VENEZUELA AT A CROSSROADS

TESTIMONY OF
SANDRA OUDKIRK
DEPUTY ASSISTANT SECRETARY
BUREAU OF ENERGY RESOURCES
U.S. DEPARTMENT OF STATE
BEFORE
THE HOUSE COMMITTEE ON FOREIGN AFFAIRS
FEBRUARY 12, 2019

Chairman Engel, Ranking Member McCaul, and Members of the Committee:

Thank you for the opportunity to testify today. As you know, President Trump officially recognized President of the Venezuelan National Assembly, Juan Guaido, as the Interim President of Venezuela on January 23. The President also issued an Executive Order to make clear that United States sanctions continue to target the illegitimate former Maduro regime.

On January 28, the United States determined that persons operating in Venezuela's oil sector may now be subject to sanctions pursuant to Executive Order 13850. In addition, Petroleos de Venezuela, S.A. (PDVSA) has been designated for operating in this sector. This action extends to entities that are majority owned by PDVSA.

These new sanctions are intended to place pressure on Maduro and his cronies, minimize its receipt of revenue from the United States, and safeguard the U.S. financial system. The designation of PDVSA will preserve Venezuela's national assets for the Venezuelan people. I also want to underscore that these new sanctions do not target the innocent people of Venezuela and will not prohibit humanitarian assistance including the provision of medicine and medical devices, which are desperately needed after years of economic destruction under Maduro's rule.

The United States is holding accountable those responsible for Venezuela's tragic decline. Under the former Maduro regime, Venezuelan oil production steadily declined due to mismanagement, corruption, and lack of investment. Analysts estimate that PDVSA production will fall to less than one million barrels of oil per day this year, down from nearly three million per day when Maduro became president.

PDVSA has long been associated with allegations of corruption and a variety of schemes designed to embezzle billions of dollars for the personal gain of corrupt Venezuelan officials and businesspeople. It currently serves as a key vehicle through which Maduro and his cronies plunder Venezuela's wealth for their own corrupt purposes. These sanctions aim to prevent the illegitimate former Maduro regime and other corrupt actors from further enriching themselves at the expense of the Venezuelan people.

Concurrent with this action, Treasury's Office of Foreign Assets Control (OFAC) has issued General Licenses that authorize certain transactions and activities with PDVSA, within specified timeframes, which will help mitigate unintended consequences on U.S. companies, interests, and allies.

For example, CITGO, a wholly owned subsidiary of PDVSA, is authorized to continue business operations for the next six months, however, this license does not extend to dealings with PDVSA. This license can be extended beyond the initial six-month period by Treasury's OFAC, if appropriate.

These licenses provide equal treatment to U.S. refineries that are importing Venezuela crude oil, offering the same 90-day wind down period for purchasing and importing petroleum products from PDVSA. Any payments made to PDVSA, however, must be made into a blocked, interest-bearing account located in the United States. These funds will be preserved for the people of Venezuela.

Several alternative sources of the same type of heavy sour crude oil that Venezuela produces exist, which include sources from Mexico, Ecuador, Colombia, Canada, and the Middle East. While there may be a short-term adjustment period, we do not assess that this adjustment will have a sustained negative impact on the U.S. refineries that import Venezuelan oil.

The license for U.S. companies operating in Venezuela will allow them to continue normal operations there, with minimal exceptions. The oil sector is an integral part of the Venezuelan economy and its revival will be essential to the country's economic recovery.

A license has also been issued to allow U.S. persons in Venezuela to purchase petroleum products for personal, commercial or humanitarian purposes.

As part of our mitigation efforts, it will be essential to coordinate action with allies as appropriate, by previewing our policy strategy and through high-level government engagement, particularly with those in other regions, such as Europe and Asia, who have joint ventures with PDVSA in Venezuela. We are also working to avoid disruptions in vulnerable energy sectors in the Caribbean and Central America, given PDVSA's integrated role in those local and regional energy markets.

The United States continues to work with oil producers and consumers all over the world to ensure access to reliable and affordable energy supplies. Over the past year, U.S. crude oil production increased by nearly two million barrels per day and exports increased by over one million barrels per day, adding to market liquidity. Over the next year, U.S. production is forecasted to increase to an all-time high of more than 12 million barrels per day. Disruptions are unlikely since oil markets are adequately supplied.

The United States continues to have grave concerns about the activities of the former Maduro regime and its affiliates to: perpetuate human rights violations and abuses; conduct arbitrary arrests and detentions of pro-democracy protestors; curtail press freedom; and harass political opponents. We will continue to use the full suite of our diplomatic and economic tools to support Interim President Juan Guaidó, the National Assembly, and the Venezuelan people's efforts to restore their democracy.

U.S. sanctions need not be permanent; they are intended to change behavior. The path to sanctions relief for PDVSA is through the expeditious transfer of control of the company so that it is no longer a tool for the former Maduro regime's illegitimate uses. We will also carefully consider on-going U.S. involvement in and links with the Venezuelan energy sector, as we balance our effort to support the restoration of democracy and the eventual re-building of Venezuela.

Thank you for your attention and now I am happy to take any questions that you may have.