

OFAC Designates PdVSA

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On January 28, 2019, the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") [sanctioned](#) Petroleos de Venezuela S.A. ("PdVSA"), Venezuela's state-owned oil company, pursuant to [Executive Order \("E.O."\) 13850](#) for operating in the oil sector of the Venezuelan economy, following a determination by the Secretary of the Treasury pursuant to E.O. 13850 that persons operating in Venezuela's oil sector may be subject to sanctions. As a result of the designation, all property and interests in property of PdVSA in the United States or the possession or control of U.S. persons are blocked, and U.S. persons are generally prohibited from engaging in transactions involving PdVSA, unless authorized by OFAC or exempt. The sanctions apply as well to entities that are 50 percent or more owned, directly or indirectly, by PdVSA ("PdVSA Entities"), including PdVSA's U.S. subsidiary CITGO Holding, Inc., and its subsidiaries ("CITGO"). In connection with the designation, OFAC issued a number of general licenses ("GLs"), discussed in more detail below, authorizing certain transactions involving PdVSA Entities.

PdVSA's designation represents a significant escalation of U.S. sanctions targeting the Maduro regime, and is intended to disrupt the Maduro regime and PdVSA's access to oil revenues and preserve those assets for the benefit of the Venezuelan people. It follows last week's [announcement](#) by the State Department that the United States had recognized Venezuelan National Assembly leader Juan Guaidó as the Interim President of Venezuela. The Treasury Department's [press release](#) announcing PdVSA's designation notes that "[t]he path to sanctions relief for PdVSA is through the expeditious transfer of control to the Interim President or a subsequent, democratically elected government." In addition to the designation, President Trump issued a new [Executive Order](#) modifying the definition of the term "Government of Venezuela" used in prior sanctions Executive orders to include persons that have acted, or have purported to act, on behalf of the Government of Venezuela, including members of the Maduro regime. On January 29, 2019, the State Department took further steps to support Interim President Guaidó by [certifying his authority](#) to receive and control certain property in accounts of the Government of Venezuela or Central Bank of Venezuela held by the Federal Reserve Bank of New York or any other U.S. insured banks, in accordance with Section 25B of the Federal Reserve Act.

PdVSA is a substantial source of oil imports into the United States, and has significant connections to the U.S. economy, including through CITGO. In connection with PdVSA's designation, OFAC issued a number of new and updated GLs with the apparent intent of ameliorating some potential adverse impacts of the designation on U.S. persons. In particular, these authorizations temporarily permit continued imports of oil from PdVSA, as well as the wind-down or maintenance of certain existing operations or contracts involving PdVSA Entities. They also authorize most transactions where the only PdVSA Entities involved are CITGO and other PdVSA Entities located in the United States.

Specifically:

- [GL 7](#) authorizes all transactions and activities prohibited by E.O. 13850 where the only PdVSA Entities involved are PDV Holding, Inc. ("PDVH"), CITGO, or any of their subsidiaries. This authorization is valid through 12:01 a.m. eastern daylight time ("EDT"), July 27, 2019. GL 7 also authorizes PDVH, CITGO, and their subsidiaries to engage in transactions and activities prohibited by E.O. 13850 that are ordinarily incident and necessary to the purchase and importation into the United States of petroleum and petroleum products from PdVSA Entities. This authorization is valid through 12:01 a.m. EDT, April 28, 2019. All payments incident to transactions authorized by GL 7 that are to or for the benefit of a blocked person other than PDVH, CITGO, or their subsidiaries must be made into a blocked account.
- [GL 8](#) authorizes certain named U.S. entities to engage in transactions and activities prohibited by E.O. 13850 that are ordinarily incident and necessary to operations in Venezuela involving PdVSA Entities. The authorization is valid

through 12:01 a.m. EDT, July 27, 2019. GL 8 does not authorize the named entities to export diluents from the United States to Venezuela.

- [GL 9](#) authorizes transactions and activities prohibited by Section 1(a)(iii) of [E.O. 13808 of August 24, 2017](#) (prohibiting transactions related to bonds issued by the Government of Venezuela, including PdVSA) and E.O. 13850 that are ordinarily incident and necessary to dealings in any debt (including bonds listed on the Annex to GL 9, promissory notes, and other receivables) of PdVSA Entities issued prior to August 25, 2017, provided that any divestment or transfer of, or facilitation of divestment or transfer of, any holdings in such debt must be to a non-U.S. person. 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. GL 9 also authorizes all transactions and dealings prohibited by Section 1(a)(iii) of E.O. 13808 that are ordinarily incident and necessary to dealings in any bonds that were issued prior to August 25, 2017 by PDVH, CITGO, Nynas AB, or their subsidiaries.

GL 9 does not, however, authorize U.S. persons to sell PdVSA-related debt to any person whose property is blocked pursuant to E.O. 13850 (including PdVSA Entities), to purchase or invest in PdVSA-related debt, or to facilitate such transactions, other than purchases of or investments of PdVSA-related debt that are ordinarily incident and necessary to the divestment or transfer of PdVSA-related debt to non-U.S. persons.

In a related action, OFAC issued amended [GL 3A](#), which authorizes transactions related to specified Government of Venezuela bonds issued prior to August 25, 2017 that are otherwise prohibited by Section 1(a)(iii) of E.O. 13808, to clarify that it does not authorize transactions otherwise prohibited by, *inter alia*, E.O. 13850, and to remove PdVSA and Nynas AB bonds from the Annex to that GL. As a result, GL 9, rather than GL 3A, is the operative authorization for transactions relating to pre-sanctions PdVSA bonds.

- [GL 10](#) authorizes U.S. persons in Venezuela to purchase refined petroleum products for personal, commercial, or humanitarian use from PdVSA Entities. It does not authorize commercial resale, transfer, exportation, or reexportation of such refined petroleum products.
- [GL 11](#) authorizes U.S. person employees and contractors of non-U.S. entities located in a country other than the United States or Venezuela to engage in transactions ordinarily incident to the maintenance or wind-down of operations, contracts, or other agreements involving PdVSA Entities that were in effect prior to January 28, 2019. GL 11 also authorizes U.S. financial institutions to reject rather than block funds transfers involving both (i) PdVSA or a PdVSA Entity and (ii) a non-U.S. entity located in a country other than the United States or Venezuela, provided that the funds transfers originate and terminate outside the United States, 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. persons. Both of these authorizations are valid through 12:01 a.m. EDT, March 29, 2019, and exclude transactions with PdVSA's Nicaraguan joint venture, ALBA de Nicaragua, and its subsidiaries ("[ALBANISA](#)").
- [GL 12](#) authorizes through 12:01 a.m. EDT, April 28, 2019, all transactions and activities prohibited by E.O. 13850 that are ordinarily incident and necessary to the purchase or importation into the United States of petroleum and petroleum products from PdVSA or its subsidiaries. GL 12 also authorizes through 12:01 a.m. eastern standard time, February 27, 2019, all transactions and activities, that are ordinarily incident and necessary to the wind-down of operations, contracts, or other agreements involving PdVSA Entities that were in effect prior to January 28, 2019. (including the importation into the United States of goods, services, or technology other than petroleum or petroleum products). Unless otherwise authorized by a different GL, payments to or for the benefit of a blocked person authorized by GL 12 must be made into a blocked account. GL 12 does not authorize the divestiture or transfer of any debt, equity, or other holdings in, to, or for the benefit of the PdVSA Entities, the exportation or reexportation of diluents from the United States to Venezuela or to a PdVSA Entity, or any transaction or dealing with ALBANISA.
- [GL 13](#) authorizes through 12:01 EDT, July 27, 2019 all transactions and activities prohibited by E.O. 13850 where the only PdVSA Entities involved are Nynas AB or any of its subsidiaries. Except as authorized by GL 11, any payment to or for the benefit of a blocked person other than Nynas AB or its subsidiaries is required to be made into a blocked account.
- [GL 14](#) authorizes transactions for the official business of the U.S. government by employees, grantees, or contractors thereof.

OFAC indicated that additional answers to Frequently Asked Questions ("FAQs") and guidance concerning PdVSA's designation will be forthcoming. We expect to publish an additional blog post once this guidance becomes available.

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If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

John B. Reynolds III

+1 202 962 7143

john.reynolds@davispolk.com

Will Schisa

+1 202 962 7129

will.schisa@davispolk.com

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