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REMARKS FOR

TOM LANTON HUMAN RIGHTS COMMISSION BRIEFING

Venezuela: Economic Sanctions and Human Rights

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Mr. Chairman,

I would first like to start by thanking you and the Committee, as well as my esteemed colleagues, for the opportunity to participate in this important discussion about the effect of sanctions on the Venezuelan economy and how to address their humanitarian impact.

I'd like to start by making a set of basic observations. I distributed a handout in which you can see several figures. The first one, on slide 2, is a graph of the evolution of Venezuela's per capita output between 2000 and 2019. As you can see, output starts dropping in 2013 and sanctions come much later, in 2017. This is a well-known observation, which is that the Venezuelan economic crisis precedes sanctions. I'd like to talk about the meaning of that observation and its implications.

The fact that Venezuela's crisis precedes the sanctions does not mean that sanctions are not a cause of the crisis. That is, it does not disprove that sanctions have had an effect on the crisis. It just provides evidence that sanctions are not the single cause of the crisis. In order to understand this, it is important to bear in mind that social scientists use multi-causal models in order to assess virtually all the social and economic phenomena that we study. In other words, we don't attribute a phenomenon to just one cause, but rather to multiple causes; we thus recognize that there are multiple factors that can have an incidence on a phenomenon.

So, the question here is not whether bad economic policy or sanctions caused the crisis. For sound methodological reasons, we don't have to choose between these two explanations. There are two separate questions related to whether each of them has had an effect on the crisis. And I think the answer on both accounts is yes, decisively, both bad economic policies and sanctions have had an effect on the crisis. Since poor policies pre-date sanctions, we can also say that policies gave rise to the crisis and that sanctions exacerbated it. That is a statement about the sequencing of the effects. It doesn't tell us anything about the relative importance of those phenomena; it just tells us which came first.

Now, I'd like to stress that the Venezuelan economy has a characteristic that makes it nearly impossible to apply economic sanctions - and particularly sanctions that affect its oil industry – to it without affecting the whole economy. You'll also see in slide 4 of my presentation a graph that plots the evolution of the quarterly growth rate of non-oil GDP and non-oil imports, showing a very strong correlation between these two factors. What that highlights is that when the economy has more

[1] Torino Economics is an economic analysis firm that provides macroeconomic and political research to investors in Latin America. As such, Torino Economics has an interest in Venezuela's economic recovery and this interest may influence the views of its staff. Nevertheless, the views expressed in these remarks are personal and do not represent the views of Torino Economics or its clients.

resources for imports from its foreign exchange revenues, all of the economy grows. Those resources for importing come from a state-operated activity: oil, which represents between 90% and 95% of the country's exports revenue. Gold and other state-controlled activities account for most of the rest. Therefore, most non-oil activity exists because it is made possible with foreign currency obtained through oil exports made through firms owned and operated by the country's government.

There are other economies such as, say, the U.S. or Argentina, where exports are mostly produced by the private sector. Therefore, in those economies, it would be hypothetically possible to try to restrict the access to revenues of the government while not entirely determining the access to revenues of the economy as a whole. In the case of Venezuela, that is not possible and that what makes sanctions directed at the oil sector very damaging for the economy as a whole.

Now, there has been some reference here to the set of studies that have been carried out in order to understand what has been the effect of sanctions on Venezuela's economic performance. Particularly there is some research that looks at the effect they've had on oil production. We've seen some reference in the initial remarks to a paper authored by Jeffrey Sachs and Mark Weisbrot and to a paper also authored by Dany Bahar and co-authors at the Brookings Institute. I'd like to explain what these two papers did.

The Sachs and Weisbrot papers essentially showed that there were two breaks in trend in the data on Venezuelan oil production. Oil production declined by 1% per month between January 2016 and August 2017, the month in which financial sanctions were first imposed. After these sanctions were imposed, that rate of decline accelerated to 3% per month. After oil sanctions were imposed on January 2019, that rate of decline accelerated to 8% per month. These breaks of trend are indicative of an effect of the sanctions which were imposed at those two moments.

In order to effectively be able to claim that those accelerations were due to sanctions and not another factor, we need to establish a counterfactual: an estimate of what would have happened in Venezuela in the absence of sanctions. That's what the Sachs and Weisbrot research did by pointing to the comparison with Colombia, which is a country that's had similar behavior in oil production and whose oil industry is alike in some respects to Venezuela's. And while the evolution of oil production in both countries was similar until August of 2017, after that month oil production in Colombia stabilized whereas that of Venezuela collapsed. This buttresses the case that sanctions were a cause (but not necessarily the only cause) of the collapse.

What the Brookings paper did was question the comparison with Colombia, claiming it is structurally dissimilar to Venezuela. That paper didn't provide an alternative estimate of the effect of sanctions. It's not that they estimated a model and found no effect. Rather, they simply claimed that the Sachs and Weisbrot model had insufficient data. Their conclusion was based on a subjective assessment of the quality of the comparator.

Even based on the conclusion expressed by the authors of the Brookings paper that Colombia was not an adequate comparator, in my view the only conclusion that they could have come to was that it was, for the time being, not possible to identify the effect of sanctions on oil production. Regrettably, one of the authors of this paper has gone on to claim that it disproves the effect of sanctions, a claim that is incorrect and misleading.

In order to go beyond this impasse, in my recent research, I decided not to focus on the comparison with Colombia, but rather on a broader comparison with all other oil-exporting countries. I built a data set of oil production in 37 economies that covered 95% of the world's oil production and found that for 35 of the 36 comparators (Venezuela being the 37th), Venezuela saw a significant decline in oil production relative to the country used as a comparator after August 2017. The only exception to that is Yemen, a country that was undergoing a civil war at the time and where oil production dropped more rapidly than in Venezuela because of the effects of that war.

In fact, when we look at the behavior of Venezuela's oil production during this period, we find that the collapse in Venezuela's oil production was of a similar magnitude to that seen in other collapses that occurred during a war or an oil strike, but to no other case in which these events were absent. In other words, Venezuelan oil production has fallen since sanctions by magnitudes by which we only see output fall by when we see soldiers burning oil fields, or when we see workers deliberately stop working in those oil fields.

In my research I've used synthetic group estimators, which is the state-of-the-art in econometric methods to estimate the effects of interventions such as these, and I've estimated that financial sanctions imposed in 2017 have cost the economy an average of USD 17bn per year and that oil sanctions imposed this year will cost it additional USD 10bn a year in foregone oil revenue. By comparison, goods imports in 2018 were only USD 15bn a year, so we're talking about very large magnitudes.

I would also like to draw your attention, Mr. Chairman, to the very significant drop in imports that is occurring in Venezuela as after the imposition of oil sanctions this year. These sanctions have undermined the economy's capacity to produce foreign revenue through its oil exports and, therefore, highly limited its capacity to import. April imports were USD 303mn, that's 53% less than in 2018 and 92% less than in 2012. In the three months after sanctions were imposed, imports have fallen by around 60% with respect to last year. At the same moment, we're having a harvest that is declining by around 50%. The decline is driven by several factors, including gasoline scarcity impacted by sanctions to the oil sector. So, this means that the country will see a massive curtailment of its food consumption this year. Given the levels of malnutrition that we have already seen, Venezuela is at high risk of entering into famine over the next 12 months.

What can be done? The key question here is what we can do to avoid further deepening of import cuts and the resulting humanitarian crisis that could be precipitated by the adoption of economic and oil sanctions. One proposal that I have developed is that of an oil-for-food program in Venezuela. An oil-for-food program could, as it did in Iraq, allow the resumption of imports of essentials using the resources obtained from exports to the U.S. In other words, it would allow the country to continue to export to the U.S. – which it has been unable to do since the adoption of sanctions – under the condition that resources generated by those exports must be deposited in accounts that can only be used to import food, medicine, and other goods that are essential for the survival of Venezuelans. This must be done through a mechanism that is administered by the international community and human rights NGOs and under the oversight of the country's legitimately elected National Assembly.

There are definitely valid concerns about the Iraqi experience, particularly about the cases of corruption that emerged from it. I would point to the findings of the commission headed by Paul Volcker which in 2005 published a very exhaustive and comprehensive report that considered what had gone wrong in the Iraqi program and how to fix it. This should be our starting point to avoid repeating the errors of that experience.

In closing, I would like to stress that the matters we are discussing are urgent. There is a significant risk of famine in Venezuela over the course of the next 12 months. Hundreds of thousands of

Venezuelans could die as a result. And I believe it is the responsibility of those Venezuelans who, like myself, may have an influence on the policy debate as well as of the international community and Venezuelan political leaders on both sides of the spectrum to try to stop these deaths from happening.

As a Venezuelan, I, as much as anyone else, oppose the Maduro dictatorship. I believe that Maduro has taken away many of Venezuelans' most basic political and civil rights. He has persecuted, jailed and tortured his opponents, imposing a rule of terror. And I would very much like to see the international community continue to exert all of the pressure that is needed in order for the usurpation of the Venezuelan presidency by Maduro to cease and for the legitimately appointed and elected president of the National Assembly, Juan Guaidó, to occupy the interim presidency until new elections are held, as mandated by our country's constitution. Nevertheless, those are no reasons to hold the Venezuelan people hostage to a political conflict. The Venezuelan people have suffered enough. I believe that it is the duty of the international community and the U.S. Congress to do everything they can to stop the continuation and an exacerbation of their suffering.

Thank you, Mr. Chairman.