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Regulatory Alert: More Sanctions Targeting Venezuela's Maduro Regime

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President Trump signed Executive Order 13857 on January 25th, yet again escalating economic sanctions targeting the regime of Nicolas Maduro. This is the latest in a string of sanctions against Venezuela, following just days after Juan Guaidó, President of the Venezuelan National Assembly, declared himself Interim President of Venezuela, with support from the United States and numerous other nations. The Executive Order expands the scope of the definition of the "Government of Venezuela" to include "any person who has acted or purported to act directly or indirectly for or on behalf of" the Government of Venezuela, "including as a member of the Maduro regime," thus paving the way toward new sanctions against any individual members of the Maduro regime. This action raises the stakes for Maduro's supporters even higher, as the Trump Administration threatens sanctions to encourage defections.

Of more immediate effect, on January 28th OFAC also blocked Petróleos de Venezuela, S.A. ("PDVSA"), the Venezuelan state-owned oil company, pursuant to Executive Order 13850. Previously, the sanctions against PDVSA were limited to restrictions on certain debt and equity transactions. Blocking PDVSA would normally require U.S. persons to end nearly all dealings immediately with PDVSA and its subsidiaries, but in view of PDVSA's deep integration with the U.S. economy, OFAC issued a series of licenses that allow various dealings to continue temporarily or wind down.

Executive Order 13850, issued November 1, 2018, introduced Russia-sanctions style "sectoral sanctions," starting with the gold sector. The order did not expressly target the oil sector, but rather authorized the Treasury Department to designate any person determined "to operate in the gold sector of the Venezuelan economy or in any other sector of the Venezuelan economy as may be determined by the Secretary of the Treasury. . . ." Treasury has now both expanded sectoral sanctions to Venezuela's oil sector and blocked the largest player in that sector. This was all accomplished via a press release and web notice, showing how quick and easy it is to add entire new sectors and new targets within existing sanctions.

PDVSA is the most commercially significant designation since OFAC's designation of Rusal, the Russian aluminum conglomerate with extensive ties to the West – a move that was reversed recently with a deal that ended the sanctions against Rusal. Suggesting some lessons learned from the Rusal experience, OFAC published numerous general licenses simultaneously with the designation of PDVSA, which seem aimed at curbing some of the harm to U.S. persons that would otherwise flow from sanctioning such an important company, whose subsidiaries even include CITGO Petroleum ("CITGO").

We summarize below some of the more significant of the general licenses. Please note that these are just *brief summaries* of these general licenses. We caution you to review the authorizations *and all their terms, conditions and limitations* very carefully before relying on any general license.

- General License 7 – Authorizing transactions with respect to CITGO and certain other U.S. subsidiaries of PDVSA (and involving no other blocked parties) through July 26, 2019.

- General License 8 – Authorizing Chevron, Halliburton, Schlumberger, Baker Hughes, and Weatherford International (and their subsidiaries) to engage in transactions ordinarily incident and necessary to operations in Venezuela involving PDVSA through July 26, 2019, excluding the export/reexport of diluents from the U.S.

- General License 10 – Authorizing U.S. persons in Venezuela to purchase refined petroleum products for personal, commercial, or humanitarian uses from PDVSA, excluding commercial resale, transfer, exportation or reexportation. Given PDVSA's monopoly on petroleum products in Venezuela, this license is necessary to prevent the sanctions on PDVSA from effectively prohibiting U.S. investment in and travel to Venezuela.

- General License 11(a) – Authorizing U.S. person employees and contractors of non-U.S. entities located outside the U.S. or Venezuela to engage in transactions ordinarily incident and necessary to the wind down of operations involving PDVSA through March 28, 2019, excluding any dealings with ALBA de Nicaragua ("ALBANISA") or any other blocked party.

- General License 11(b) – Authorizing U.S. financial institutions to reject (as opposed to block) funds transfers transiting through the U.S. between PDVSA and non-U.S. entities located outside the U.S. or Venezuela through March 28, 2019, excluding any dealings with ALBANISA or any other blocked party.

- General License 12 – Authorizing transactions ordinarily incident and necessary to the importation into the U.S. of petroleum and petroleum products from PDVSA through April 27, 2019, and authorizing the wind down of other operations involving PDVSA (including importation of goods, services or technology other than petroleum or petroleum products) through February 26, 2019. These authorizations do not include the divestiture of any debt, equity or other holdings in, to, or for the benefit of PDVSA, the export/reexport from the U.S. to Venezuela or PDVSA, or any dealings with ALBANISA or any other blocked parties.

Please note that all of the above references to PDVSA or other blocked parties also refer to all of their 50% or more owned subsidiaries. Also, technically, the licenses expire one minute after midnight on the date following the dates mentioned above, but we think it is more practical to focus on the earlier date.

For a description of the previous sanctions against the Government of Venezuela, including PDVSA, please see our alert of November 5, 2018.