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Client Alert: President Signs Executive Order Establishing Expanded Sanctions Program Targeting Venezuela

On August 24, 2017, the President of the United States issued an Executive Order (the “Executive Order”), entitled “Imposing Additional Sanctions with Respect to the Situation in Venezuela,” in response to recent actions and policies of the Government of Venezuela, including establishment of the Constituent Assembly, as well as human rights abuses, public corruption and repression and persecution of political opposition. The Executive Order represents a significant expansion of sanctions that were originally imposed in connection with the national emergency declared in Executive Order 13692 of March 8, 2015.

Specifically, similar to the U.S. Ukraine-/Russia-related sanctions program, the Executive Order targets dealings relating to new debt and equity of the Government of Venezuela, its property or its interests in property. The Order also targets existing bonds issued by, and the purchase of securities generally from, the Government of Venezuela. The effective date of prohibitions under the Executive Order is August 25, 2017 (the “Effective Date”).

Contemporaneously with the Executive Order, the Office of Foreign Assets Control of the U.S. Department of the Treasury issued four General Licenses authorizing certain transactions and activities that would otherwise be prohibited under the Executive Order. Set forth below is a summary of the Executive Order and the associated General Licenses.

Executive Order

The Executive Order prohibits:

1. All transactions related to, the provision of financing for, and other dealings in the following by a U.S. person (*i.e.*, a U.S. citizen or permanent resident or entity organized under U.S. law) or within the United States:

- a. Debt that is issued on or after the Effective Date (“New Debt”) and has a maturity of longer than 90 days and is issued by, on behalf of, or for the benefit of Petroleos de Venezuela, S.A. (“PdVSA”), its property or its interests in property;
 - b. New Debt that has a maturity of longer than 30 days and is issued by, on behalf of, or for the benefit of the Government of Venezuela, its property or its interests in property (other than the New Debt covered by subparagraph a. above), or equity issued on or after the Effective Date by, on behalf of, or for the benefit of the Government of Venezuela, its property or its interests in property (including PdVSA);
 - c. Bonds issued by the Government of Venezuela prior to the Effective Date; or
 - d. Dividend payments or other distributions of profits to the Government of Venezuela from any entity owned or controlled, directly or indirectly, by the Government of Venezuela; and
2. The purchase, directly or indirectly, by a U.S. person or within the United States, of securities from the Government of Venezuela, other than those permitted under subparagraph a. or b. above (such permitted securities being those with a maturity of less than or equal to 90 days (for PdVSA) or 30 days (for the rest of the Government of Venezuela)).

General Licenses

- **General License 1** (*Authorizing Certain Activities Necessary to Wind Down Existing Contracts*): authorizes all transactions and activities that are otherwise prohibited by subparagraphs a.-c. or paragraph 2. above but are incidental and necessary to wind down dealings under contracts that were in effect prior to the Effective Date. The authorization under General License 1 is scheduled to expire after 30 days (*i.e.*, as of September 24, 2017).
- **General License 2** (*Authorizing Certain Transactions Involving CITGO Holdings, Inc.*): authorizes all transactions that are otherwise prohibited by subparagraph a. or b. or paragraph 2 above so long as the only Government of Venezuela entities involved in such transactions are CITGO Holdings, Inc. or any of its subsidiaries.

- **General License 3** (*Authorizing Transactions Related to, Provision of Financing for, and Other Dealings in Certain Bonds*): authorizes all transactions related to, the provision of financing for, and other dealings in connection with (i) certain bonds specifically identified by OFAC that would otherwise be prohibited by subparagraph c. above or (ii) bonds issued prior to the Effective Date by U.S. entities owned or controlled, directly or indirectly, by the Government of Venezuela, such as CITGO Holdings, Inc.
- **General License 4** (*Authorizing New Debt Transactions Related to the Exportation or Reexportation of Agricultural Commodities, Medicine, Medical Devices, or Replacement Parts and Components*): authorizes all transactions related to the provision of financing for, and other dealings in, New Debt related to the exportation or reexportation of agricultural commodities, medicine, medical devices, or replacement parts and components for medical devices to Venezuela, or to persons in third countries for resale in Venezuela.

This Client Alert is not comprehensive as to the full scope of the U.S. sanctions targeting Venezuela or any other U.S. sanctions program or associated laws or regulations but is only a summary of certain key elements of the Executive Order and associated General Licenses.

Please feel free to discuss any aspects of this Client Alert with your regular Milbank contacts.

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