

TRUMP ADMINISTRATION SANCTIONS VENEZUELA'S STATE-OWNED OIL COMPANY PDVSA

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OVERVIEW

In a major expansion of U.S. sanctions against Venezuela, the Department of the Treasury, Office of Foreign Assets Control ("OFAC"), [named *Petróleos de Venezuela, S.A. \("PdVSA"\)—Venezuela's state-owned oil and natural gas company* — to the Specially Designated Nationals and Blocked Persons List \("SDN List"\)](#). As a result of this designation, U.S. persons are prohibited from engaging in most transactions that directly or indirectly involve PdVSA and all of PdVSA's property and property interests that are in, or come into, the United States or a U.S. person's possession or control are blocked. The SDN List designation also applies to any entities owned 50% or more directly or indirectly by PdVSA (hereafter "PdVSA Subsidiaries"), even if not specifically identified on the SDN List.

The impacts of PdVSA's designation as an SDN will be felt worldwide. Not only will PdVSA's designation disrupt a broad array of petroleum and other transactions involving U.S. persons and PdVSA and PdVSA Subsidiaries, there could also be significant complications for non-U.S. persons. Even transactions between a non-U.S. person and PdVSA will be impacted if either: (1) the transaction is supported in any way from the United States or by U.S. persons (wherever located or employed), including payments in U.S. dollars or through U.S. banks; or (2) the non-U.S. person has financing or credit agreements incorporating sanctions compliance provisions that implicate U.S. sanctions.

In conjunction with the designation of PdVSA, OFAC issued new general licenses that authorize certain activities otherwise prohibited due to PdVSA's designation. These new general licenses are summarized below. OFAC also [revised two and issued 11 new FAQs](#) addressing PdVSA's designation as well as the scope of the general licenses.

Based on the significance of PdVSA to commercial activities involving Venezuela and the scope of the new U.S. restrictions, it will be critical for all persons, including non-U.S. persons, contemplating transactions that involve Venezuela to evaluate possible impacts under the new U.S. sanctions. Potential impacts, in particular, may extend to non-U.S. companies in the shipping, commodities trading, financial services, and energy sectors where PdVSA or a PdVSA Subsidiary is involved directly or indirectly.

In due course, OFAC may make adjustments to the sanctions as the practical realities of their implementation are realized. It will also be key for any person with commercial interests involving Venezuela to be alert for possible further developments relating to these sanctions.

NEW GENERAL LICENSES

The general licenses accompanying the designation of PdVSA are as follows:

- **General License 3A** authorizes U.S. persons to engage in transactions related to the financing for and other dealings in certain types of bonds issued by the PdVSA, the Government of Venezuela, and other entities owned or controlled, directly or indirectly, by the Government of Venezuela.
- **General License 7** authorizes, among other things, U.S. persons to deal with PDV Holding, Inc. ("PDVH"), CITGO Holding, Inc., and their subsidiaries, provided the dealing does not involve PdVSA or any other direct or indirect PdVSA subsidiaries. Unless extended, this authorization will expire at 12:01 a.m. Eastern Standard Time ("EST") on July 27, 2019.
- **General License 8** authorizes the following corporations to engage in transactions and activities ordinarily incident and necessary to operations in Venezuela involving PdVSA or PdVSA Subsidiaries: Chevron Corporation; Halliburton; Schlumberger Limited; Baker Hughes, a GE Company; and Weatherford International, Public Limited Co. Unless extended, this authorization will expire at 12:01 a.m. EST on July 27, 2019.
- **General License 9** authorizes U.S. persons to engage in transactions and activities ordinarily incident and necessary to dealings in certain debt of PdVSA issued prior to August 25, 2017. Authorized transactions include facilitating, clearing, and settling transactions to divest to a non-U.S. person PdVSA-related debt, including on behalf of U.S. persons.

Also authorized are all transactions and activities ordinarily incident and necessary to dealings in bonds issued prior to August 25, 2017 by PDVH, CITGO Holding, and Nynas AB, a Swedish subsidiary of PdVSA.

- **General License 10** authorizes U.S. persons in Venezuela to purchase refined petroleum products from PdVSA or any PdVSA Subsidiary for personal, commercial, or humanitarian uses. Commercial resales, transfers, exports, or reexports of refined petroleum products are not authorized.
- **General License 11** authorizes U.S. person employees and contractors of non-U.S. entities located outside the United States and Venezuela to engage in all transactions and activities ordinarily incident and necessary to the maintenance or wind down of operations, contracts, or other agreements involving PdVSA or any PdVSA Subsidiary that were in effect prior to January 28, 2019. This will in effect permit the ongoing performance of pre-existing operations, contracts, and agreements during the validity of the general license, although the entry into new contracts and agreements would not be authorized.

U.S. financial institutions are also authorized to reject, rather than block, funds transfers involving both (i) PdVSA or a PdVSA Subsidiary and (ii) non-U.S. entities located outside the United States and Venezuela, provided that the transfers originate and terminate outside the United States and that neither the originator nor the beneficiary is a U.S. person and the funds are not destined for a blocked account on the books of a U.S. person.

Excluded from authorization under the general license are any transactions or dealings with ALBA de

Nicaragua ("ALBANISA") or other blocked parties unless specifically stated.

Unless extended, this authorization will expire at 12:01 a.m. EST on March 29, 2019.

- **General License 12** authorizes transactions and activities ordinarily incident and necessary to the purchase and importation of petroleum from PdVSA or any PdVSA Subsidiary. Except as authorized, any related payments that are for the benefit of a blocked person must be made into a blocked, interest-bearing account located in the United States. Unless extended, this authorization will expire at 12:01 a.m. EST on April 28, 2019.

Also authorized are transactions and activities ordinarily incident and necessary to the wind down of operations, contracts, or other agreements in effect prior to January 28, 2019, involving PdVSA or any PdVSA Subsidiary including the importation into the United States of goods, services, or technology. Unless extended, this authorization will expire at 12:01 a.m. EST on February 27, 2019.

Note that General License 12 does not authorize: (1) the divestiture or transfer of any debt, equity, or other holdings in, to, or for the benefit of PdVSA or any PdVSA Subsidiary, (2) the exportation or reexportation of any diluents from the United States to Venezuela, PdVSA, or PdVSA Subsidiaries, or (3) any dealings with ALBANISA, its subsidiaries, or any other blocked parties unless specifically indicated.

- **General License 13** authorizes transactions and activities where the only PdVSA entities involved are Nynas or any PdVSA Subsidiaries. Unless extended, the authorization expires at 12:01 a.m. EST on July 27, 2019.
- **General License 14** authorizes all transactions that are for the conduct of the U.S. Government by its employees, grantees, or contractors.

ADDITIONAL ACTIONS

In the days leading up to PdVSA's designation, President Trump issued an [Executive Order](#) of January 25, 2019, entitled "Taking Additional Steps to Address the National Emergency with Respect to Venezuela," which broadens the definition of "Government of Venezuela" used in several executive orders addressing the conflict in Venezuela. The executive orders had varying definitions, but President Trump's January 25, 2019 Executive Order uniformly revises the definition of the "Government of Venezuela" to the following: "the state and Government of Venezuela, any political subdivision, agency, or instrumentality thereof, including the Central Bank of Venezuela and Petróleos de Venezuela, S.A. (PDVSA), any person owned or controlled, directly or indirectly, by the foregoing, and any person who has acted or purported to act directly or indirectly for or on behalf of, any of the foregoing, including as a member of the Maduro regime." The most significant change widens the application of restrictions to those who are "owned or controlled, **directly or indirectly**" and those who have "acted or **purported to act directly or indirectly**" (emphasis added) for the identified Venezuelan government entities. Below we provide a brief overview of the relevant executive orders and identify the Venezuelan government entities added to the definition as a result of the revised definition:

- **Executive Order 13692, "Blocking Property and Suspending Entry of Certain Persons Contributing to the Situation in Venezuela" (March 8, 2015)**: E.O. 13692 permits the Department of the Treasury, in

consultation with the State Department, to sanction individuals associated with public corruption by senior officials within the Government of Venezuela as well as those individuals who are current or former officials of the Government of Venezuela. The new definition of "Government of Venezuela" expands the pool of persons that could be designated as SDNs to those associated with the state of Venezuela as well as PdVSA specifically.

- **Executive Order 13808, "Imposing Additional Sanctions With Respect to the Situation in Venezuela" (August 24, 2017)**: E.O. 13808 imposes restrictions on certain transactions, financing, and other related dealings with the Government of Venezuela and PdVSA by a U.S. person or within the United States. The new definition of "Government of Venezuela" extends these restrictions to the state of Venezuela as well.
- **Executive Order 13827, "Taking Additional Steps to Deal with the Situation in Venezuela" (March 19, 2018)**: E.O. 13827 prohibits transactions, financing, and other related dealings by a U.S. person or within the United States in certain digital currency, digital coin, or digital tokens that have been issued by, for, or on behalf of the Government of Venezuela. As with E.O. 13808, the revised definition of "Government of Venezuela" expands these restrictions to the state of Venezuela.
- **Executive Order 13835, "Prohibiting Certain Additional Transactions With Respect to Venezuela" (May 21, 2018)**: E.O. 13835 prohibits transactions, financing, and other dealings by U.S. persons or within the United States of certain debt owed to the Government of Venezuela. The new expanded definition for "Government of Venezuela" adds the state of Venezuela to these restrictions as well.
- **Executive Order 13850, "Blocking Property of Additional Persons Contributing to the Situation in Venezuela" (November 1, 2018)**: E.O. 13850 permits the Department of the Treasury, in consultation with the State Department, to designate as SDNs persons who operate in certain sectors of the Venezuelan economy, such as the gold sector, and persons that are involved in deceptive practices or corruption associated with the Government of Venezuela. The most recent Executive Order's definition of "Government of Venezuela" expands these restrictions to the state of Venezuela and PdVSA.

For more information regarding this topic or any other related issues, the [international trade practice group](#) of K&L Gates is available to assist.

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