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Venezuela: Options for U.S. Policy

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Testimony of Dr. David Smilde
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before the
United States Senate
Committee on Foreign Relations

“Venezuela: Options for U.S. Policy”
March 2, 2017

Chairman Corker and Members of the Committee,

Thank you very much for the opportunity to testify about the Venezuela crisis and options for U.S. policy. Venezuela has been the central subject of my research over the past twenty-five years. I first went to Venezuela in 1992 to do dissertation research, and I have never stopped investigating and writing about it.

It is also an issue of intense personal interest. In Venezuela I formed my family, raised my children and spent fourteen of the last twenty-five years. Many of my closest friends and most valued colleagues are still in Venezuela.

For today’s purposes, an extensive description of Venezuela’s downward spiral in recent years is probably unnecessary. Suffice it to say that in the face of declining oil prices and disastrous mismanagement, the country’s economy is all but imploding. Imports in 2016 dropped more than 60 percent from their 2012 levels, leading to dramatic economic contraction, triple digit inflation and widespread scarcity of food and medicine.

Even worse, Venezuelan citizens’ desires and efforts to change the country’s direction through democratic means have repeatedly been thwarted by the government of President Nicolas Maduro. A landslide opposition win of the National Assembly in December 2015 has largely been negated by a government-controlled Supreme Court that has annulled almost all of the National Assembly’s legislative projects and progressively stripped the legislature of its functions. And the opposition’s push for a recall referendum on Maduro’s presidency—after being forced to jump through the absurd hoops placed in their path by the National Electoral Council—was ultimately suspended indefinitely on the most spurious of grounds. Currently, the country’s regional elections have also been indefinitely postponed, and a process underway to revalidate political parties seems destined to abolish most of them.

In other words, Venezuelans are suffering from a government that has radically mismanaged their economy and society, and is blocking all democratic and constitutional efforts at change.

In these dire circumstances, the United States' policy towards Venezuela should focus on facilitating the reestablishment of a democracy in which human rights are fully respected, including citizens' right to decide what kind of government they want and who they want to lead it.

The question, of course, is exactly how U.S. policy could help to achieve this outcome, and how to avoid approaches that would be ineffectual or even counterproductive. In weighing this question and considering the options available, it is important to take into account not just the intentions, but also the consequences of U.S. actions and policies. Even policies that are pursued for the best of intentions may prove to be ineffective, or even deleterious to the ultimate goal.

In December 2014 the "Venezuela Defense of Human Rights and Civil Society Extension Act" was signed and in March 2015 it was rolled out with an Executive Order targeting seven Venezuelan officials for sanctions. In my view, this was not the right policy and is not helping the situation of Venezuela.

For good reasons, sanctions have become one of the most important policy instruments in international relations. They represent a tool that is stronger than words but does not resort to violence. Applying sanctions can give a powerful message from one country to another about what kinds of things it finds unacceptable. In the best cases, sanctions can even generate change in the actions of sanctioned actors without armed struggle. All of this is good.

However, the ample research on the matter is quite clear in its findings that sanctions¹, whether general or targeted, do not work most of the time.² Sanctions can serve to signal displeasure or the highlight values of the sanctioning country. But only in some cases do they actually generate a change in behavior. Researchers argue that there are three important factors that impact the effectiveness of sanctions.

First, while sanctions definitely have a signal moral resolve and disapproval, this works both ways. Sanctions can function to change behavior in contexts that care a lot about the country wielding the sanctions thinks.³ For example, in both South Africa and Serbia, sanctions meant a lot because these countries—including ruling elites—saw the West as an important ally.

¹ Daniel Wagner, "Do Sanctions Work?" *The World Post*, February 27, 2017, http://www.huffingtonpost.com/daniel-wagner/do-sanctions-work_b_7191464.html.

² One exhaustive review of 200 sanctions programs in the Twentieth Century showed that there was evidence of success in 35% of cases. Gary Clyde Hufbauer, Jeffrey J. Schott, Kimberly Ann Elliott and Barbara Oegg. 2009. *Economic Sanctions Reconsidered*. Peterson Institute for International Economics.

³ Kenneth Rogoff, "Opinion: Do economic sanctions work?" *Market Watch*, January 6, 2015, http://www.marketwatch.com/story/do-economic-sanctions-work-2015-01-06?mod=mw_share_twitter.

But in cases in which there is an existing anti-American ideology, U.S. sanctions can have a “Battle of Britain” effect, whereby those targeted do not relent but instead hunker down and fight against the odds, even converting their resistance into a potent political theme to shore up their domestic support.⁴ An instructive case in point is the fifty years of U.S. sanctions on Cuba, an approach which, far from dislodging the Castro brothers, has facilitated their permanence in power.

Second, sanctions are weaker when they are unilateral.⁵ The more international support and participation sanctions enjoy, the more legitimacy and effectiveness they are likely to have, and the harder they are to portray as imperialist conspiracies.⁶ The international consensus around sanctions in South Africa, Serbia, and Iran, for example, has been important.

Third, for sanctions to achieve their purposes, they have to have clear and attainable goals,⁷ and the imposing party needs to be able to ease or lift the sanctions if and when the behavior that is the focus of the sanctions changes.⁸ If the sanctions are ends in themselves, with no remedy based on the behavior of those being targeted, then the incentives for cooperation dwindle. On the other hand, if it is clear that those imposing sanctions are prepared to ease or lift them as behavior warrants, then incentives for changed behavior can be strengthened, and the original purposes for imposing sanctions are more likely to be met.

Unfortunately, the current regime of targeted sanctions on Venezuelan officials, is on the wrong side of all three of these factors.

First, these sanctions definitely provide a signal that the U.S. is against what is happening in Venezuela. But they also fit very nicely in Venezuela’s anti-imperialist, international conspiracy theories, which seek to explain all of Venezuela’s current problems as the result of the United States trying to undermine the country’s sovereignty. This line of response was certainly more important two years ago when the sanctions were first rolled out and Nicolas Maduro still had

⁴ Jonathan Marcus, “Analysis: Do economic sanctions work?” *BBC News*, July 26, 2010, <http://www.bbc.com/news/world-middle-east-10742109>.

⁵ Francesco Giumelli. 2013. *The Success of Sanctions: Lessons Learned from the EU Experience*. Burlington, Vermont: Ashgate Publishing Company. Zarate, Juan C. 2013. *Treasury's War: The Unleashing of a New Era of Financial Warfare*. New York, New York: Public Affairs.

⁶ Mark Malloch Brown and Harry Gibson, “Do Sanctions Work?” *Newsweek*, December 22, 2014, <http://www.newsweek.com/do-sanctions-work-293957>.

⁷ Carla Anne Robbins, “Why Economic Sanctions Rarely Work,” *Bloomberg*, May 24, 2013, <https://www.bloomberg.com/news/articles/2013-05-23/why-economic-sanctions-rarely-work>. Jonathan Masters, “What are Economic Sanctions,” Council on Foreign Relations, February 8, 2017, <http://www.cfr.org/sanctions/economic-sanctions/p36259>.

⁸ Mark Malloch Brown and Harry Gibson, “Do Sanctions Work?” *Newsweek*. Dursun Peksen. 2009. “Better or Worse? The Effect of Economic Sanctions on Human Rights.” *Journal of Peace Research* (Sage Publications, Ltd.) 46 (1): 59-77.

the ability to win elections. But rallying around the flag in defiance of U.S. aggression is still important theme in maintaining Maduro's core of support. Indeed, Maduro still has a 20 percent approval rating, which is remarkably high in light of the severe social and economic crises the population is experiencing.

Second, rather than being applied in concert with other partners and enjoying wide international support, the U.S. sanctions have (to date) been conceived and imposed unilaterally. Moreover, their initial implementation through an Executive Order that labeled Venezuela a threat to U.S. national security generated region-wide rejection. Far from spurring allies to action on Venezuela, this framing put them on their heels and made it more difficult and less likely for them to act.

Third, while these sanctions have clear targets and can be attributed to concrete behaviors, which is good, there is no obvious path for easing or lifting them in the response to changed behavior. Moreover, even if the sanctions themselves were to be formally lifted for whatever reason, the underlying accusations of human rights violations and illegal drug trafficking activities would remain and make the person sanctioned assume that, once out of power, they could face extradition to the United States.

This last characteristic is perhaps the most important problem. Instead of creating an incentive to change the behavior of officials who engage in human rights violations or acts of corruption, these sanctions impose a penalty that will carry its heaviest weight if and when the government itself changes. They therefore increase the exit costs of these officials, and increase their loyalty to the Maduro government, to whose survival their own fates are bound more tightly than ever.

The logic of this can be seen in the way President Maduro has made a point of promoting officials who have been put on some sort of U.S. blacklist.

The seven officials sanctioned were not sidelined or ostracized. Rather, they were each rewarded either with lucrative positions in state industries, or as in the following four cases, with positions in the security apparatus.

- General Antonio Benavides Torres was named Chief Commander of the National Guard (Venezuela's branch of the Armed Forces dedicated to domestic security.)
- General Gustavo González López was designated head of the the Ministry of Interior and Justice and the head of the intelligence service SEBIN.
- Katherine Harrington was named, a month after being sanctioned, as Vice Minister of Citizen Security and Prevention, serving in that post for 18 months before being removed.
- Manuel Eduardo Pérez Urdaneta is also a Vice Minister of Citizen Security and Prevention.

This is part of a logic whereby Nicolas Maduro builds a core of officials whose loyalty he is sure of because of their high exit costs. It extends beyond these particular sanctions to include others on some kind of U.S. blacklist. In August 2016, General Néstor Reverol was named Minister of Interior and Justice a day after U.S. prosecutors unsealed his indictment on charges of drug trafficking.

We can ask how this logic of sanctions-induced loyalty will play out with Vice President Tareck El Aissami who has been put on the Treasury Department's Kingpin list, leading to similar sanctions. From El Aissami's perspective, a return of fair elections to Venezuela would surely put the opposition in power and likely see him extradited to the United States. One should assume that he will use all the levers of power to prevent that from happening.

It might be argued that, even if sanctions raise the exist costs of sanctioned officials and tie their fates to the government's maintenance of power, this will be outweighed by the deterrent effect on non-sanctioned officials who might consider human rights violations or acts of corruption.

What is the evidence? In the past two years since sanctions were rolled out, the Maduro government has:

- Cracked down on NGOs⁹,
- Convicted and sentenced political prisoner Leopoldo López¹⁰,
- Instituted a violent citizen security initiative accused of over 500 deaths¹¹,
- Used the Supreme Court to neutralize the opposition National Assembly¹²,
- Taken more political prisoners¹³,
- Suspended the recall referendum process¹⁴,
- Failed to fulfill the commitments made in a Vatican-Unasur dialogue process¹⁵, and

⁹ Hugo Pérez Hernáiz and David Smilde. June 15, 2015. "[Venezuela's Human Rights NGOs Under Fire Again.](#)" *Venezuelan Politics and Human Rights*. Venezuelablog.tumblr.com.

¹⁰ "[WOLA Deplores Venezuelan Court's Conviction and Sentencing of Leopoldo López.](#)" September 11, 2015. *Venezuelan Politics and Human Rights*. Venezuelablog.tumblr.com.

¹¹ Rebecca Hanson. April 18, 2016. "[Human Rights Watch and Provea Release Devastating Report on Venezuelan Citizen Security Initiative.](#)" *Venezuelan Politics and Human Rights*. Venezuelablog.tumblr.com.

¹² Hugo Pérez Hernáiz. December 28, 2015. "[Conflict of Powers Looms as Venezuela's New Assembly Prepares to Convene.](#)" *Venezuelan Politics and Human Rights*. Venezuelablog.tumblr.com.

¹³ Hugo Pérez Hernáiz and David Smilde. September 11, 2016. "[Mobilized Opposition Faces Arrests and Detentions.](#)" *Venezuelan Politics and Human Rights*. Venezuelablog.tumblr.com.

¹⁴ "[Venezuela's Suspension of Signature Collection is a Dangerous Setback.](#)" October 21, 2016. *Venezuelan Politics and Human Rights*. Venezuelablog.tumblr.com.

¹⁵ Hugo Pérez Hernáiz. January 9, 2017. "[Is Venezuela's Dialogue Dead?](#)" *Venezuelan Politics and Human Rights*. Venezuelablog.tumblr.com

- Put food distribution under military command generating far-reaching corruption.¹⁶

By any standard these are not the consequences the sanctions program was supposed to generate.

This failure is not because only seven officials were sanctioned, and it is not because the sanctions went unnoticed in Venezuela. In fact, their rollout in March 2015 was international news for days and weeks, and news in Venezuela for weeks and months. Nicolas Maduro made sure everyone knew, especially Venezuelan citizens. I suspect that it would be hard to find even a peasant in the Venezuelan countryside who did not know about the U.S. sanctions. Deterrence is supposed to work through a social observation effect, and that should be effective whether seven or seventy officials were sanctioned.

All of this points the fact that the idea of “pressure” is too simple as our leading metaphor for understanding foreign policy. Pressure can have quite different and contradictory effects, depending on the context.

Of course, I am focusing here on the consequences of sanctions. One entirely legitimate response is that sanctioning human rights abusers and corrupt officials is simply a value position, a moral stance in favor of human rights and against corruption, and should be taken whatever the consequences. This is understandable and indeed taking a stand on values and letting the chips fall where they may is part of what it means to be human.

But when this is the logic behind a policy, it should be represented as such. A policy that is undertaken in the name of values, without regard for the consequences, should not be portrayed as aiming to benefit the people. More to the point of today’s discussion, while the United States’ program of targeted sanctions in Venezuela may represent an admirable expression of our devotion to protecting human rights, it is actually having negative outcomes for Venezuelan democracy and human rights. The responsibility for these negative outcomes rest squarely on the shoulders of Nicolas Maduro and other Venezuelan officials. But US policy is facilitating them.

Of course doing nothing is not an option; the Venezuela crisis is too grave. From my perspective, policymakers should strive to identify the policy options that express fundamental values and that increase the likelihood of achieving the goal in question, which is the reestablishment of electoral democracy and protection of human rights in Venezuela.

Fortunately, there are alternatives, although none of them are easy or promise instant results. First, given the marked deterioration of Venezuelan democracy, it is likely that work through *multilateral institutions* could come together in a way it has not in recent years. There are three areas for concerted political action: work through multi-country bodies like the **Organization of**

¹⁶ Hannah Dreier and Joshua Goodman. December 28, 2016. [“Venezuela Military Trafficking Food as Country Goes Hungry.”](#) Associated Press.

American States (OAS), the United Nations (UN) and Union of South American Nations (UNASUR), work to support governments in the region who can also engage the Venezuelan government, and work to support a meaningful process of dialogue.

OAS Secretary General Luis Almagro's invocation of the Democratic Charter in June 2016 was discussed but put off by OAS member states to see if progress could be made through a dialogue process promoted by UNASUR and later joined by the Vatican. Over six months has passed and it is clear that the Venezuelan government has used that dialogue process to buy time and deflect change. I agree with many others that it is time for the Democratic Charter to be taken up again. This time around, with the Maduro government renegeing on electoral democracy, one should expect more consensus to develop among OAS member states on the gravity of the situation in Venezuela. The United States could have an important role in supporting this process. Whether or not the OAS member states come to a consensus, the debate in the OAS will shine a spotlight on the Maduro government and generate important international pressure that extends well beyond U.S. government sanctions.

Furthermore, the United States and other countries could work to strengthen the **Inter-American Council for Human Rights (IACHR)** which is the preeminent institution for the defense of human rights in the region.

The **United Nations** also has considerable potential to act with reference to Venezuela. A Peacebuilding initiative like that which was carried out in El Salvador in the late 1980s could be effective. Alternatively, the UN Secretary General could name a Special Representative to Venezuela. These initiatives would not be feasible in the short term as the first would require the consent of the permanent members of the Security Council and both would require the consent of Venezuela. But in the likely case that the Venezuela crisis worsens, that could change. U.S. government advocacy would be key to making them happen.

The **United Nations Human Rights Council** is more cautious than IACHR given that it consists of member states. However, Venezuela is actually a member of the council and that makes it more difficult for it to dismiss its statements as imperialist conspiracies.

There are regional institutions that the United States is not part of but which could be supported. Venezuela is already on the rocks with trade block **Mercosur**. It has effectively been marginalized, while still remaining a member. Mercosur has a Democratic Clause aimed at protecting human rights that could still be invoked. Thus far UNASUR has shown more interest in protecting the interests of incumbent governments than the interests of its countries' citizens. But a more diverse set of leaders in the region could promote the development of institutions and mechanisms to provide proper protections for human rights

There is also considerable space for *bilateral and multilateral diplomacy*. I have been encouraged by President Trump's discussions of the Venezuelan case with the presidents of Argentina, Panama, and Peru. Regional partners need to have a lead role in U.S.-Venezuela policy. A group of "Friends of Venezuela" containing diverse countries could be organized to develop common criteria and approaches. Such a group could emerge in the region without

U.S. involvement, like the Contadora Group in Central America in the 1980s. If it does, the U.S. would do well to support it.

Finally, continued efforts at dialogue should be supported. While the October-November dialogue was unfruitful, and the Venezuelan opposition is right to refuse to return to the table under current conditions, it is an option that should remain alive. In an economic or political crisis, having international facilitators with established relationships close by could be vital.

It is worth noting that the bad press the **Vatican** has received for the failed dialogue in October and November is unfair and uninformed. Vatican representatives came to Venezuela a month after both the government and the opposition formally invited it, not because of pressure from the U.S. When agreements were made and the government then failed to follow through on its part, Vatican Secretary of State Monsignor Pietro Parolin sent a strong letter putting forward four conditions to continue in the dialogue. When those conditions were not met by January, Vatican representative, Monsignor Claudio Maria Celli returned to Rome.

Dialogue should not be seen as solitary option to be unperturbed by parallel initiatives. If pressure is not exerted from multinational institutions and from domestic political dynamics, the Maduro government will never take dialogue seriously. Other options for addressing the Venezuela crisis should not be put on hold to simply see if dialogue works out.

Furthermore, dialogue should focus primarily on basic issues of democracy, for example recognition of elected officials, release of political prisoners, and most of all an electoral calendar. It should not be used to address basic issues of governance that should be left to democratically elected officials. If democratic freedoms and elections can be secured, Venezuelans can fix the rest for themselves.

Compared to unilateral actions, the path of diplomacy I am recommending is slow and frustrating. It requires a lot of energy, and does not offer flashy optics or dramatic sound-bites. But in the long run it is more likely to succeed and less likely to lead to the unintended negative consequences of so many failed U.S. policies in the past.

Thank you.

Options for U.S. Policy in Venezuela

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Before the

Committee on Foreign Relations

United States Senate

1st Session, 115th Congress

Hearing on: Options for U.S. Policy in Venezuela

Chairman Corker, Ranking Member Cardin, and Members of the Committee: Thank you for the invitation to testify today. I am grateful for the Committee’s interest in Latin America and am pleased to have this opportunity to discuss U.S. policy options in Venezuela. As always, I am eager to hear your advice and counsel.

Today Venezuela and its people face economic, political, and humanitarian crises. The economy has shrunk by nearly 30 percent over the last four years, declines often seen only in wartime. The value of the bolivar, the official currency, erodes daily, undercut by some of the highest inflation rates in the world. Poverty, which fell during the 2000s, has now surpassed pre-Chavez levels, with over three out of every four Venezuelans living in dire straits, and half of the nation suffering in extreme penury. A recent study by three prominent Venezuelan universities found that most Venezuelans can no longer meet the recommended

2,000 calories a day; 75 percent of the population reported significant weight loss in the last year alone.¹ Once South America's richest nation, the majority now live in conditions on par or worse than citizens in Bangladesh, the Democratic Republic of Congo, or Mozambique.

Every day there are too many stories of the sick going without care, of hospitals without basic medicines and equipment, of treatable diseases becoming death sentences. The few statistics and surveys available show that infant mortality, deaths during childbirth, and malnutrition have skyrocketed.

This economic devastation results from steep declines both in oil prices and in production, as world markets and local mismanagement have undermined Venezuela's traditional cash cow. With prices more than halving since 2014 and output down over one million barrels from 2000 production highs, government income has fallen precipitously.

It also reflects over a decade of broader economic interventions, undercutting the private sector through exchange rate and monetary controls, bureaucratic rules, and outright expropriations. Non-oil exports have fallen from roughly a quarter of products sold abroad in the 1990s to less than four percent today.

Venezuela increasingly no longer makes the basic products its citizens need to survive.

Added to these costs for economic growth and prosperity is widespread corruption. Independent estimates suggest over \$60 billion has been stolen since 2003. Whether arbitraging the official and unofficial exchange rates for personal gain, selling government purchased foodstuffs on the black market, or straightforward theft, this systemic graft has impoverished Venezuela's people and its economy.

Chances of Default

Many economists and investors don't believe the current economic status quo can last. The government owes \$140 billion in external debt—roughly equivalent to its dollar denominated GDP. 2017 interest and principal obligations of ten billion equal current reserves. Venezuela's state-controlled oil company

¹ National Survey of Living Conditions (ENCOVI), 2016

Petróleos de Venezuela, S.A. (PDVSA) was late last November making payments on \$404 million in coupons—signaling the extreme cash crunch it faces.

So far the government has been able to meet its external financial promises despite the dire financial circumstances. The government has consistently chosen debt repayment over other obligations, including the provision of basic goods. Imports of food and medicines have fallen by 50 percent and 67 percent respectively over the last year; total imports are now less than \$20 billion, roughly a third of the nation's 2012 bill. The government has resorted to a mix of blaming the private sector, lifting price controls on specific goods, and systematically repressing dissent to deal with the public desperation and outcry.

The government has also relied on asset sales and financial reengineering to stay on good terms with its creditors. It negotiated new and extended terms on oil payments due to the Chinese, its largest outside creditor. In the final quarter of 2016 it swapped nearly \$3 billion in PDVSA bonds for longer maturities, and raised an additional \$1.5 billion from Russia's oil company Rosneft. It also placed another \$5 billion in long term debt with undisclosed buyers. If oil prices rise in 2017—as most expect—the government's hard currency, and subsequent capacity to pay, will increase.

Taken together, while it will be quite difficult, there is a good chance the government can financially muddle through the coming year's payments, lessening this potential trigger for political change.

U.S. National Interests in Venezuela

Venezuela's fate matters for the United States as it affects economics, security, and democracy in the Western Hemisphere.

Economically, instability in Venezuela's oil production has risks for the U.S. refining industry and for global prices. For decades Venezuela's crude oil came north, mostly destined for Southeastern and Texan refineries. These flows have lessened in recent years as the nation's output has fallen and as more is sent to

China and India. Still, it represents some \$15 billion of business annually.² And Venezuela remains the third largest oil producer in the hemisphere; disruptions could hike prices.

In terms of security, Venezuela's willingness to permit drug traffickers, organized crime networks, potential terrorists, and other nefarious actors within its borders affects U.S. national security as well. Reports show that Colombia's *Bandas Criminales* (BACRIM), Revolutionary Armed Forces of Colombia (FARC), and National Liberation Army (ELN) all operate in the country, as do Mexico's Sinaloa and Zeta cartels. The nation has become a preferred drug smuggling route out of South America, with cocaine heading to the United States through Central America and the Eastern Caribbean, and to Europe through West Africa. The Venezuelan government effectively ended anti-narcotics cooperation a decade ago; since then Drug Enforcement Administration (DEA) and Department of Justice (DOJ) investigations point to active collusion and collaboration between prominent government officials and drug traffickers.

Venezuela matters importantly for regional stability. Its economic and authoritarian slide has the potential to undermine its neighbors. Both Brazil and Colombia are already dealing with escalating migrant and refugee flows, as tens of thousands of Venezuelans make their way across the borders in search of food, medicine, and a new start. Colombia in particular could face a quick escalation in displaced persons, given the roughly five million people of Colombian origin that reside in Venezuela. Most were refugees from Colombia's historic violence, now they may return to escape that permeating their new country. A flood of individuals could undermine one of the United States' strongest regional allies as it works to implement its historic peace process. And Venezuela is threatening the very sovereignty of its neighbor Guyana, reigniting long standing claims to its Essequibo region, roughly 40 percent of its current territory, and its newfound offshore oil.

Finally, Venezuela's authoritarian turn contradicts long held U.S. ideals and foreign policy goals. The crackdown on basic political and civil rights run directly counter to U.S. policy objectives to uphold and promote democracy, both a good in and of itself as well as for the salutary effects for stability, peace, and

² U.S. Trade Representative, 2015

development. It also flouts the will of the Venezuelan people, witnessed in the overwhelming support for the opposition in the December 2015 legislative elections.

Policy Options

Despite this worrisome state of democratic erosion and humanitarian trauma, and the negative ramifications for the United States and its regional partners, U.S. policy levers to change the current status quo are limited. A significant shift, if it occurs, will likely come from within. Nevertheless, the United States should continue to investigate and to reveal the criminal behavior of Venezuelan officials, work to increase pressure on and condemnation of the regime in multilateral venues, and prepare to constructively aid a receptive future government.

Targeted Sanctions. The United States has and should continue to use targeted sanctions against human rights abusers, drug traffickers, and corrupt officials. Over the last ten years the State Department has revoked the visa of over sixty officials for human rights abuses or support of terrorist and drug trafficking organizations; the Office of Foreign Assets Control (OFAC) has sanctioned seven Venezuelans, mostly military officers, for human rights abuses and undemocratic practices, and recently another fifteen individuals for drug trafficking and colluding with terrorists—among them Venezuela's Vice President Tareck El Aissami. These are important actions as they deny these individuals access to the United States and the benefits of its financial system. These sanctions also send an important message—reaffirming that the United States can and will uphold international norms and rules. Targeting individuals avoids the humanitarian costs of country sanctions, which intensify the hardships facing the broader population while leaving its leaders relatively unscathed.

Expanding the use of targeted sanctions, while the right thing to do in terms of justice, is unlikely to bring any real change to Venezuela's political or economic status quo. If anything, it will lead the individuals to refuse to negotiate or compromise, given that a change of government could affect their own personal freedom.

CFIUS review of recent financial transactions concerning CITGO. The late 2016 bond offering to Rosneft, giving them 49.9 percent of PDVSA subsidiary Citgo holdings in the case of default, coincides with ongoing speculation that Rosneft holds a material amount of other recently restructured PDVSA bonds also collateralized by Citgo assets. If the latter is true, then in the event of a comprehensive default, Rosneft looks in position to take over a majority controlling stake in the U.S. based subsidiary. The Committee on Foreign Investment in the United States (CFIUS) should begin a review concerning the potential acquisition (through a debt default) of these critical infrastructure assets by the state controlled Russian oil company.

Rally other nations to pressure the Nicolas Maduro regime. A second potentially fruitful policy approach is encouraging other nations to join together and take the lead in condemning Venezuela's authoritarianism. South America's democracies in particular—considered allies rather than “yankee” enemies—have more leverage, their criticisms harder to dismiss.

Electoral changes over the last eighteen months make such critiques more likely. Peru's Pedro Pablo Kuczynski, Argentina's Mauricio Macri, and Brazil's Michel Temer have all supported the recall referendum efforts to end Maduro's mandate. They have also publicly condemned the imprisonment of political opponents and limits on freedom of expression. Mercosur, the South American economic bloc, voted to suspend Venezuela for its human rights abuses and democratic failings. Add to this Venezuela's diminishing ability to “rent friends” by providing free and subsidized oil, as it has to many Caribbean and Central American nations in the past, and it opens up the possibility of a broader regional effort.

The United States has an opportunity, through careful and consistent diplomacy, to unite these individual expressions of concern and acts of censure into a more powerful opposition to the Maduro government and its authoritarian tactics.

One of the most fruitful avenues is the Organization of American States (OAS). Last May Secretary General Luis Almagro invoked the organization's Inter-American Democratic Charter, calling on its member states to review Venezuela's adherence to democracy and detailing its transgressions in a 132-page report. At the time the United States and others deferred in support of dialogue, including that led by the Vatican

sanctioned Jose Luis Rodriguez Zapatero and others. As these negotiations have now failed, largely due to the Venezuelan government's recalcitrance, the United States should adopt a harder line within the OAS, galvanizing support for a Democratic Charter review and building the two-thirds majority vote required for Venezuela's suspension from the multilateral body.

As the United States works to expand a coalition for change, China can and should play an important role. Having lent some \$60 billion over the last decade to keep the government afloat, it retains significant sway. There are signs that China's leadership is becoming increasingly concerned about Venezuela's stability; slowing the pace of new lending, of rollovers of existing government obligations, and even meeting with opposition leaders. The State and Treasury departments should begin preliminary conversations with their Chinese counterparts, who may become more willing to press the Venezuelan government in the case of a debt default.

Prepare for change. While change will likely come from the actions of Venezuelans themselves, the United States can and should prepare to help stave off the worst of a further deterioration and to help enable the nation to recover its economic footing. To address the humanitarian costs, the U.S. government should begin working with Colombia, Brazil, Guyana, and nearby Caribbean nations that may receive hundreds of thousands if not millions of Venezuelans fleeing repression or chaos. The United States can help protect and care for these refugees, sending funds, civilian personnel, and equipment to help Venezuela's neighboring governments, UN organizations, and U.S. and foreign nongovernmental organizations (NGOs) address the crisis.

The United States should also begin preparing to help a future receptive government deal with the economic and financial chaos. A new administration will quickly have to let the exchange rate float (given the exhaustion of international reserves), let domestic prices rise to reflect supply and demand, and rebuild an effective social safety net. It will also have to restructure the \$140 billion in sovereign and PDVSA debt. The U.S. government has an important role to play in bringing in and helping the International Monetary Fund (IMF) define the dimensions of a rescue package, and in helping coordinate with China, Russia, and other

interested parties. The faster and more comprehensive a deal is, the sooner Venezuela can bring back the economic growth necessary to alleviate the worst of its citizens' suffering.

Venezuela's economic, political, and social situation represents both a regional problem and a global affront to democratic values. As such it should be a priority for the current U.S. government, which should invest in the necessarily complex, time consuming, and fragile diplomatic processes to push for change, as well as to prepare for the day when it in fact may come.

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“Venezuela: Options for U.S. Policy”

Chairman Corker, Ranking Member Cardin, Members of the Committee:

Thank you for the opportunity to testify today. Let me begin by commending the Committee for holding this hearing. In a hemisphere full of opportunities for the United States, there is one glaring crisis that demands action by the United States and other countries in the region – the autocratic rule and economic collapse in Venezuela.

As necessary as this hearing is, I think we can all agree it is a shame that Venezuela is overshadowing the many positive developments in Latin America. When Donald Trump took office, relations between the United States and Latin America were better than they had ever been. Mexico and the United States were partners in controlling migration, combating drug trafficking and expanding economic opportunity for Americans and Mexicans alike; more than a decade of bipartisan support for Colombia had positioned its government to end the longest armed conflict in the hemisphere; increased assistance to Central America was beginning to address the factors driving illegal migration to the United States; and steps to normalize relations with Cuba and improve the lives of its people had removed an irritant in hemispheric relations.

Venezuela was the notable exception to the general trend toward more democratic governance and amicable U.S. relations in the region. Rather than address the severe economic and social problems crippling Venezuela, President Nicolas Maduro opted to scapegoat the United States and invent accusations of American political and economic interference. Well before fake news stained the U.S. presidential election, the Venezuelan regime, like other authoritarian governments, made a practice of circulating falsehoods.

The principal victims of the Venezuelan government's incompetence and malfeasance are of course the Venezuelan people. By doubling down on the failed economic policies imposed by the late President Hugo Chavez, Maduro has produced a social cataclysm. The country with the world's highest oil reserves suffers from the world's highest inflation and deepest decline of GDP. Venezuelans spend their days in search of food and medicine. At the same time, military and civilian officials are plundering the country and enriching themselves, siphoning scarce resources and trafficking in illegal drugs. The streets of Venezuela are notoriously dangerous, with the country's murder rate the highest in the world. Venezuelans are already fleeing to Colombia, Brazil and Caribbean neighbors, and a larger refugee crisis is increasingly likely.

Maduro has compounded his economic misrule with political repression. Scores of political prisoners sit in jail for exercising their fundamental rights to express themselves freely and assemble peaceably. The opposition-controlled National Assembly has been stripped of its

authority by a pliant Supreme Court. The co-opted electoral authorities quashed a presidential recall referendum and have arbitrarily postponed regional elections that would almost certainly have unseated governors from the ruling socialist movement. Such practices, once common in Latin America, should not be acceptable in a region that is now nearly fully democratic with formal procedures to defend and promote democracy.

While Maduro denies the existence of an economic crisis and human suffering, the Venezuelan people continue their courageous struggle to restore democracy. In December 2015, voters overcame a skewed electoral process and voted overwhelmingly for opposition candidates for the National Assembly. Despite fears of violence and government reprisals, Venezuelans have participated in large-scale protests against the government. Millions were prepared to participate in a referendum to unseat Maduro, despite expected reprisals from the government. And the political opposition, committed to a peaceful transition, agreed to participate in a dialogue with the government, though the regime merely used the process to defuse domestic protests and hold the international community at bay, while buying time to consolidate its stranglehold on power.

The solution to Venezuela's economic and political crises will largely come from inside Venezuela, from the continued mobilization of citizens there and by the actions of those who represent them. A favorable outcome cannot and should not be imposed from the outside. That said, there are important steps the United States should take, in concert with other countries in the region, to help end the suffering of the Venezuelan people and restore respect for democratic norms. The Trump Administration should immediately follow the sanctions it levied against Venezuelan Vice President Tarek El Aissami and an associate for international drug trafficking with the following actions:

First, the Administration should publicly and privately insist that any political transition be peaceful and constitutional. American officials must heed the lessons of the short-lived coup in 2002, when Bush Administration support for Chavez's ouster undermined America's standing in the region and damaged our credibility as a defender of democracy. A democratic transition could be achieved in Venezuela by a variety of legitimate means, including by reviving the presidential recall referendum process or moving up next year's presidential elections.

Second, the United States should be clear that the opposition should not be compelled to suspend protests to participate in a dialogue with the government, as other international actors have insisted. Absent elections, an independent judiciary and a functioning legislature, protests are the only mechanism for Venezuelans to demonstrate their rejection of the government and its policies. The Administration should mobilize likeminded countries to warn Venezuelan authorities that anyone who orders or participates in violence against demonstrators will be held accountable by the international community.

Third, the Administration should signal it would consider supporting opposition proposals to offer guarantees to government figures who facilitate a democratic transition. It is never satisfying when individuals are not held accountable for misdeeds. But such compromises can be necessary to dislodge an authoritarian regime without bloodshed and chaos.

Fourth, the Administration should continue to refine the plans ordered by President Obama to deal with a range of contingencies in Venezuela, including a worsening of the humanitarian situation, an increased flow of refugees into neighboring countries, and a transition to a government committed to democracy and economic reform. Even as pressure is ramped up on the regime, the United States should be poised to provide humanitarian assistance to the Venezuelan people, support U.N. agencies and countries like Colombia to care for refugees, and support the Inter-American Development Bank and other international bodies to promote sound economic policies that restore economic growth, reduce poverty and crime, and help rebuild Venezuela's collapsed health system.

Fifth, the Trump Administration should encourage other countries, and the European Union, to join the United States in imposing sanctions on Venezuelan officials for engaging in massive corruption, abusing human rights and dismantling democracy. Multilateral sanctions are more effective in blocking an individual's assets and travel, and they convey global opprobrium and deprive wrongdoers of the opportunity to portray themselves as martyrs in an anti-imperialist struggle against the United States. When the Obama Administration appropriately sanctioned seven Venezuelan security officials in April 2015, the legislative requirement to find that Venezuela "constitutes an unusual and extraordinary threat to the national security and foreign policy of the United States" led governments in the region to denounce the sanctions and some in the opposition to distance themselves from the U.S. action.

Finally, the Trump administration should continue Obama administration efforts to build support at the Organization of American States to invoke the Inter-American Democratic Charter, which offers tools to defend democracy, including Venezuela's potential suspension from the OAS. International approval matters greatly to Venezuela, and the government works mightily to beat back efforts to criticize or isolate it in international fora. In December, after Mercosur, a regional customs union, expelled Venezuela, Foreign Minister Delcy Rodriguez suffered physical injuries when she sought to overpower security guards excluding her from a Mercosur summit.

OAS member states should follow Mercosur's lead, and the bold and principled leadership of Secretary General Luis Almagro, and impose consequences on the Venezuelan government for continuing to hold political prisoners, cancelling the presidential recall referendum, and shackling the National Assembly. Such external pressure, combined with the domestic mobilization of the Venezuelan opposition, is essential for any internal dialogue or international mediation to succeed in bringing about a democratic transition and meaningful economic reform.

Although patience with the Maduro government in the region has been exhausted, invoking the Charter will not be easy. New governments in influential countries like Argentina, Brazil and Peru have been critical of Maduro, but most of the region has preferred to delay action while the Vatican-mediated dialogue between the government and opposition sputters along. Countries in the Americas are also generally disinclined to weigh in on the internal affairs of their neighbors,

and Venezuela has silenced many Caribbean governments with its provision of discounted petroleum.

Unfortunately, the Trump Administration is poorly positioned to marshal regional efforts to defend democracy. Notwithstanding the president's meeting with the wife of Leopoldo Lopez and his call to release the prominent political prisoner, Trump and his team have evinced little interest in human rights and democratic norms overseas. Moreover, the president's attacks on the American press, judiciary and critics of his Administration have eroded the moral authority of the United States. As former President George W. Bush said this week, "It's hard to tell others to have independent press when we're not willing to have one ourselves."

The Trump's administration's alienation of some of our closest allies has also undermined our ability to organize international efforts on Venezuela. Mexico, an important actor in the region and in the OAS, is less inclined to collaborate with Washington after Trump's bullying and denigration of the country. The lack of respect accorded Mexico has also made it more difficult for other countries in the region to team up with the United States to confront another Latin American country. Trump even created an opening for Maduro to express solidarity with Mexico and try to isolate the United States in the region. EU members, meanwhile, are bristling at Trump's disparagement of the organization and see the president himself as a threat to democratic values.

As noted, there are steps the Trump Administration should take to have a positive impact in Venezuela. But unless the president alters his posture domestically and internationally, the United States will sideline itself diplomatically, and advocates for democracy and human rights might need to look to other countries to champion the cause of the embattled Venezuelan people.