos.html), the new regulations would allow multinationals to obtain the majority of mixed companies. Jose Toro Hardy, who until 1999 was a member of the board of directors of the Venezuelan state oil company. An economist who, together with a team of specialists, managed to position the company as the second best in the world, had already pointed out to the PanAm Post that it was the regime that “killed the dream of nationalization”. “If we want to revive the oil industry, which will always be possible because we still have underground oil reserves, it will have to be based on private investment. That’s why I say this regime killed the dream of nationalization,” he said.

#### The results can already be seen. Reuters reported in December that

Reuters, 12/10/2019, “Venezuela Nov crude output jumps to highest level since U.S. tightened sanctions -sources,” <https://www.reuters.com/article/venezuela-oil/venezuela-nov-crude-output-jumps-to-highest-level-since-u-s-tightened-sanctions-sources-idUSL1N28K1YG> kegs

CARACAS, Dec 10 (Reuters) - Venezuela’s crude output in November jumped more than 20% from the prior month to the highest level since the United States tightened sanctions on state oil company PDVSA in August, two people with knowledge of PDVSA data said this week. November output averaged between 926,000 barrels-per-day (bpd) and 965,000 bpd, according to the people, compared with the 761,000 bpd average in October that PDVSA reported to the Organization of Petroleum Exporting Countries (OPEC). That increase came as exports jumped to over 1 million bpd. That marked the first time that Venezuela’s output exceeded 900,000 bpd [barrels per day] since August, when Washington warned foreign firms continuing to work with PDVSA that it could sanction them. The Trump administration first sanctioned PDVSA in January as part of its push to oust socialist President Nicolas Maduro.

#### The impact is a failed state

#### Millions are suffering from a food crisis which is driving mass migration

John E. **Herbst and** Jason **Marczak**, September **2019**, Atlantic Council, “Russia’s intervention in Venezuela: What’s at stake?,” <https://www.atlanticcouncil.org/in-depth-research-reports/report/russias-intervention-in-venezuela-whats-at-stake/> kegs

Meanwhile, day-to-day life in Venezuela continues to deteriorate. Food insecurity and malnutrition are at sky-high levels. As noted in the Bachelet report, in April 2019 the Venezuelan minimum wage, which sits around $7 per month, only covers 4.7 percent of the basic food basket. **More than 80 percent of households** in Venezuela are food insecure, with the majority of those interviewed as part of the Bachelet investigation consuming only one meal per day.39 The report highlights that, as a result of hyperinflation and the disintegration of Venezuelan food production, an estimated 3.7 million Venezuelans are malnourished. Children and pregnant women are the demographics most likely to suffer from malnutrition in Venezuela. Survival is a struggle. As a result, Venezuelan refugees filed more asylum claims globally in 2018 than citizens of **any other country, including Syria**.40 If the situation does not improve, the number of Venezuelan migrants and refugees is expected to reach around 8 million in 2020, surpassing total Syrian migration numbers by more than 3 million.

#### If the economy does not go through correction Venezuela will become a failed state

Michael E. **O’Hanlon** **and** Juan Carlos **Pinzón** Tuesday, September 10, **2019**, Brookings, “Get ready for the Venezuela refugee crisis,” <https://www.brookings.edu/blog/order-from-chaos/2019/09/10/get-ready-for-the-venezuela-refugee-crisis/> kegs

With its economy in free fall, after having already contracted by half this decade, and with its future politics completely up in the air as President Nicolas Maduro clings semi-constitutionally to power, **Venezuela teeters on the brink**. Already one of the world’s most crime-afflicted countries, it risks becoming something closer to a failed state in future months. Think of Somalia or Libya, but several times larger in population and several times closer to the United States. For Colombia, Brazil, Guyana, and Caribbean island nations like Trinidad and Tobago, Venezuela and its thirty-one million people are right next door. Refugee crises in North Africa and the Middle East have been getting more of the news coverage, but already the human flows out of Venezuela have reached comparable magnitudes — and, with the U.S. oil embargo kicking in, the scale of the problem may soon get much worse. The United States and Colombia should therefore take the lead in planning for what could become, in a plausible worst case, **the collapse of Venezuela**. Even if things do not get that bad, it is easy to imagine scenarios in which ten million Venezuelans become refugees — with many millions inside the country struggling just to stay alive as food supplies dwindle and public health conditions deteriorate even further.

Anatoly Kurmanaev, January 14, 2020, New York Times, Rural Venezuela Crumbles as President Shores Up the Capital and His Power, <https://www.nytimes.com/2020/01/13/world/americas/Venezuela-collapse-Maduro.html?auth=login-email&login=email>

In Caracas, the private sector — maligned for years under the Socialist government of Mr. Maduro and his popular predecessor, Hugo Chávez — has been allowed to fill some of the gaps in consumer products left by declining state imports. As once sacrosanct economic controls disappeared overnight, the capital filled up with hundreds of new shops and showrooms, offering everything from imported sports cars to American-made seaweed

chips.