

Going south – Venezuela

An unsafe, quite possibly rigged, election result means that President Nicolas Maduro remains in charge of Venezuela, oil-rich even while much of the population is impoverished and corruption in government is rife. The United States has responded with sanctions, balancing the risk of further illegal immigration through its southern border. With the country now also on the Financial Action Task Force grey list, Paul Cochrane finds little cause for optimism.



Change candidate?

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Venezuela, whose July [2024] presidential election has been contested by the political opposition as fraudulent, is facing financial restrictions after grey-listing by the Financial Action Task Force (FATF), in June [2024], over failures to address deficiencies in its anti-money laundering and counter financing of terrorism (AML/CFT) framework. In a communiqué, FATF said the country would have to undertake significant work, inter alia, on improving understanding of ML/TF risks; to ensure beneficial ownership information is accessible promptly; boost the resources of the National Financial Intelligence Unit (UNIF); enhance investigation and prosecution of ML and TF; and implementing TF-and proliferation financing (PF)-related targeted financial sanctions without delay. [1]

Dark prospects

Looking ahead, Venezuela is in danger of going on the FATF blacklist, joining North Korea and Iran, said Amir Fadavi, a senior director at risk advisory firm K2 Integrity in Washington, DC. Meanwhile, further sanctions have been imposed on the country by the US government following the crackdown on the opposition in the wake of the presidential elections.

The list lengthens

On 12 September [2024], the US Treasury sanctioned 16 individuals affiliated with President Nicolas Maduro, including leaders of the National Electoral Council, the Supreme Tribunal of Justice, and the national assembly, taking the total number of sanctioned current or former Venezuelan officials to over 140. New visa restrictions were also imposed, adding to the nearly 2,000 individuals identified “for their role in undermining democracy, engaging in significant corruption, or violating the human rights of the Venezuelan people.” [2]

Risks abound in South America’s largest petro state.

Venezuela has warranted close attention by obliged entities and energy traders especially over the past year due to the shifting US sanctions program for the Bolivarian republic. Targeted sanctions on individuals and entities were first imposed in 2005; measures were expanded in 2015 with the freezing of designated Venezuelans’ assets in the USA and then seriously ramped up in 2017, during Donald Trump’s presidency, in a move to internationally isolate the regime of Nicolas Maduro, listing the president, his associates, and the national oil, gas, and gold companies, among other measures. [3] The European Union (EU), UK, Canada, Mexico, Panama and Switzerland have also applied sanctions on Venezuelan government entities and individuals.

A pause, nothing more

In October 2023, following the inking of an electoral roadmap between the government and the opposition, sanctions were partially eased when the US Treasury issued six-month licenses allowing transactions involving Venezuela’s oil and gas sector, and with Minerven, the state-owned gold mining company. The waivers were not extended in February [2024], and following the disputed election, in July [2024], when both Maduro and the opposition claimed victory, Venezuela has come under increased international pressure. The US, EU, the UK and others claim the election was not transparent, while Caracas issued arrest warrants for opposition leaders and clamped down on their supporters.

“There was this moment of sanctions being eased, but when there were signs that Maduro would not allow a fair election, started arresting people, and made changes to the constitutional court, [since then] there’s been this slow roll back of sanctions, cancelling the authorisation of gold to be traded, and then energy, to almost all sanctions being back to where they were before,” said Fadavi. The EU, for example, which enacted sanctions in 2017, extended these in May (2024), until 10 January 2025. [4]

Plane theft

In a sign of Washington keeping the pressure on Venezuela, in September [2024] the US authorities seized a jet used by Maduro in the Dominican Republic, claiming it was illegally purchased in the United States, for US\$13 million, through a shell company and smuggled out of the country. “Let this seizure send a clear message: aircraft illegally acquired from the United States for the benefit of sanctioned Venezuelan officials cannot just fly off into the sunset,” said Matthew Axelrod, the US Commerce Department’s assistant secretary for export enforcement. [5]

Political considerations

Further sanctions could be in prospect, although there are concerns that tougher measures amid a worsening economy could drive more Venezuelan migrants to the US in the lead up to its presidential election in November [2024]. Over 7.7 million Venezuelans are estimated to have fled the country since 2014, 20.1 million people need humanitarian assistance, 82% of the population is experiencing food insecurity and 70% live in multi-dimensional poverty, according to EU figures. [6]

“The US has already considerably sanctioned Venezuela, but not as much as Iran, Syria or Cuba. Whether there are additional sanctions or not is a big policy question due to the immigration issue, which is a hot topic in the election campaign. I see more sanctions coming, not a full embargo, with more people involved in the [Venezuelan] presidential election being sanctioned or subject to asset freezing,” said Fadavi.

Reasons to go further

Alex Zerden, an adjunct senior fellow at the Center for a New American Security (CNAS) and founder of US-based Capitol Peak Strategies, does not see any downside risks for the Biden administration from imposing further sanctions before the elections. “There are many more potential targets, as Venezuela is not comprehensively sanctioned. As demonstrated by a new round of sanctions on 12 September [2024], these targets include individuals tied to the political leadership and specific parts of the economy. The Biden administration is aware of the political ramifications of migration from Venezuela, but there is space to increase sanctions,” he said.

There are multiple grounds to impose sanctions on the country, said Fadavi, citing the Maduro regime’s close diplomatic links with Russia and Iran risk, the international illegal narcotics trade, as well as corruption. He said there was also vulnerability via the USA’s Global Magnitsky Sanctions Programme, which authorises sanctioning individuals and entities deemed responsible for serious human rights abuse and corruption. That said, in the past, the US has turned a blind eye to how “Venezuela has helped Cuba get around US sanctions; the lines are blurry,” noted Fadavi.

Policing the perimeter

Venezuela is in a high-risk neighbourhood, having a 2,000-kilometre border with Colombia, a major producer of cocaine and home to designated militant groups, the National Liberation Army (ELN) and the Revolutionary Armed Forces of Colombia (FARC). It also has weakly policed and extensive borders with Brazil and Guyana, against whom Venezuela has major territorial claims. As Venezuela’s 2015-2020 National Risk Assessment (NRA) (its most recent) noted, according to a 2023 mutual evaluation report from the regional Caribbean Financial Action Task Force (CFATF), of which it is a member rather than the Financial Action Task Force of Latin America (GAFILAT), there is “a lack of resources to control borders and border areas... and a growing number of cross-border crimes, such as the smuggling of gold, fuel, medicines, medical equipment and foreign currency”. It added that Venezuela’s NRA estimated the country’s illicit trade in goods at more than US\$2 billion a year, comprising 30% of food sold, 40% of all goods and 100,000 barrels of petroleum traded per day. [7]

“It is a very challenging region and Venezuela does stand out given its political realities, and the financial crime risk is incredibly high. Political corruption and the sanctions overlay from the US are amplifying risk factors,” said Zerden.

Why stay?

These problems have caused US banks to de-risk away from the country, with the last US bank, Citibank, withdrawing in 2021. “Many banks have decided Venezuela is very high risk, although transactions are not prohibited,” said Fadavi. Oil and gas companies can also apply to the US Treasury for individual licences to engage with the sector.

A former US Treasury official, who requested anonymity, sees US banks not engaging with Venezuela for the time being “more as reputational risk consideration than based on compliance, given the value of oil and extractive transactions.”

Venezuelans and Venezuelan companies have nonetheless sought ways to circumvent sanctions, as through the offshore banking sector of US-territory Puerto Rico, prompting investigations by the US Treasury into some of the 16 offshore banking and financial services firms (out of Puerto Rico’s 80) owned by Venezuelan individuals or companies. [8] In 2019, the Federal Reserve Bank of New York stopped approving new master accounts – which allow access to the Fed’s electronic payment systems – for Puerto Rican offshore banks. This year [2024], Banco San Juan Internacional (BSJI) is suing the US Federal Reserve Board and Federal Reserve Bank of New York for US\$150 million in damages after its master account was revoked in 2022.

“Puerto Rican offshore banks have served Venezuela, and some were liquidated or lost access to the US Federal Reserve payment system. Corrupt Venezuelan officials are pretty creative in finding ways to evade sanctions and access the US financial system,” said Zerden.

Petro swindle and switch-off

One concern that has eased is the potential for the Venezuela state-backed cryptocurrency the Petro, backed by the country’s oil reserves and launched in 2018, to circumvent sanctions and be used for oil payments. In January this year [2024], Maduro scrapped the token, associated crypto mining projects and Sunacrip, the National Superintendence of Cryptoassets and Related Activities. The move was in response to US\$21 billions’ worth of the Petro unaccounted for. Maduro said the crypto “plot” involved Sunacrip officials, senior government ministers, and others illegally siphoning off money. Joselit Ramirez, the former head of Sunacrip, and Tarek El Aissami, the former president of Petróleos de Venezuela (PDVSA), the state-owned oil and natural gas company, were subsequently arrested.

Venezuela is, however, using other cryptocurrencies for oil payments, notably USTD, known as Tether, whose value is pegged to the US dollar. [9]

Beyond grey

In June [2024], FATF put Venezuela on its grey list for failing to address shortcomings in CFATF’s June 2023 evaluation report. In its effectiveness rating, only Immediate Outcome 1 (risk, policy and coordination) received a moderate rating (out of high, substantial, moderate or low level of effectiveness), while the rest of the 11 outcomes were ranked low. Technical compliance ratings were also lacklustre, not fully compliant in any of the 40 Recommendations, being non-compliant in five – Recommendation 6, on TF sanctions; 7, on proliferation finance sanctions; 8, on non-profit organisations; 24, on beneficial ownership of legal persons; and 25, on beneficial ownership of legal arrangements. The country was also largely compliant in nine, and partially compliant in 26.

“Failing on [the] 40 Recommendations seems as if it’s a systemic problem in how they are policing the financial sector. They are firmly on the grey list, and FATF needs a high degree of political confidence from the government that there will be meaningful reforms” said Zerden.

He thinks there is a real risk that Venezuela could be placed on the blacklist unless such reforms happen: “Once you are on the bad side of the international community, you just stop caring. A lot of FATF Recommendations require disclosure of information, the use of certain controls and to have international collaboration, but Venezuela has zero interest to do that, like other sanctioned countries – Iran and North Korea. In the next FATF evaluation, Venezuela may end up on the blacklist, it would not be a surprise,” said Fadavi. “The FATF report certainly makes it easier for banks and international actors to treat Venezuela as high risk or prohibited and gives ammunition for financial institutions to de-risk the country.”

Notes

- https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/increased-monitoring-june-2024.html
- https://www.state.gov/sanctions-and-visa-restrictions-on-venezuelan-individuals-aligned-with-nicolas-maduro-in-response-to-electoral-fraud
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