

Prepared Statement
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Chairman Duncan, Ranking Member Sires, Members of the Committee: Thank for you the invitation to testify today.

Let me begin by commending the committee. You have long appreciated the importance of the situation in Venezuela and have duly raised awareness about the potential negative impacts of the Venezuelan crisis on the United States, the hemisphere, and global governance.

It is an honor to join the committee in this ongoing process of considering policy options and discussing potential solutions. I look forward to your advice and questions.

Between Crisis and Collapse

Mr. Chairman, Venezuela’s downward spiral has left the country poised between crisis and collapse. As you know, over the last three years, the economy has fallen into a depression marked by severe shortages and hyperinflation; social protests frequently erupted into episodes of violent instability; and the government dismantled what remained of one of Latin America’s oldest democracies, yielding an authoritarian regime.

President Nicolás Maduro and his government are hunkered down.

In 2016, Maduro illegally blocked the opposition’s constitutional push for a Recall Referendum. Then, after Vatican- and Union of South American Nations (UNASUR)-sponsored talks between the Maduro Government and the opposition’s *Mesa de la Unidad* (The Democratic Roundtable) coalition broke down, the country’s human rights crisis escalated. Among other illegal detentions, the government arbitrarily jailed an elected member of Congress. As the rule of law further collapsed, the number of political prisoners rose to well over one hundred.²

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² Venezuelan human rights NGO Foro Penal regularly updates data regarding the number of political prisoners. See Foro Penal: <https://foropenal.com/presos-politicos/lista-publica>.

These power grabs amount to a Presidential self-coup.

Regrettably, 2017 projects as another year of full-blown crisis. The population is restive and it is suffering amid an emergent humanitarian crisis. Great uncertainty persists about whether postponed gubernatorial elections will take place this year. If there are no elections in 2017, then the popular response would likely be contentious protests, perhaps including street clashes.

The Crisis Inflection Point

The country's socio-economic descent is the direct result of a failed governance model. That model created the conditions for wastefulness, rampant corruption, and the collapse of the rule of law.

Between 1999 and 2015 the Venezuelan government wasted an oil boom. Over this time period, the government reported \$893 billion in petroleum export revenues. Just over half of this total— \$450 billion—was earned during the second term of Hugo Chávez, 2007-2012. During Chávez's rule, the conditions for today's crisis emerged. The government ignored fiscal discipline, failed to save oil revenues, and expropriated productive businesses as part of a broader effort to undermine the private sector. When global oil prices collapsed 50 percent in 2015 this shock uncovered the economy's vulnerabilities. Amid a further twenty 25 percent decline in oil prices in 2016, Venezuela's year-over-year oil production fell 11 percent. The decline in 2016 equaled a loss of over two 200,000 barrels a day.

Instead of making economic reforms that might have mitigated the crisis, the Maduro government looked for scapegoats. Maduro accused the United States, the local private sector, and Colombian authorities of waging economic war against the government. As a default measure implemented to help the government pay its foreign debt, the government slashed imports. State imports—which are the main source for food, basic goods, and medicine—declined from \$57 billion in 2012 to \$17.6 billion in 2016.³

In 2016, poverty reached eighty percent, and one out of every five Venezuelans reported consuming one meal a day.⁴ In the health sector, conditions at hospitals deteriorated steeply. In 2016, seventy six percent of hospitals reported serious scarcities of medicines and eighty one percent faced shortages of medical and surgical supplies.⁵ Infant and maternal mortality, malnutrition, and tropical diseases all grew to their highest levels in decades.⁶

In this context, popular support for the government has dramatically declined. According to a February 2017 Venebarómetro poll, 85 percent of the population deemed the country's situation to be negative. Nearly 70 percent of the population indicated that they prefer Maduro

³ Michael M. McCarthy, "Venezuela's Manmade Disaster," Current History February 2017.

⁴ Encuesta nacional de condiciones de vida Venezuela, 2016, <http://www.fundacionbengo.org/noticias/2017/encovi-2016.asp>; Venebarómetro, February, 2017.

⁵ Observatorio Venezolano de Salud, "Encuesta nacional de hospitales," <http://www.ovsalud.org/publicaciones/salud/encuesta-nacional-de-hospitales-2016/>

⁶ Ibid; Barbara Fraser and Hildegrad Willer, "Venezuela: aid needed to ease the health crisis," The Lancet, Volume 388, No. 10048, September 3, 2016, pp. 947–949.

leave power immediately.⁷

The chavista political movement has suffered the consequences of remaining loyal to a failed governance model. Chavismo has lost its luster, its links to state corruption are evident, and its leaders are unpopular. However, it would be premature to characterize the movement as defunct. According to a February 2017 Venebarómetro poll, 30 percent of Venezuelans self-identify as chavistas. 24 percent self-identify as members of chavismo's political party, the *Partido Socialista Unida de Venezuela* (PSUV).⁸

With chavismo in decline, the opposition has gained the upper hand in the polls. Its leadership is disjointed, which is a cause for concern. But, following on its landslide victory in the December 2015 National Assembly elections, the *Mesa de la Unidad* anti-government coalition has made significant gains. For example, according to multiple polls, the opposition would win any national election held in Venezuela this year.⁹ Its constitutional proposal to recall President Maduro mobilized millions before the government illegally canceled the petitioning process.

At the level of the popular mood, the population is still mourning the loss of the recall referendum. The deactivation of the recall was particularly disappointing since this option proposed utilizing a constitutional mechanism for resolving the crisis electorally. Speaking broadly, the emotional state of the population seems to swing back and forth between growing fed-up and becoming deeply frustrated. In the first quarter of 2017, the country has not seemed to be as much of a powder keg as it was this time last year.¹⁰ However, the possibility of collapse into civil strife still exists.

Regional and Global Dimensions of Venezuela's Crisis

For the hemisphere, the country's current trajectory represents a fundamental threat to its economic, social, and political stability.

Without delay, the hemispheric community must address two challenges.

First, from a political and moral standpoint, the hemisphere must speak out about Maduro's Presidential self-coup. Maduro's actions demand a response at the Organization of American States (OAS), the premier diplomatic forum in the Americas. The organization's *magna carta* for democracy in the Americas, the Inter-American Democratic Charter (IADC), should be applied to hold the Maduro Government to account.¹¹

⁷ Venebarómetro, February, 2017.

⁸ Venebarómetro, February, 2017.

⁹ Alessandro di Stasio, "Edgard Gutiérrez: en Venezuela no habrá elecciones mientras la oposición pueda ganar," *Efecto Cocuyo*, February 10, 2017. <http://efectococuyo.com/politica/edgard-gutierrez-en-venezuela-no-habra-elecciones-mientras-la-oposicion-pueda-ganar>.

¹⁰ Observatorio Venezolano de Conflictividad Social, "Conflictividad social en Venezuela 2016," <http://observatoriodeconflictos.org.ve>.

¹¹ Michael M. McCarthy, "The Venezuela Crisis and Latin America's Future: Toward a Robust Hemispheric Agenda on Democratic Stability," Woodrow Wilson Center, Latin America Program, March 22, 2017, <https://www.wilsoncenter.org/publication/the-venezuela-crisis-and-latin-americas->

Second, from a security and economic standpoint, the hemisphere must prevent a collapse into civil strife. On this front, there are numerous ominous signs. The Venezuela crisis is already causing regional instability.

In a collapse scenario, neighbor Colombia would experience the most severe direct repercussions. This is of great concern to U.S. interests in South America. While Colombia has made important strides in strengthening state institutions and expanding sovereignty throughout the countryside, it is still in a very fragile place. Confirmation that coca cultivation spiked to 188,000 hectares – a level unseen in two decades – is very alarming.¹² Colombia is beginning to implement the peace accord signed with the *Fuerzas Armadas Revolucionarias de Colombia* (FARC), and it is considering the possibility of peace talks with the *Ejército de Liberación Nacional*, a guerilla group whose center of operations is near Colombian's border with Venezuela. Needless to say, Colombia will need substantial assistance to prevent backsliding.

Colombia and Venezuela are sibling nations. They have a recent political history of rivalry and disagreement. But strong cultural ties also link the two countries. There is a sizable Colombian-Venezuelan population (estimated at over one million) and also a history of compassionate efforts to integrate migrants from the other country into national society. Civil society groups estimate that 1.2 million Venezuelans entered Colombia in the last three years. An estimated 350,000 remained in Colombia.¹³

In 2016, Venezuelans submitted the most asylum requests of any nationality in three countries: The United States (18,155), Brazil (2,238) and Spain (3,960).¹⁴ In Central America, Costa Rica and Panama have experienced significantly increased levels of migration from Venezuela while Caribbean countries continue to report higher numbers.¹⁵

In Europe, governments in Italy, Portugal, and Spain are already casting a watchful eye over events. There are between 800,000 and 1,000,000 Venezuelans with European Union (EU) passports. The overwhelming majority of EU passport holders are from these three countries. These countries are already overwhelmed with immigrants from Africa and the Middle East and recent inflows of refugees. At this time, they are especially ill-equipped to absorb a mass inflow of migrants from Venezuela.

[future?utm_content=buffer334df&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer.](#)

¹² The Associated Press, "Colombia's coca cultivation soars to highest level in two decades, says US," March 14, 2017. <https://www.theguardian.com/world/2017/mar/14/colombia-coca-cocaine-us-drugs>.

¹³ Javier Molina, "Cada vez es mayor la migración de venezolanos a Colombia," *Colprensa*, February 5, 2017, <http://m.elpais.com.co/colombia/cada-vez-es-mayor-la-migracion-de-venezolanos-a.html>

¹⁴ Refugee Freedom Program, "Presentación en audiencia de la CIDH: La crisis de los refugiados venezolanos," March 22, 2017.

¹⁵ There are two important details to underscore about the overall nature of outmigration from Venezuela. One, both Venezuelans of middle-income and lower-income backgrounds have left in search of new beginnings. Two, beyond economic stress, many leave out of fear of political persecution. This includes population groups not often captured in the media spotlight: segments of the urban poor, which have faced increased repression from the Government's highly militarized police units, and whistleblowers, who must take great care to leave quietly.

Globally, a collapse in Venezuela would likely produce three sets of disruptive effects: financial panic amid an increased chance of debt defaults, oil market volatility from the loss of Venezuelan oil exports, and a deepening of already complex security challenges regarding transnational crime.

In financial centers, a collapse would significantly heighten concern about a debt default. With Chinese and Russian state enterprises extending critical loans to Venezuela, both these governments have financial leverage. We do not know the full details of their bilateral financial arrangements with the Maduro government. But, it seems plausible to assume that Chinese and Russian government-linked companies could make claims on Venezuela's oil assets in the context of a default. Such claims could also include U.S.-based Citgo. The Maduro government recently mortgaged 49.9 percent of the wholly Venezuelan-owned refining company to Russia's Rosneft oil company, in exchange for a loan valued between \$1.5 and \$1.9 billion.¹⁶ An investigation by the Committee on Foreign Investment in the United States (CFIUIS) into this arrangement is of vital importance for determining its potential impact on U.S. energy security and U.S.-Russia relations more broadly.

Commercially, a collapse would roil international oil markets and create challenges for importers of Venezuela's oil. A disruption of Venezuelan oil exports to the United States would have a substantial commercial impact, in particular along the U.S. Gulf Coast. But, there would be no broader national security impact. From 2000 to 2016, Venezuelan oil exports to the United States declined roughly 50 percent—1.54 million barrels a day to 796,000 barrels a day, according to the United States Energy Information Agency.¹⁷ Venezuela is the third largest supplier of oil to the U.S.; its oil now makes up 9 percent of total U.S. imports.

Caribbean and Central American beneficiaries of Venezuela's Petrocaribe policy (2005-Current) stand to lose the most in the context of suspended oil sales. In the event of a collapse, one could expect heightened economic instability in Petrocaribe beneficiary countries.¹⁸

For global security, a collapse would provide an important opportunity window for the numerous criminal actors operating in-country. Narcotrafficking interests have penetrated the highest levels of the government and military, while police corruption severely undermines the capacity to fight organized crime and reduce the astonishing murder rate of 70 per 100,000,¹⁹ and security forces are seriously hampered in their effort to safeguard borders because informal economic mafias exercise *de facto* control.²⁰ In a situation of civil strife, the various criminal actors would likely expand their influences over illicit economies and state institutions.

International Engagement: Messages, Plans, and Policy Options

¹⁶ Latin American Herald Tribune, "Venezuela's PDVSA Mortgages U.S. Refinery CITGO to Russia's Rosneft," December 2016, <http://www.laht.com/article.asp?ArticleId=2427676&CategoryId=10717>

¹⁷ United States Energy Information Agency, "Monthly Imports Report," <https://www.eia.gov/petroleum/imports/companylevel/>

¹⁸ David L. Goldwyn and Cory R. Gill, "The Waning of Petrocaribe? Central American and Caribbean Energy in Transition," Atlantic Council, 2016.

¹⁹ Dorothy Kronick, "How to Count our Dead," July 1, 2016 <https://www.caracaschronicles.com/2016/07/01/our-dead/>.

²⁰ Insight Crime, "Venezuela: 2017," <http://www.insightcrime.org/venezuela-organized-crime-news>

The Venezuelan government is directly responsible for this manmade disaster, and it will be up to Venezuelans to address the toughest problems. But the international community cannot remain idle. The crisis is already regional in its effects and sustainable reconstruction will require determined international leadership and well-coordinated international assistance.

For the United States, facilitating reconstruction can start with formulating a full-fledged policy and strategy for democratic stability in Venezuela. The policy should be rolled out in consultation with Latin American and European allies so that plans can be implemented in a regionally coordinated fashion.

Fortunately, there is a strong foundation from which to begin. The Trump administration can build on the bipartisan Congressional consensus about the significance of Venezuela's crisis, and reaffirm a key pledge. In 2015, the United States pledged to "stand by the citizens of countries where the full exercise of democracy is at risk, such as Venezuela" and "work with all governments that are interested in cooperating with us in practical ways to reinforce the principles enumerated in the Inter-American Democratic Charter (IADC)."²¹ This is a crucial message to reiterate considering Secretary General Luis Almagro's renewed efforts at the OAS to apply the Charter.

Policy Messages

The United States can send four key messages about the Venezuela crisis, each at the appropriate time and venue.

- Underline Support for Peaceful, Constitutional Change
First, the United States needs to make clear, in public and in private, that any transition must be peaceful and constitutional or else it will lack legitimacy. The Bush administration lent tacit support for the April, 2002 coup against Hugo Chávez. That decision was counter-productive. It hurt the U.S. reputation in the region. The Presidential recall could be reactivated, and early Presidential elections could be held as well, though these are unlikely.

- Leverage Multilateral Support to Frame the Crisis as Regional and Increase Pressure
Second, in its conversations with regional partners, the United States should frame the Venezuelan crisis as already posing major instability problems for Latin America, and use this point to make the broader argument that the crisis represents the largest obstacle to hemispheric progress. The recent March 23 declaration on Venezuela from fourteen hemispheric governments is a positive start, as are the ongoing discussions at the OAS. The Trump administration should remain open to diplomatic initiatives that emerge from Latin America and continue raising the Venezuela crisis in Presidential-level conversations.

²¹ The White House, "National Security Strategy," February, 2015, https://obamawhitehouse.archives.gov/sites/default/files/docs/2015_national_security_strategy_2.pdf.

Speak Out to Protect Legitimate Political Spaces

- Third, with the opposition under constant harassment, it is crucial that the United States work with regional partners and European allies to speak out on behalf of protecting arenas for civil and political mobilization. These spaces must be protected to provide for the possibility of a breakthrough solution.

After Judicial Reform is Underway, Move Transitional Justice Front and Center

- Fourth, in 2016, the Venezuelan Congress passed an Amnesty Law, though the Supreme Court ruled the legislation unconstitutional. For a brief moment, the Amnesty Law placed the crucial issue of transitional justice at the top of the agenda. To increase the chances for sustainable change, Venezuela needs to have continued discussions about what peace building entails. Once judicial reforms begin to reduce impunity levels, the United States should consider sending a message that it would support transitional justice processes to bolster the rule of law, in the event that Venezuelans create them.

Planning and Assisting with Crisis Alleviation

Immediately, the United States can undertake two contingency planning steps.

Explore Humanitarian Assistance Options

- To address the immediate effects of the crisis, the United States should consider options for delivering humanitarian assistance for the health sector. This can be done through secure multilateral or independent channels that third party groups monitor. The United Nations (UN) and multilateral affiliates are one logical option. President Maduro recently made a request for technical assistance from the United Nations regarding the country's medical shortages. This request is not credible. We need evidence of deeds that clearly demonstrate the government's willingness to accept relief via non-politicized channels of distribution.²² Food assistance is also needed, though the military's control over the distribution system presents enormous challenges for ensuring efficient delivery. In the meantime, the U.S. should reach out to the UN Food and Agricultural Organization (FAO) to present leadership there with an alternative, more realistic picture of ground level conditions than the one being conveyed by the Maduro government. Likewise, the United States should continue contingency planning efforts for two possibilities—debt default and a migration crisis—and expand these to include coordination with Caribbean nations.

Prepare for Reconstruction

- To start work on long-term reconstruction efforts, the United States should enlist government and multilateral agencies to begin work in three areas: 1) planning for economic restructuring; 2) transferring knowledge and lessons about successful cases of judicial reform, including those that involve internationally supported efforts to fight impunity, such as the UN-supported CICIG in Guatemala and the OAS-

²² Marilia Brochetto, "Venezuela asks UN for help as medicine shortages grow severe," CNN, March 25, 2017. <http://www.cnn.com/2017/03/25/americas/venezuela-maduro-un/>

supported MACCIH in Honduras, and 3) developing a new counter-drug policy for the Andean region that would establish the strategic objective of fostering cooperation between Colombia and Venezuela in the fight against narcotrafficking.

Sequenced Policy Options

The United States can consider three areas of policy action in the following order.

1) Marshal a Multilateral Coalition to Defend Democracy and Increase Pressure

Redouble Efforts to Apply the Inter-American Democratic Charter (IADC)

- In the context of Secretary General Almagro's renewed call for applying the Inter-American Democratic Charter (IADC), the United States should work closely with regional allies to ensure the Charter is at the heart of multilateral efforts to protect and promote democracy in Venezuela. The United States might consider working strategically with moderate regional governments that favor applying the Charter. This may enhance efforts to reach out to those that have been less open to the idea of applying the IADC regarding Venezuela's violation of democratic principle and practice. Pursuing the OAS route is not certain to result in attaining the two-thirds vote support to apply the Charter. But, calling for application may have other positive effects, such as strengthening the regional consensus that the Maduro Government is well off the democratic path. This in turn may have broader value for developing new initiatives based on a shared diagnosis of the government's behavior.

Make Clear the Costs of Non-Action Regarding the IADC

- Equally important to democracy promotion is an effort to make explicit the costs of non-action. Not pressing to hold Venezuela to account via the IADC would set a very bad precedent. It would send a dangerous message: those who implement a model of authoritarian government may avoid being held accountable for their actions.

Strengthen Relations with the Caribbean and Central America

- To strengthen its leadership role in the Caribbean and Central America, the Trump Administration should take a key step in the name of policy continuity. The administration should strongly consider strengthening the Caribbean Energy Security Initiative previously led by Vice President Biden. U.S. efforts to promote alternative energy sources in the Caribbean and Central America remain crucial for developing sustainable solutions to the problem of dependence on subsidized Venezuelan oil.

2) Link Strategic Diplomacy with Sanctions

To Maximize Targeted Impact, Use the Sanction Tool as Part of a Policy

- Targeted sanctions for human rights abuses and public corruption are an important tool in the policy toolbox. But their effectiveness ultimately depends on their ability to advance a policy. In this respect, two questions need to be asked while considering sanctions: 1) Does the measure achieve high targeted impact at a low multilateral cooperation cost? 2) Do they raise the costs of the *status quo* for the government without disproportionately raising exit costs for key government leaders? Addressing

these questions will ensure that the administration carefully weighs the strategic value of imposing sanctions on the Maduro government. It is important to hold Venezuelan authorities to account for criminal actions, human rights violations, and undermining the rule of law. At the same time, the ultimate goal should be moving beyond condemnation to articulating a policy with regional support.

Clarify Regulations for Implementation of the Global Magnitsky Law

- If further sanctions on Maduro government authorities are deemed necessary, the United States might consider use of the Global Magnitsky Law. The 2016-passed law still needs implementing regulations, though the statutory language seems clear based on the precedent of the prototype—the Magnitsky Act, which was created specifically for addressing human rights violations in Russia. The Global Magnitsky Act is in part designed to allow the U.S. government to sanction human rights abusers without having to invoke the International Emergency Economic Powers Act (IEEPA). This is of crucial significance. The IEEPA possesses the clause that requires an administration to determine that the “situation” in the country in question represents an “unusual and extraordinary national security threat” to the United States. If utilized, the Global Magnitsky law might create greater clarity about the intentions of U.S. sanctions. This may open the door to multilateral coordination of future sanction actions.

Avoid Economic or Sector-wide Sanctions

- The possibility of placing sanctions on the state-owned oil industry in Venezuela constitutes one of the most aggressive measures available for attempting to place pressure on the Maduro government. In 2016, Venezuela exported 796,000 barrels of oil to the United States, crucial cash flow for the Maduro government. Venezuela also imported substantial volumes of petroleum products from U.S. sources in 2016.²³ Sanctioning the oil industry would set a major new precedent. Following the standard set by the example of sanctions on Russian officials for Russian government actions in Ukraine, targeted sanction action on the Venezuelan oil sector would seem to be justified only if the Venezuelan government undertook direct foreign military actions in the territory of a U.S. ally.

Continue International Law Enforcement Regarding Narcotrafficking

- Venezuela’s crisis includes the growing influence of narcotrafficking at the highest levels of the government. International law enforcement efforts – which date to 2008 and most recently involved the February 13, 2017 Special Designation of Vice-President Tareck El-Aissami – regarding narcotrafficking need to continue. The transnational crime of narcotrafficking is a national security issue. But, at present, it does not threaten vital U.S. national security interests.

3) Double Down on International Mediation

Reframe the Dialogue’s Stakes and Value

²³ One estimate suggests that Venezuela imported 50,000 barrels a day of light crude in the first months of 2016. For more, see Nicolas Casey and Clifford Krauss, “How Bad Off is Oil-Rich Venezuela? It’s Buying U.S. Oil,” The New York Times, September 20, 2016.

- The United States can double down on international mediation by reframing the stakes of dialogue talks and the overall value of the broader dialogue process. Beyond helping Venezuela avoid civil strife, any efforts to promote talks needs to be premised on ending the authoritarian *status quo*. In this respect, change to the *status quo* means guaranteeing the National Assembly its constitutional authorities, liberating political prisoners, and setting dates for the postponed Governor’s elections and the 2018-scheduled Presidential.

Recompose the Mediation Team

- An immediate action is to explore options for recomposing the team of mediators that is working with the Vatican to support dialogue efforts. The inclusion of statespersons without electoral politics backgrounds would be highly useful for giving a team of mediators added authority and increased legitimacy within Venezuela. A recomposed team of mediators would not mean the exclusion of UNASUR. A continued role for UNASUR would help the Maduro government, and the South American community, feel as though their voices are included.

Costs of Disengagement

On paper, these options are appealing. What is more, the United States, the governments of the Western Hemisphere, and the international community can take these direct steps to help prevent a collapse and move Venezuela toward democratic stability. But, expectations need to be kept in check. The tools of diplomacy are highly imperfect.

The ability of the hemisphere, the United States, and the European Union to prompt an immediate change in the behavior of the Maduro government is limited.

A full picture of the international factors shaping Venezuela’s future requires a sober analysis of geo-economic trends. Developments in oil markets and the future of Maduro’s financial arrangements with China and Russia—Venezuela’s two largest bilateral creditors—are the key difference makers. Eventually, bringing China and Russia into the conversation about Venezuela’s future will be necessary.

The strong influences that China and Russia exert on the Venezuelan government constitute one of the best arguments for expanding U.S. engagement efforts in the hemisphere and beyond. In this respect, proposed cuts to the State Department budget seem to be at counter-purposes with U.S. national interests. Increasing the priority level of the Venezuelan crisis in the hemisphere, and making sustained progress toward reestablishing democratic stability in Venezuela are two very big challenges. To meet these challenges, the United States Government needs the budgetary resources to be able to redouble engagement efforts.

Thank you, I look forward to your questions.