Oil Sanctions on Venezuela Would Make Economic Recovery 'Impossible'

The Trump administration is currently evaluating oil sanctions on Venezuela. If implemented, they would make the current economic crisis in Venezuela far worse, and would make a recovery impossible, says CEPR's Mark Weisbrot

Reuters reported on January 17 that Trump administration officials recently met with U.S. oil company executives to explore the possibility of imposing oil sanctions on Venezuela. Approximately half of Venezuela's oil exports continue to go to the United States, despite various financial sanctions that the U.S. already has in place against the government and government officials. Oil sanctions have often been considered against Venezuela, but so far haven't happened, presumably because of the effect these would have on the U.S. oil market and on U.S. refiners. Reuters quotes one executive as saying that the oil sanctions planning is "more serious than I've heard before."

But what would happen to the Venezuelan economy if such oil sanctions were imposed? To understand what this means one needs to realize that in Venezuela imported goods and services are equal to about 30 percent of its GDP.[1] Since over 90 percent of Venezuela's export earnings come from oil exports, cutting off oil exports to the U.S. would represent a serious blow to the economy. One could argue that Venezuela could simply export its oil to other countries, but the vast majority of Venezuelan oil goes to refineries in the U.S. that are specifically adapted to take Venezuelan heavy crude. It might be possible to find other partners, but it would be difficult.

These potential Trump administration plans for an oil embargo come on top of already existing financial sanctions that prohibit any US citizen or institution from buying or selling Venezuelan debt. However, since imports generally depend on credit lines, many importers and banks have been scared off from dealing with Venezuela at all, lest they fall into the crosshairs of US authorities for having violated US sanctions (see what happened to Huawei's CFO, who was arrested in Canada at US urging, for allegedly violating US sanctions on Iran).

TRNN spoke to Mark Weisbrot, co-director of the Center for Economic and Policy Research and long-time expert on the Venezuelan economy. Weisbrot makes the point that, first of all, U.S. media never report on the effect of U.S. sanctions on Venezuela. "Most of the impact [of U.S. sanctions] hasn't really been reported here, because I think the basic theme in the media is that everything that's gone wrong in Venezuela is a fault of the government," said Weisbrot.

One of the clearest indications of the impact U.S. sanctions have already had on Venezuela is the decline in oil production, which plummeted at the same as the sanctions hit Venezuela in August 2017. A graph from the capital management firm Torino Capital shows this quite well. It

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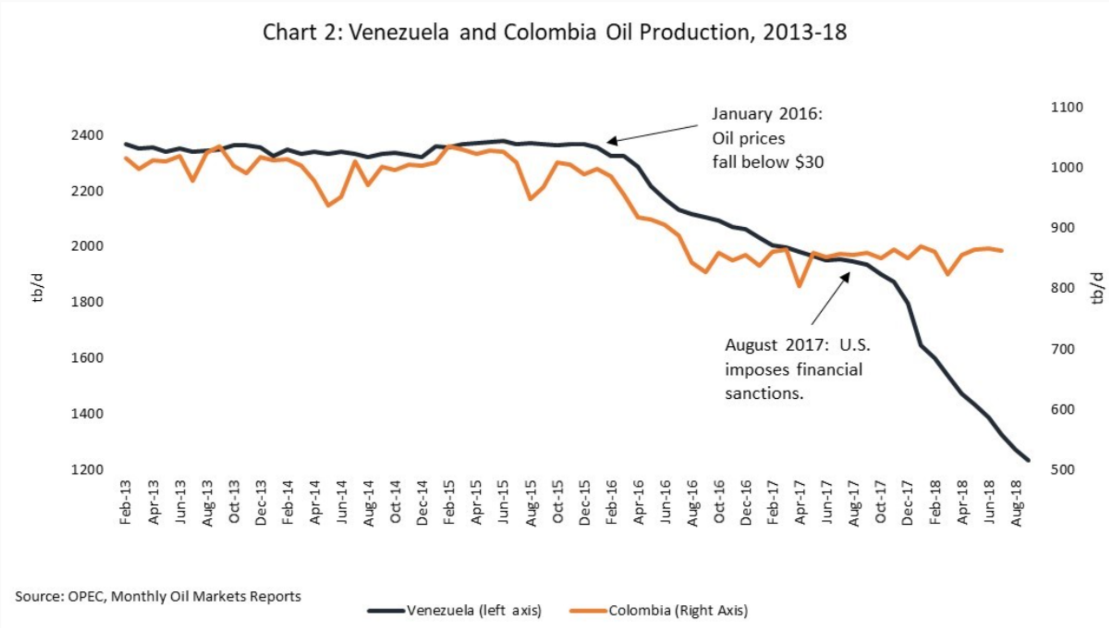
[1] Compare this to the US, where imports make up about half that percentage: 15 percent. Source: https://tradingeconomics.com/venezuela/imports-of-goods-and-services-percent-of-gdp-wb-data.html

compares Venezuelan and Colombian oil production between 2013 and 2018, which fell in line with oil prices until 2017. However, after August 2017, Venezuela's oil production fell dramatically, while Colombia's held steady.



Weisbrot goes on to observe, "The interesting thing is that even though this [data] was published, and it's readily available, and there's absolutely no one who challenges it, none of the media, as far as I can tell, even reported this impact of the sanctions that have devastated Venezuela's oil production."

Another aspect of the sanctions is that not only have they provoked a decline in oil production and in oil exports (and hence badly needed revenue for imports), but they also kill by making it very difficult to import life-saving medicines.

If the Trump administration were to impose oil sanctions on Venezuela, these consequences would only get worse. Unfortunately, all of this is happening in a context of hyperinflation (estimates range from 100,000 to 1 million percent per year), which accentuates shortages and economic distress even more.

Weisbrot argues that the hyperinflation problem could be resolved relatively easily, if the right context were given. That is, according to him, "If it weren't for the sanctions, it wouldn't be that difficult to get rid of the hyperinflation." He goes on to say that, "It turns out that hyperinflation is actually easier to get rid of than just high inflation."

Based on the approximately seven other cases of hyperinflation in Latin America during the past 50 years, one can say what needs to be done. Weisbrot: "For example, in Bolivia in 1985 they had hyperinflation that was comparable to this, and they got rid of it in 10 days. And so the way in which they get rid of it is, in most cases, is called exchange rate-based stabilization … You basically have to create a new currency system. … [You] fix your currency to the dollar at a rate that is reasonable. That is, that reflects current economic reality. And then you have to take a series of measures to restore confidence that the government isn't going to keep printing money…"

All of this, of course, presupposes that the government has some degree of flexibility and revenues in order to make the peg of the new currency to the dollar reliable. But if imports and exports are being restricted by an outside force, such as the U.S., this is almost impossible to do. Imposing oil sanctions on Venezuela would make this even more unfeasible.

So why is the U.S. government so determined to overthrow the Maduro government in Venezuela? An important factor would no doubt be the fact that Bolivarian Revolution has always opposed U.S. imperialism in Latin America and around the world. But then again, so have other countries, such as Bolivia, which have not suffered as much from US designs. Another factor would be Maduro's effort to find a negotiated solution to the conflict in Venezuela. The radical opposition in Venezuela refuses to engage in such negotiations, but this is the sector the U.S. would like to see in power. Meanwhile, more moderate forces, which are negotiating, are not welcome by Washington.

According to Weisbrot, "There's nothing the [Maduro] government could do except collapse or resign to get rid of these sanctions. And it's not even clear they'd get rid of [the sanctions] if Maduro resigned, for example. The U.S. wants its people in power. They're not really interested in elections, or any kind of peaceful or negotiated transition. They just want to get their people in there."