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# Venezuela's Economic Crisis: Issues for Congress

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# Summary


**Venezuela's Economic Crisis: Overview**

Venezuela is facing a political crisis under the authoritarian rule of President Nicolás Maduro, who appears to have continued to consolidate power over the political opposition in recent months. Underpinning Venezuela's political crisis is an economic crisis. Venezuela is a major oil producer and exporter, and the 2014 crash in oil prices, combined with years of economic mismanagement, hit Venezuela's economy hard. Venezuela's economy has contracted by 35% since 2013, a larger contraction than the United States experienced during the Great Depression. Venezuela is struggling with inflation, shortages of food and medicine, substantial budget deficits, and deteriorating living conditions with significant humanitarian consequences.

In response to the Maduro regime's increasingly undemocratic actions, the Trump Administration imposed sanctions restricting Venezuela's access to U.S. financial markets in August 2017, increasing fiscal pressure on the government. In November 2017, the Venezuelan government announced it would seek to restructure its debt. The government and the state-oil company, *Petróleos de Venezuela, S.A.* (PdVSA), subsequently missed key bond payments, leading credit rating agencies to issue default notices. Debt restructuring is expected to be a long and complex process, and it is unclear whether Venezuela will make coming debt repayments. The outlook for the economy is bleak; the Economist Intelligence Unit forecasts the Venezuelan economy will contract by 11.9% in 2018.

**Implications for U.S. Economic Interests**

The political crisis in Venezuela and low oil prices have contributed to a contraction in U.S.-Venezuela trade. Venezuela is a relatively minor trading partner of the United States; the contraction in bilateral trade is more consequential for Venezuela, for which the United States is its largest trading partner. In response to the political and economic instability, several large U.S. companies have left Venezuela or curtailed operations there.

U.S. investors holding Venezuelan and PdVSA bonds could face substantial losses if Venezuela suspends payment or seeks an aggressive restructuring of its debt. Bondholders are in the early stages of organizing to enter restructuring negotiations and/or pursue legal challenges against the Venezuelan government. Venezuelan dollar-denominated bonds were issued under New York law, and bondholder lawsuits seeking repayment would take place in U.S. courts. Legal challenges could result in the seizure of Venezuela's assets in the United States, such as CITGO (whose parent company is PdVSA), oil exports, and cash payments for oil exports.

Venezuela's precarious fiscal position also raises concerns for U.S. energy security. In 2016, Venezuela's state oil company PdVSA secured a loan from the Russian state-oil company Rosneft. PdVSA used 49.9% of its shares in CITGO as collateral. If PdVSA defaults on its Rosneft loan, it is not clear whether Venezuela's portion of CITGO ownership would be transferred to Rosneft. Reportedly, Rosneft is negotiating to swap its collateral in CITGO for other PdVSA assets.

**Looking Ahead**

Congress is considering providing humanitarian aid to Venezuela through nongovernmental organizations. If the Maduro government or a new government in Venezuela engages in a significant reorientation of policy, U.S. policymakers may be interested in providing broader economic support to rebuild Venezuela's economy. Policymakers might explore how the international community, particularly the International Monetary Fund (IMF), could provide an international financial assistance package, and whether debt incurred by the National Constituent

Assembly, widely viewed as an illegitimate legislature, should be enforced. If the Maduro regime stays in power and does not reorient its policies, the United States may revisit its policies and potentially pursue harsher sanctions.

For additional information on Venezuela from CRS, see CRS Report R44841, *Venezuela: Background and U.S. Relations*; CRS In Focus IF10230, *Venezuela: Political and Economic Crisis and U.S. Policy*; and CRS In Focus IF10715, *Venezuela: Overview of U.S. Sanctions*.

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# Introduction

Venezuela continues to be in the throes of a deep political crisis under the authoritarian rule of President Nicolás Maduro.[1] Narrowly elected to a six-year term in 2013 following the death of longtime populist President Hugo Chávez (1999-2013), Maduro is unpopular. Despite serious economic challenges and recurring protests, Maduro has various policies, including use of the courts and security forces, to repress and divide the political opposition. The Maduro regime has been accused of committing serious human rights abuses; creating a deepening humanitarian crisis in Venezuela; establishing an illegitimate legislature, the National Constituent Assembly, which has usurped power from the democratically elected National Assembly; engaging in rampant corruption; and persecuting the political opposition.[2]

Underpinning the political crisis is an acute and increasingly unstable economic crisis. Venezuela's economy is built on oil, which accounts for more than 90% of the country's exports. The 2014 collapse in oil prices hit Venezuela's economy hard. Venezuela's economy has contracted by 35% since 2013, a larger contraction than the United States experienced during the Great Depression in the 1930s.[3] In addition, the crisis is marked by inflation, shortages of consumer goods, default on the government's debt obligations, and deteriorating living conditions with significant humanitarian consequences.

Congress has long-standing interests in both U.S.-Venezuela relations and foreign economic crises that affect U.S. economic interests. This report analyzes the economic crisis in Venezuela, arguably the most acute crisis in the global economy today, including the causes, policy responses by the government, and recent developments. The report also examines how the crisis affects U.S. economic interests, including U.S. investors' holdings of Venezuelan bonds, Venezuelan assets in the United States, U.S.-Venezuelan trade and direct investment, and possible future involvement of the International Monetary Fund (IMF) in the crisis.

# Economic Crisis in Venezuela

For decades, Venezuela was one of South America's most prosperous countries, but now lags behind other key economies in the region (**Figure 1**). Venezuela has the world's largest proven reserves of oil in the world, and its economy is built on oil.[4] Oil accounts for more than 90% of Venezuelan exports and oil sales fund the government budget. Oil exports also provide the country with the foreign exchange it needs to import consumer goods. After years of economic mismanagement under President Hugo Chávez, Venezuela was not well equipped to withstand the sharp fall in oil prices in 2014. Economic conditions have deteriorated rapidly under President Maduro. In November 2017, the government's increasingly dire fiscal situation came to a head, as the government announced it would seek to restructure its debt.

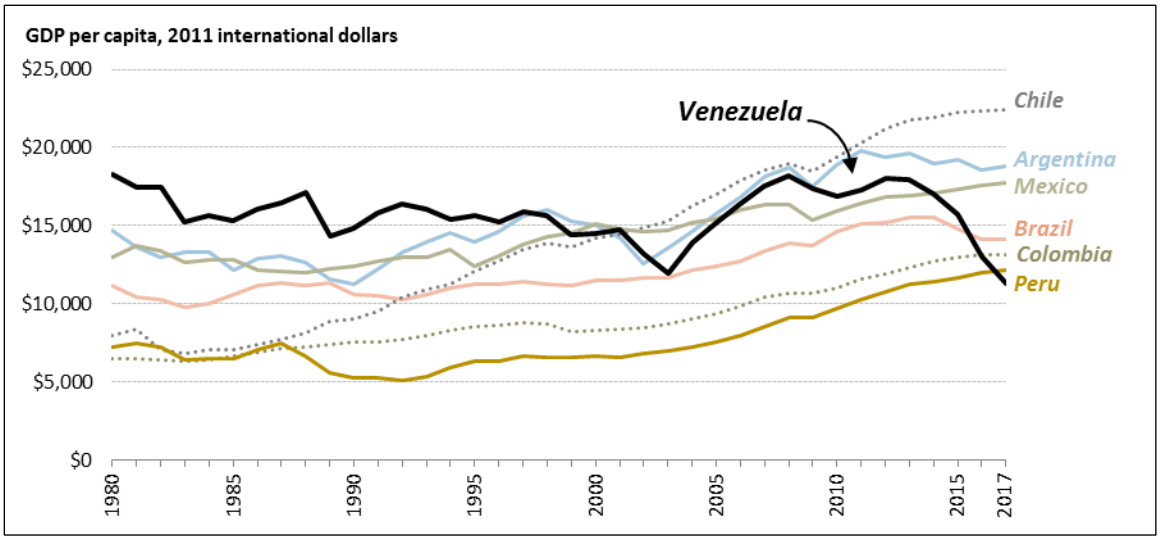
[1] For more on the political crisis in Venezuela and U.S. CRS Report R44841, *Venezuela: Background and U.S. Relations*, coordinated by Clare Ribando Seelke, and CRS In Focus IF10230, *Venezuela: Political and Economic Crisis and U.S. Policy*, by Clare Ribando Seelke and Mark P. Sullivan.

[2] For example, see Executive Order 13808, "Imposing Additional Sanctions With Respect to the Situation in Venezuela," August 24, 2017.

[3] Ricardo Hausmann, "Venezuela's Unprecedented Collapse," *Project Syndicate*, July 31, 2017.

[4] "How Chávez and Maduro Have Impoverished Venezuela," *Economist*, April 6, 2017.

**Figure 1. Venezuela GDP per capita**




**Source:** IMF, *World Economic Outlook Database*, October 2017.

**Notes:** An international dollar would buy in the cited country an amount of goods and services comparable to what a U.S. dollar would buy in the United States. This term is used in conjunction with Purchasing Power Parity (PPP) data.

## Economic Mismanagement during the Oil Boom

Venezuela benefited from the boom in oil prices during the 2000s. When Hugo Chávez took office in 1999, oil was $10 a barrel. Oil prices steadily rose over the following several years, reaching a peak of $133 a barrel in July 2008.[5] Between 1999 and 2015, the Venezuelan government earned nearly $900 billion from petroleum exports, with about half ($450 billion) earned between 2007 and 2012 (Chávez's second term).[6]

President Chávez used the oil windfall to spend heavily on social programs and expand subsidies for food and energy. Social spending as a share of GDP rose from 28% to 40% between 2000 and 2013, a much bigger rise than in Latin America's other large economies.[7] Chávez borrowed against future oil exports, running budget deficits in nine of the years when he was in office (1999-2013).[8] Venezuela's public debt more than doubled between 2000 and 2012, from 28% of GDP to 58% of GDP.[9] Additionally, Chávez used oil to expand influence abroad, for example through *PetroCaribe*, a program that allowed Caribbean countries to purchase oil at below-market prices. The Chávez government also engaged in widespread expropriations and nationalizations, with the number of private companies dropping from 14,000 in 1998 to 9,000 in 2011.[10] It also adopted currency and price controls.

[5] U.S. Energy Information Administration, Europe Brent Spot Price FOB, at https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=rbrte&f=m.

[6] Michael M. McCarthy, "Venezuela's Manmade Disaster," *Current History*, February 2017, pp. 61-67.

[7] "How Chávez and Maduro Have Impoverished Venezuela," *Economist*, April 6, 2017.

[8] IMF, *World Economic Outlook Database*, October 2017.

[9] Ibid.

[10] Stephen Keppel, "5 Ways Hugo Chávez Has Destroyed the Venezuelan Economy," *ABC News*, January 17, 2013.

Substantial government outlays on social programs helped Chávez gain political favor and drive down poverty rates in Venezuela, from 37% in 2005 to 25% in 2012.[11] However, widespread economic mismanagement had long-term consequences. Government spending was not directed toward investment that could have helped increase economic productivity and reduce its reliance on oil. Expropriations and nationalizations discouraged foreign investment that could have provided the country with increased expertise and capital. Price controls created market distortions and stifled the private sector. Economic growth and poverty reduction in Venezuela lagged behind the rest of South America.[12]

## Crash in Oil Prices and Economic Crisis

When Nicolás Maduro was elected President in April 2013, he inherited economic policies that were broadly viewed as unsustainable and overly reliant on proceeds from oil exports. When oil prices crashed in 2014, the Maduro government was ill-equipped to soften the blow to the Venezuelan economy. While many other major commodity producers used the boom years to build foreign exchange reserves or sovereign wealth funds to mitigate risks from big swings in commodity prices, the Chávez government created no such stabilization fund to guard against a potential future fall in oil prices.[13] Instead, Chávez had borrowed on the expectation that oil prices would remain high.

The crash in oil prices led to a sharp decline in government revenue and, combined with the government's policy choices, triggered a broad economic crisis.[14] Venezuela's economy is estimated to have contracted by nearly 35% between 2012 and 2017.[15] The fall in oil prices strained public finances; instead of adjusting fiscal policies through tax increases and spending cuts, the Maduro government tried to address its growing budget deficit by printing money, which led to inflation. Inflation, about 20% in 2012, was projected to exceed 1,100% by the end of 2017.[16] The government has tried to curb inflation through price controls, although these controls have been largely ineffective in restricting prices, as supplies have dried up and transactions have moved to the black market.[17] Unemployment in Venezuela is forecast to reach 26% in 2017, more than triple the level of unemployment in 2012.[18] **Table 1** provides a snapshot of changes in key economic indicators for Venezuela since 2013.

Until recently, the Maduro government had committed to repaying its debts despite tight resources, fearing the legal challenges from creditors that plagued Argentina for more than a decade after its default in 2001.[19] Such legal challenges against the Venezuelan government could

[11] Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America*, 2014, Table 1, http://repositorio.cepal.org/bitstream/handle/11362/37627/4/S1420728_en.pdf.

[12] Michael M. McCarthy, "Venezuela's Manmade Disaster," *Current History*, February 2017, pp. 61-67.

[13] "How Chávez and Maduro Have Impoverished Venezuela," *Economist*, April 6, 2017.

[14] For more on low oil prices, see CRS In Focus IF10493, *Effects of Lower Oil Prices*, by Robert Pirog.

[15] IMF, World Economic Outlook Database, October 2017; Ricardo Hausmann, "Venezuela's Unprecedented Collapse," *Project Syndicate*, July 31, 2017.

[16] IMF, *World Economic Outlook Database*, October 2017.

[17] "How Chávez and Maduro Have Impoverished Venezuela," *Economist*, April 6, 2017.

[18] IMF, *World Economic Outlook Database*, October 2017.

[19] For more on the Argentina default and ensuing legal cases, see CRS Report R43816, *Argentina: Background and U.S. Relations*, by Mark P. Sullivan and Rebecca M. Nelson, and out-of-print CRS Report R41029, *Argentina's Defaulted Sovereign Debt: Dealing with the "Holdouts"*, by J. F. Hornbeck, available to congressional clients upon request.

result in the seizure of Venezuela's overseas assets, such as CITGO, a subsidiary of Venezuela's state oil company, *Petróleos de Venezuela, S.A.* (PdVSA); oil shipments; and cash payments for oil exports. Maduro's commitment to debt service came at a high cost: to meet its international payments, the government tightened restrictions on access to foreign currency, imposed price controls, and cut imports. Venezuela's imports of goods fell from $62.9 billion in 2013 to $21.4 billion in 2016.[20] Venezuela relies heavily on imports for most consumer goods, and cuts to imports led to severe shortages of food and medicine, creating a humanitarian crisis.[21]

**Table 1. Venezuela's Economic Crisis: Key Indicators**

| Indicator | Pre-Economic Crisis (2013) | Latest Data (*2016 or **2017 Forecasted) | % Change |
|---|---|---|---|
| Exports of goods | $82.7 billion | $27.0 billion* | -67% |
| Imports of goods | $62.9 billion | $21.4 billion* | -66% |
| GDP, constant prices, Venezuela's national currency, the bolívar | 62.2 billion bolívares | 41.2 billion bolívares** | -34% |
| GDP per capita[a] | $17,980 | $11,290** | -37% |
| Inflation, % change in prices[b] | 57% | 1,133%** | 1,888% |
| Unemployment, % of population | 7.5% | 26.4%** | 252% |
| Government deficit, % of GDP | 14.1% | 18.5%** | 31% |
| Government reserves | $21.5 billion | $10.0 billion[c] | -53% |

**Source:** IMF *World Economic Outlook*, *International Financial Statistics*, and *Direction of Trade Statistics* Databases, accessed December 18, 2017.

**Notes:**

a. International dollars (adjusted for purchasing power parity); see Notes in **Figure 1**.

b. End of period consumer prices.

c. Data is for the fourth quarter of 2013 and the third quarter of 2017.

The Venezuelan government pursued a variety of policies to fill its funding gaps and avoid default. The government approached allies China and Russia for financing, securing loans to be repaid through future oil exports ("oil-for-loan" deals), although it fell behind on these deals. In May 2017, the Venezuelan central bank raised funds through the sale of $2.8 billion in PdVSA bonds to Goldman Sachs Asset Management at a steep discount (Goldman paid $865 million).[22] The deal was controversial, and the government had difficulty finding buyers for a similar transaction in subsequent months.[23] The Venezuelan government was running out of foreign exchange reserves to make debt payments, with official reserves down from $21.5 billion at the

[20] IMF, *Direction of Trade Statistics Database*, accessed December 18, 2017.

[21] For more information on the humanitarian crisis in Venezuela, see CRS Report R44841, *Venezuela: Background and U.S. Relations*, coordinated by Clare Ribando Seelke. Also see Jared Genser, "Venezuela Needs International Intervention Now," *New York Times*, May 30, 2017; Meredity Kohut and Isayen Herrea, "As Venezuela Collapses, Children are Dying of Hunger," *New York Times*, December 17, 2017.

[22] Kejal Vyas, Anatoly Kurmanaev, and Julie Wernau, "Goldman Sachs Under Fire for Venezuela Bond Deal," *Wall Street Journal*, May 30, 2017; Kejal Vyas and Anatoly Kurmanaev, "Goldman Sachs Bought Venezuela's State Oil Company's Bonds Last Week," *Wall Street Journal*, May 28, 2017.

[23] Matt Wirz, and Carolyn Cui, "Venezuela's Humanitarian Crisis Tests Wall Street Ethics," *Wall Street Journal*, June 19, 2017.

end of 2013 to $10 billion in the third quarter of 2017.[24] In August 2017, new U.S. sanctions exacerbated the government's precarious fiscal position. Specifically, the August 2017 sanctions restrict Venezuela's ability to borrow from U.S. investors or access U.S. financial markets.[25] The Maduro government is pursing the creation of a new currency, "petros" backed by oil, gas, gold, and diamonds, as a way to circumvent sanctions.

## Default and Debt Restructuring

After months of speculation about if and when Venezuela would default, on November 2, 2017, President Maduro announced in a televised address that the country would seek to restructure and refinance its debt. The announcement signaled a significant shift in policy and highlighted the government's dire fiscal situation, but Maduro provided few details about how the restructuring would proceed. While it is difficult to find reliable data on the composition of Venezuelan debt, it is estimated that Venezuela owes about $64 billion to bondholders, $20 billion to China and Russia, $5 billion to multilateral lenders (such as the Inter-American Development Bank), and tens of billions to importers and service companies in the oil industry.[26] Maduro blamed U.S. sanctions for Venezuela's need to restructure, arguing that U.S. sanctions made it impossible for the government to find new financing.[27]

Any comprehensive restructuring of Venezuelan debt is expected to be a long and complex process, due to the following factors:

- the number of parties involved, including hundreds or even thousands of bondholders who are in the early stages of organizing, as well as China and Russia, whose lending to Venezuela may be driven in part by geopolitical considerations;[28]
- legal challenges likely to be initiated by bondholders, which could take years to resolve and could result in the seizure of Venezuelan assets in the United States, including CITGO (owned by PdVSA), oil shipments, and cash payments for oil;[29]
- differences in legal provisions in different bonds, including differences between the sovereign and PdVSA bonds;[30]
- U.S. sanctions, which prohibit U.S. investors from accepting any new debt issued in a debt restructuring or from engaging with Vice President Tareck El Aissami and Economy Minister Simon Zerpa, who are leading the debt negotiations and subject to U.S. sanctions for drug-trafficking and corruption charges; and

[24] IMF, *International Financial Statistics*, accessed December 18, 2017.

[25] For more on the financial sanctions, see CRS Insight IN10766, *New Financial Sanctions on Venezuela: Key Issues*, by Rebecca M. Nelson and CRS In Focus IF10715, *Venezuela: Overview of U.S. Sanctions*, by Mark P. Sullivan.

[26] John Paul Rathbone and Robin Wigglesworth, "Venezuela Debt: US, Russia, and China Play for High Stakes," *Financial Times*, November 22, 2017.

[27] Katia Porzecanski, Patricia Laya, Ben Bartenstein, and Christine Jenkins, "Venezuela Will Seek to Restructure Debt, Blaming Sanctions," *Bloomberg*, November 3, 2017; Anna Gelpern, "Venezuela is Like... (Part I)," *Credit Slips*, August 3, 2017.

[28] Robin Wigglesworth, "Debt Restructuring Battle is Brewing over Venezuela," *Financial Times*, November 20, 2017.

[29] Lee C. Buchheit and G. Mitu Gulati, "How to Restructure Venezuelan Debt," Draft Working Paper, July 21, 2017.

[30] Anna Gelpern, "Venezuela is Like... (Part II)," *Credit Slips*, August 6, 2017.

- lack of any economic reform agenda in Venezuela to accompany the restructuring, such as an IMF program.

Maduro stressed his promise to continue debt service during negotiations with creditors, likely an effort to evade legal challenges from bondholders. However, the government and PdVSA missed some bond interest payments in mid-November, leading credit rating agencies and a New York-based derivatives group (the International Swaps and Derivatives Association, ISDA) to issue default notices.[31]

To advance its goal of debt restructuring, the Venezuelan government organized a bondholders meeting in Caracas on November 13, 2017. The meeting, while touted by the government as a sign of good faith in negotiations with creditors, provided little insight into how negotiations would proceed.[32] Reportedly the bondholder meeting was sparsely attended, no bondholders were allowed to ask any questions publicly, and the meeting concluded after 30 minutes.[33] Critics have also questioned why the government appointed two sanctioned individuals to lead its negotiating team.

Some analysts have tried to parse Maduro's strategy, if any exists, for dealing with private bondholders.[34] Maduro's stated goal of restructuring and subsequent default notices drove down the value of Venezuelan debt trading in secondary markets. Some analysts have argued that this was Maduro's intent, and strengthens the government's hand in restructuring negotiations. There is also some speculation that the Venezuela government will strategically default on its government bonds, but not the PdVSA bonds. The reasoning is that it may be harder to seize the government's assets rather than a company's assets, but it is unclear how the strategy would play out in courts given the tight linkages between the government and PdVSA.[35]

Although China and Russia have both provided financial support to Venezuela, the two creditor governments are increasingly taking divergent approaches to Venezuela's mounting fiscal problems. In mid-November, Russia agreed to restructure $3.15 billion in debt owed by Venezuela on favorable terms, despite Russia's own fiscal pressures. This eased the fiscal pressures facing the Venezuelan government, and demonstrates the geopolitical significance of Venezuela to Russia. In contrast, China seems to give priority to the economic value of its investments in Venezuela over geopolitical concerns. In late November, a U.S. subsidiary of Sinopec, one of China's biggest state-owned oil companies, sued PdVSA in a U.S. court for late payments.[36] PdVSA settled with the subsidiary in December, perhaps showing the importance to Venezuela of maintaining good relations with the Chinese government.[37] It appears to be the first legal challenge to Venezuela relating to its debt payment obligations.

In addition to restructuring debt owed to Russia, the Venezuelan government is seeking sources of cash to keep its finances afloat. In December, the government secured a $400 million credit line

[31] John Paul Rathbone and Robin Wigglesworth, "Venezuela Debt: US, Russia, and China Play for High Stakes," *Financial Times*, November 22, 2017; Corina Pons, "Venezuela Ruled in Default by Trade Group after Bond Payment Delays," *Reuters*, November 16, 2017.

[32] Ben Bartenstein, Katia Porzecanski, and Patricia Laya, "Venezuela's Bondholder Meeting Is a Bust as S&P Declares Default," *Bloomberg*, November 13, 2017.

[33] Patricia Laya, Jose Enrique, Arrioja, and Fabiola Zerpa, "Venezuela's 30 Minutes of Debt Talks Leave Bondholders Guessing," *Bloomberg*, November 13, 2017.

[34] Venezuela Seeks the Restructuring of its Massive Foreign Debts," *Economist*, November 9, 2017.

[35] "Venezuela Default More Likely on Sovereign Bonds than PdVSA Bondholders," *Reuters*, December 15, 2017.

[36] Jonathan Wheatley, "Lawsuit Shows China Losing Patience with Venezuela," *Financial Times*, December 6, 2017.

[37] "Venezuela's PdVSA Settles Lawsuit with China's Sinopec," *Reuters*, December 12, 2017.

from the Latin American Development Bank (*Corporacion Andina de Fomento*, CAF), of which the United States is not a member.

## Economic Outlook

In October 2017, the IMF projected Venezuela's economy to contract by 6% in 2018 and 2% in 2019.[38] These projections have been substantially revised since the government announced plans to restructure its debt and was declared in default by several credit rating agencies. In December 2017, the Economist Intelligence Unit projected that Venezuela's economy will contract by 11.9% in 2018 and 5.4% in 2019, a more significant contraction in economic growth than it or the IMF envisioned just two months prior.[39]

Venezuela is running a relatively large budget deficit, estimated at 18.5% of GDP in 2017.[40] It is unclear how restructuring and/or default will impact Venezuela's finances, in part because it is unclear whether the government intends, or will be able, to continue repaying debts during the negotiations.[41] If the government does suspend debt repayments, it could in the short term redirect funds to domestic objectives such as increasing imports of food and medicine, which could help bolster domestic political support for the Maduro regime. In the longer term, however, suspending payments to creditors could result in a substantial loss of government revenue, if creditors are able to seize oil exports or funds tied to oil exports.

# Potential Issues for Congress

## Impact on U.S. Trade and Investment with Venezuela

While there has been minimal spillover of Venezuela's economic crisis in broader global financial markets, the crisis has a number of policy implications for U.S. economic interests. Venezuela's economic and broader political crisis, combined with low oil prices, has contributed to a contraction in U.S.-Venezuela trade, and some major U.S. firms operating in Venezuela have left or curtailed operations. Many U.S. investors hold Venezuelan government and PdVSA bonds, and U.S. investors could suffer losses and become involved in complicated legal proceedings against the Venezuelan government. There are also concerns that dealings between PdVSA and the Russian state-oil company Rosneft could result in Rosneft taking partial ownership of PdVSA's Texas-based subsidiary, CITGO.

### U.S. Trade with Venezuela

The combination of low oil prices, Venezuela's declining oil production, and the overall decline in U.S. oil imports, as well as the country's major political and economic crisis, has contributed to a sharp decrease in U.S. trade with Venezuela. U.S. commodity exports to Venezuela have fallen by 60% since 2013, from $13.2 billion to $5.2 billion in 2016.[42] U.S. commodity imports from Venezuela have fallen by about two-thirds since 2013, from $32.0 billion to $10.9 billion in 2016.

[38] IMF, World Economic Outlook Database, October 2017.

[39] Economist Intelligence Unit, *Country Report: Venezuela*, December 2017.

[40] IMF, World Economic Outlook Database, October 2017.

[41] Jonathan Wheatley and Robin Wigglesworth, "Venezuela Bond Repayments: Dead and Alive," *Financial Times*, November 28, 2017.

[42] Unless otherwise noted, trade data is from U.S. Department of Commerce, as accessed on December 18, 2017.

The contraction in U.S.-Venezuela trade is more consequential for Venezuela than the United States. From the U.S. perspective, Venezuela is a relatively minor trading partner. U.S. imports to and exports from Venezuela accounted for less than 1% of U.S. global merchandise imports and exports in 2016. From the Venezuelan perspective, however, the United States is a critical partner. In 2016, the United States was Venezuela's largest trading partner, accounting for 22% of Venezuela's exports and 26% of Venezuela's imports.

In terms of sectors, U.S.-Venezuela trade is dominated by oil. Oil accounts for more than 95% of U.S. merchandise imports from Venezuela. Most of the oil imported to the United States from Venezuela is crude oil, and Venezuela is the United States' third-largest source of crude oil imports, behind Canada and Saudi Arabia. The value of U.S. oil imports from Venezuela has fallen from $43.3 billion in 2011 to $10.9 billion in 2016. The United States exports a relatively small amount of refined oil to Venezuela ($1.7 billion), as well as light crude oil (used as a diluent for blending with Venezuelan heavy crude oil) to a PdVSA oil refinery and storage facility in Curacao.[43]

Beyond oil, top U.S. merchandise exports to Venezuela in 2016 included machinery ($847 million), cereals ($394 million), organic chemicals ($324 million), and electrical machinery ($290 million). For each of these commodities, the value of U.S. exports to Venezuela has dropped between 40% and 75% since 2013. In contrast, U.S. exports of services, estimated at $6.0 billion in 2016, has held relatively steady through the crisis.[44] Major U.S. service exports to Venezuela include transportation, intellectual property (audiovisual-related products), and travel sectors.[45]

## U.S. Firms Operating in Venezuela

Although Venezuela accounts for less than 1% of total U.S. direct investment overseas, many U.S. companies have set up subsidiaries or manufacturing facilities in Venezuela.[46] According to the State Department, more than 500 U.S. companies were represented in Venezuela in mid-2016.[47] However, in response to the political and economic instability, several large U.S. companies have left Venezuela, curtailed operations there, or restructured subsidiaries to minimize the exposure of parent companies.[48] Examples include Bridgestone (tire and rubber products), Colgate (household and personal care products), Delta (airline), GM (cars), Kimberly Clark (paper-based products), Mondelez (snacks), Pepsi (soft drinks), and United Airlines.

Many analysts view the risk of expropriation in Venezuela as high, given the tight fiscal conditions facing the Maduro government and the past unpredictable nationalizations in various sectors under Presidents Chávez and Maduro.[49] The United States also does not have a bilateral

[43] U.S. Energy Information Administration, "U.S. Crude Oil Exports are Increasing and Reaching More Destinations," August 16, 2016; For more on U.S. petroleum trade with Venezuela, see CRS Insight IN10741, *U.S. Petroleum Trade with Venezuela: Financial and Economic Considerations Associated with Possible Sanctions*, by Phillip Brown and Clare Ribando Seelke.

[44] U.S. Trade Representative, U.S.-Venezuela Trade Facts, https://ustr.gov/countries-regions/americas/venezuela, accessed October 3, 2017.

[45] Ibid.

[46] Department of Commerce, Bureau of Economic Analysis.

[47] State Department, U.S. Relations with Venezuela, Bureau of Western Hemisphere Affairs, August 31, 2016.

[48] State Department, U.S. Relations with Venezuela, Bureau of Western Hemisphere Affairs, August 31, 2016; Patrick Gillespie, "Corporate America's Nightmare Run in Venezuela," *CNN*, July 30, 2017; Matt Krantz, "Venezuela Gets Ugly for Some U.S. Companies," *USA Today*, May 24, 2016; Franz von Vergen, U.S. Companies Fleeing Venezuela to Escape Country's Collapsing Economy," *Fox*, June 1, 2016.

[49] For example, see Credendo, Venezuela, at https://www.credendo.com/country_risk/venezuela; and "As Venezuela's

investment treaty or free trade agreement with Venezuela that could provide investors protection.[50] In November 2017, five U.S. citizens were among the CITGO executives detained in Venezuela, heightening U.S. tensions with the government. Such action will likely continue to deter U.S. economic activity in Venezuela.[51]

## U.S. Bondholders

U.S. investors could face substantial losses if Venezuela suspends payment or seeks an aggressive restructuring of its debt. Although it is difficult to find reliable data on the holdings of Venezuela's external debt obligations, Venezuelan bonds are included in the popular JP Morgan Emerging Markets Bond (EMBI) index, and are believed to be widely held among U.S. investors.[52] However, concerns about the country's outlook have caused some investors to sell their holdings of Venezuelan and PdVSA bonds. According to one survey, nearly 41% of the 81 U.S.-based emerging-market debt funds have zero exposure to Venezuela, down from 34% a year ago.[53]

Following the government's announcement that it intends to restructure its debt, bondholders are in the early stages of organizing to enter potential restructuring negotiations with the government and/or pursue legal challenges to the restructuring. A number of U.S.-based firms have been reported as being involved in efforts to organize and advise creditors, including Cleary Gottlieb (a law firm that frequently represents debtor governments in debt restructurings), Greylock Capital (a hedge fund), the Institute of International Finance (a global association of the financial industry based in Washington, DC, which played a critical coordinating role in Greece's 2012 debt restructuring), and Millstein & Co. (a law firm frequently involved in sovereign debt restructurings).[54] Reportedly, some U.S. firms are also exploring advising the Venezuelan government in the restructuring, but these efforts are complicated by U.S. sanctions.[55]

Venezuelan government and PdVSA dollar-denominated bonds were largely issued under New York law. If the Venezuelan government or PdVSA defaults, it is expected that bondholders would seek repayment through legal challenges against the Venezuelan government or PdVSA in the U.S. legal system. These legal challenges would presumably be similar to the court cases filed by bondholders against the Argentine government after Argentina's default in 2001. The dispute between the Argentine government and creditors took 15 years to resolve. Venezuela's restructuring and likely legal challenges are widely expected to be more complex, largely due to Venezuela's significant overseas assets that could be seized by creditors. Companies that have been subject to expropriation by the Venezuelan government are also seeking claim to Venezuelan assets in the United States. It is not clear the assets would be large enough to compensate all claimants, meaning that U.S. bondholders could still face substantial losses.[56]

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Crisis Deepens, Multinational Companies Need a New Strategy," *Forbes*, April 25, 2017.

[50] For more on international investment agreements, see CRS In Focus IF10052, *U.S. International Investment Agreements (IIAs)*, by Martin A. Weiss and Shayerah Ilias Akhtar and CRS Report R43052, *U.S. International Investment Agreements: Issues for Congress*, by Shayerah Ilias Akhtar and Martin A. Weiss.

[51] Steve Holland, "Five U.S. Citizens among Citgo Executives Detained in Venezuela," *Reuters*, November 22, 2017.

[52] Ricardo Hausmann, "The Hunger Bonds," *Project Syndicate*, May 26, 2017.

[53] Matt Wirz and Carolyn Cui, "Venezuela's Humanitarian Crisis Tests Wall Street Ethics," *Wall Street Journal*, June 19, 2017.

[54] Robin Wigglesworth, "Debt Restructuring Battle is Brewing over Venezuela," *Financial Times*, November 20, 2017.

[55] Ibid.

[56] In August 2017, a U.S. court ruled that Canadian miner Crystallex could seize Venezuelan money held in an account

**Debate over the Ethics of Holding Venezuelan Bonds**

The May 2017 Goldman Sachs Asset Management purchase of PdVSA bonds from Venezuela's central bank sparked a broader debate about the ethics of U.S. financial institutions holding and buying Venezuelan bonds. Before President Maduro announced his plans to restructure the government debt, Venezuelan bonds were popular investments. For a long time, Venezuelan bonds were one of the strongest performers in the JP Morgan Emerging Markets Bond Index (EMBI), given the high risk premium and the government's commitment to full debt service. Venezuelan debt accounted for about 5% of the index, but was contributing about 20% of the yield.[57]

Some analysts argued that investors holding Venezuela bonds contributed to the humanitarian crisis, because Maduro reduced imports of food and medicine for the Venezuelan people in order to make payments to foreign bondholders. Others argued that refusing to purchase Venezuelan bonds, or engaging in a massive selloff of Venezuelan debt, would only exacerbate the country's economic situation.

In recent months, the debate has become more muted, as Venezuela's ability to issue new bonds has been curtailed by U.S. sanctions, and investors' holdings of Venezuelan bonds have significantly fallen in value as a result of the government's plan to restructure the debt.[58] However, the debate could resurface if creditors seek repayment, which could be seen as directing funds from the Venezuelan people to foreign investors.

## CITGO Ownership

In 2016, PdVSA secured a $1.5 billion loan from the Russian state-oil company Rosneft. PdVSA used 49.9% of its shares in CITGO as collateral for the loan. If PdVSA defaults on the loan from Rosneft, Rosneft would likely gain the 49.9% stake in CITGO. CITGO, based in Texas, owns substantial energy assets in the United States, including three oil refineries, 48 terminal facilities, and multiple pipelines. Some policymakers are concerned that Rosneft could gain control of critical U.S. energy infrastructure and pose a serious risk to U.S. energy security.[59] There are also questions about whether the transaction would be compliant with U.S. sanctions on Rosneft.

In a hearing before the Senate Banking Committee in May 2017, Treasury Secretary Mnuchin indicated that any such transaction would be reviewed by the Committee on Foreign Investment in the United States (CFIUS).[60] At the end of August, it was reported that the Trump Administration stands ready to block the transaction.[61] Reportedly, Rosneft is negotiating to swap its collateral in CITGO for oilfield stakes and a fuel supply deal.[62] In December, Venezuela

at the Bank of New York Mellon to cover a $1.4 billion judgement awarded by the World Bank's International Centre for Settlement of Investment Disputes (ICSID) for expropriation. At least 43 companies have or are pursuing legal claims through ICSID against the Venezuela government for alleged expropriation, and it is estimated that the government owes companies $3.7 billion as a result of ICSID rulings. See Robin Wigglesworth, "Venezuela's Path to a Debt Restructuring Grows More Treacherous," *Financial Times*, August 31, 2017.

[57] Ricardo Hausmann, "The Hunger Bonds," *Project Syndicate*, May 26, 2017.

[58] For example, see Robin Wigglesworth, "Goldman Sachs Asset Arm Faces Large Paper Loss on Venezuelan Bond," *Financial Times*, November 5, 2017.

[59] For example, see Jeff Duncan and James Conway, "Venezuela-Russia Deal Threatens U.S. Energy Security," *The Hill*, July 11, 2017.

[60] U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, *Domestic and International Policy*, 115th Cong., May 18, 2017. For more on CFIUS, see CRS In Focus IF10177, *The Committee on Foreign Investment in the United States*, by James K. Jacksonand CRS Report RL33388, *The Committee on Foreign Investment in the United States (CFIUS)*, by James K. Jackson.

[61] Ian Talley, "U.S. to Block Potential Russian Move into American Energy," *Wall Street Journal*, August 31, 2017.

[62] Alexandra Ulmer and Marianna Parraga, "Russia, Venezuela Discuss Citgo Collateral Deal to Avoid U.S. Sanctions," Reuters, July 20, 2017.

awarded licenses to Rosneft to develop two offshore gas fields, but it is unclear if this deal is related to the CITGO collateral.[63]

## Possible Future Economic Support for Venezuela

Congress is considering using nongovernmental organizations to provide humanitarian aid to Venezuela, including food and medicine, to address its humanitarian crisis.[64] It appears unlikely that the Venezuelan government would accept U.S. assistance at this time.[65] However, if the Maduro government or a new government in Venezuela engages in a significant reorientation of policy, U.S. policymakers might pursue options to provide broader economic support to rebuild Venezuela's economy. In addition to lifting sanctions that restrict Venezuela's access to the U.S. financial system, policymakers might explore how the international community, particularly the IMF, could provide an international financial assistance package, and whether debt incurred by the National Constituent Assembly, widely viewed as an illegitimate legislature, should be enforced. If there is no significant change in Venezuelan policies, the United States may reconsider its policy stance and potentially pursue harsher sanctions against the government.

### Potential IMF Program

In multilateral and bilateral aid packages for countries experiencing crises, IMF programs are typically the seal of approval on a government's policies and the linchpin for commitments from other multilateral and bilateral donors.[66] Venezuela has a tenuous relationship with the IMF; in fact, for more than a decade, the Venezuelan government has not permitted the IMF to engage in routine surveillance of its economy.[67] In November 2017, the IMF formally found Venezuela to be in violation of its surveillance commitments, a process that could eventually lead to Venezuela being expelled from the institution.[68] If the international community decided to move ahead with a package for Venezuela, an immediate consideration would be how to normalize relations between the Venezuelan government and the IMF. The United States is the IMF's largest shareholder, and would likely be an influential voice in any negotiations between the IMF and Venezuela.

There are also questions about how an IMF or international assistance program would be designed to maximize its effectiveness. In particular, there may be questions about whether it is appropriate for funds in an international assistance package to be used to repay Venezuela's creditors, including private bondholders and/or the Chinese and Russian governments. Some may argue that any IMF funds be contingent upon debt restructuring with private and/or official creditors.

There may also be debate about the size of a potential IMF assistance package for Venezuela. Preliminary estimates suggest that Venezuela could require financial assistance of $30 billion

[63] "Venezuela Gives Russia's Rosneft Gas Field Concessions," Reuters, December 17, 2017.

[64] In December, the House passed H.R. 2658, which would direct the State Department to work through nongovernmental organizations to provide food and nutritional supplements, medicine and medical supplies, and related technical assistance to Venezuela. A similar bill, S. 1018, has been introduced in the Senate.

[65] Elizabeth Dickinson, "Venezuela Needs Humanitarian Planning Now, Say Opposition Officials," *Devex*, September 20, 2017.

[66] For more on the IMF, see CRS In Focus IF10676, *The International Monetary Fund*, by Martin A. Weiss and CRS Report R42019, *The International Monetary Fund*, by Martin A. Weiss.

[67] The last IMF Article IV Consultation for Venezuela was on September 13, 2004.

[68] IMF, Statement by the IMF Executive Board on Venezuela, November 3, 2017.

annually, possibly for several years.[69] Such funding levels would likely require access to IMF resources above its normal lending limits, even if IMF funds are paired with other multilateral and bilateral funding.[70] The IMF has procedures for extending loans above its normal limits, but exceptional access to IMF resources has come under greater scrutiny following the Eurozone crisis, during which exceptional access was controversially granted to several Eurozone countries. It is not clear whether a large IMF program for Venezuela would cause similar concerns about IMF lending practices, or whether there would be broad support for a substantial program, given the magnitude of Venezuela's crisis and the difficult humanitarian situation.

### Potential Repudiation of "Odious" Debt

If there is a change in government in Venezuela, another issue that may come to the forefront is "odious debt." Odious debt is a term and concept used by those who argue that debt incurred by a prior "illegitimate" regime that is not used for the benefit of the people should not be enforceable.[71] Although the concept dates back to the 1920s, odious debt is not included in sovereign or international law, nor has it been invoked by any country restructuring its debts following a regime change.[72]

Some policy experts, as well as members of the opposition in Venezuela, are arguing that a new Venezuelan government may have standing to declare any debts incurred by the National Constituent Assembly, which came to power through elections widely viewed as flawed and illegitimate, as odious debt.[73] Invoking the concept of odious debt to secure debt relief, if successful, could help ease the fiscal challenges facing Venezuela, but it would be unprecedented and raise a host of legal and public policy questions. There are differing views among policy experts about whether a new Venezuelan government would pursue such a strategy and whether it would be successful.

## Looking Ahead

Although the economic crisis in Venezuela has been building for years, in many ways it is still in the early stages, with no clear or quick resolution on the horizon, particularly given the concurrent political crisis. The country is facing a complex set of economic challenges embedded in a volatile political context: collapsed output, inflation, and unsustainable budget deficits and debt all plague the country. The government's policy responses, including price and import controls, vague restructuring plans, and deficit spending financed by expanding the money supply (printing money), have been widely criticized as inadequate and as exacerbating the economic situation facing the country.

Over the past several decades, the international community has developed processes for helping countries respond to serious economic crises. These processes usually entail an international

[69] John Paul Rathbone and Shawn Donnan, "IMF Crunches the Numbers for Possible Venezuela Rescue," *Financial Times*, October 16, 2017.

[70] Ibid.

[71] For example, see "The Concept of Odious Debt in Public International Law," United Nations Conference on Trade and Development, No. 185, July 2007.

[72] Robin Wigglesworth, "Venezuela Crisis Raises Talk of 'Odious Debt' Doctrine," *Financial Times*, September 11, 2017.

[73] Robin Wigglesworth, "Venezuela Crisis Raises Talk of 'Odious Debt' Doctrine," *Financial Times*, September 11, 2017; Ricardo Hausmann and Ugo Panizza, "Odiousness Ratings for Public Debt," *Project Syndicate*, August 30, 2017.

financial assistance package, paired with debt restructuring and an IMF reform program. In the case of Venezuela, the Maduro government has no such plan in place, nor has it shown any signs of pursuing such a program. Given the political situation there, it is unlikely that the international community is inclined to do so either. There are serious questions about how long the Maduro regime can persist amid such a severe economic crisis, but in recent months Maduro appears to have increasingly consolidated political power over the opposition.

In terms of U.S. policy, the Trump Administration likely increased the fiscal challenges facing Venezuela's government through sanctions restricting Venezuela's access to the U.S. financial system. However, the sanctions are a double-edged sword. The sanctions are opposed by a majority of Venezuelan people, and may have boosted support for the Maduro regime.[74] They also restrict the ability of U.S. investors to participate in any restructuring, and U.S. investors could face substantial losses if the Maduro regime suspends payments. Some analysts have called for stronger sanctions on Venezuela to force a change in government, but others have cautioned against potential harm to both the Venezuelan people and U.S. economic interests.

## Author Information

Rebecca M. Nelson
Specialist in International Trade and Finance

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[74] Christopher Woody, "Venezuela is 'A Target-Rich Environment' for More US Sanctions – But It Could Backfire," *Business Insider*, December 22, 2017.